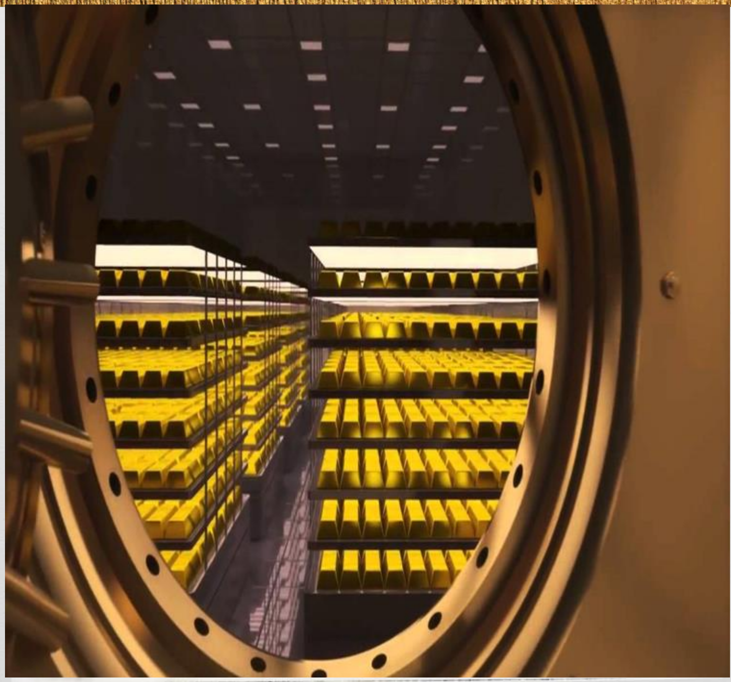

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DECEMBER 2020

KNOWLEDGE SERIES

HOW DOES US MONETARY POLICY IMPACT BULLION PRICE

Monetary policy in the United States comprises the Federal Reserve's actions and communications to promote maximum employment, stable prices, and moderate long-term interest rates--the economic goals the Congress has instructed the Federal Reserve to pursue. The Federal Reserve's three instruments of monetary policy are open market operations, the discount rate and reserve requirements. How all these instruments impact Bullion prices is discussed here.

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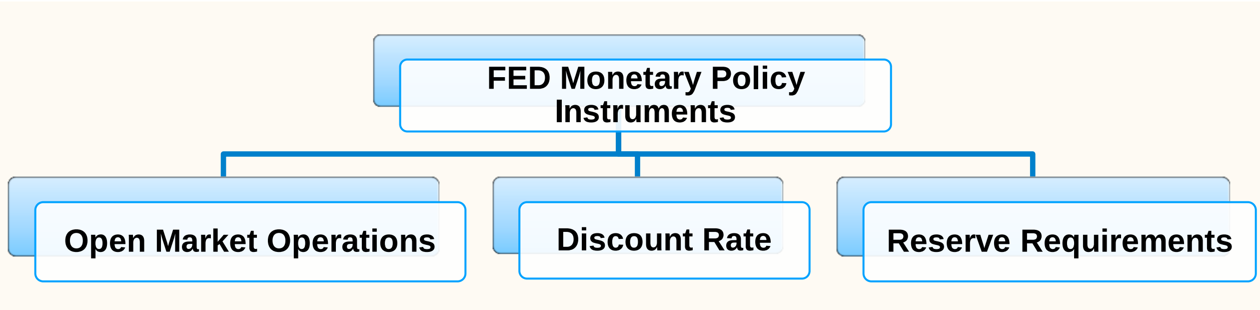


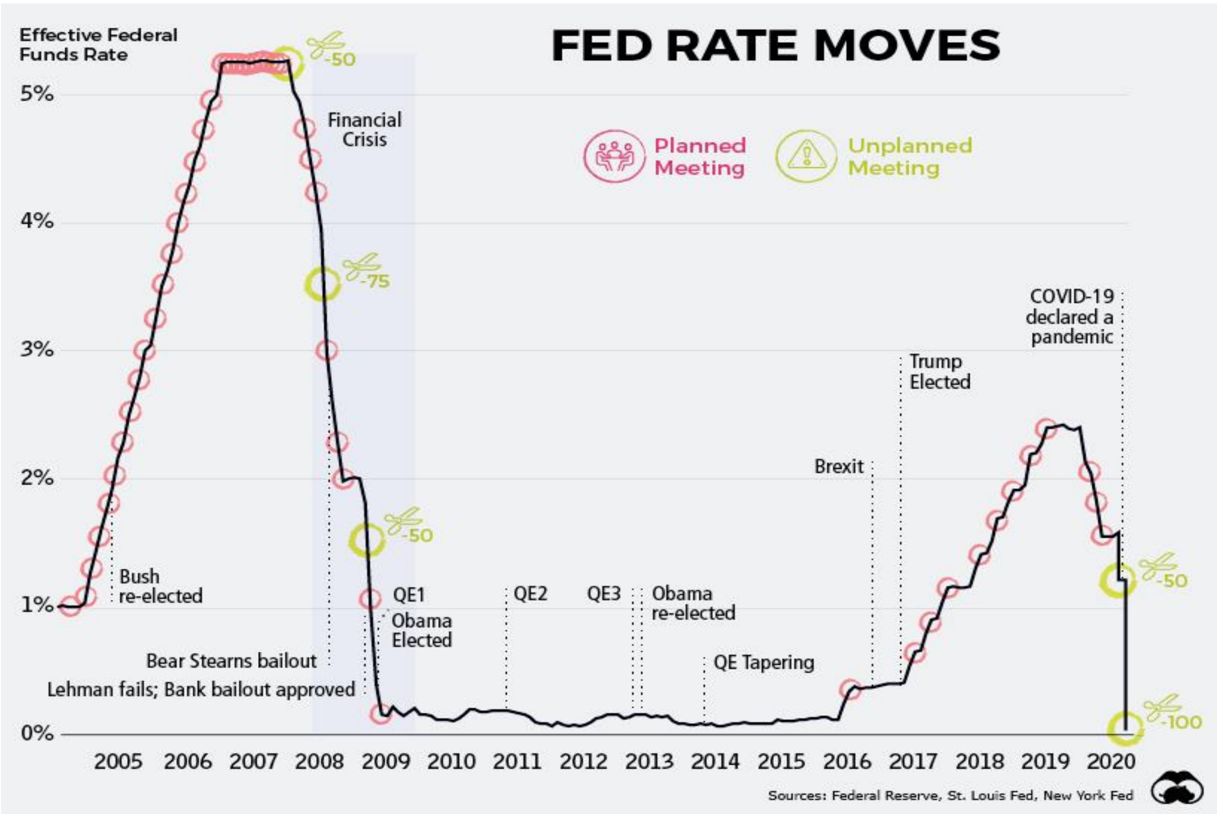
Open market operations involve the buying and selling of government securities. The term “open market” means that the Fed doesn’t decide on its own which securities dealers it will do business with on a particular day. Rather, the choice emerges from an “open market” in which the various securities dealers that the Fed does business with – the primary dealers – compete on the basis of price. Open market operations are flexible, and thus, the most frequently used tool of monetary policy.

The discount rate is the interest rate charged by Federal Reserve Banks to depository institutions on short-term loans. Reserve requirements are the portions of deposits that banks must maintain either in their vaults or on deposit at a Federal Reserve Bank.

The FOMC (Federal Open Market Committee) rate decision is one of the most highly anticipated events in economic calendar. A policy to increase, decrease or even keep key interest rates the same can have large effects on the financial market. The FOMC holds eight regularly scheduled meetings during the year and other meetings as needed. The minutes of regularly scheduled meetings are released three weeks after the date of the policy decision.

Ultimately by controlling interest rates, the Federal Reserve System has a direct influence to the strength / weakness of the USD. When an expansionary policy is put in place, the monetary base is increased and interest rates decrease. By supplying more money to the market and banks than what is demanded values of goods increase. This over supply of funds creates a flood of cheap dollars onto the open market, effectively diluting their value. The same holds true with Interest rates in an expansionary environment. As interest rates move lower, it becomes easier to borrow funds and the value of a currency tends to decline.

When long-term interest rates decline, housing activity generally increases, stimulating demand for household durables. Lower interest rates make housing more affordable for consumers that have adjustable rate mortgages (ARMs). They also make large ticket purchases like furniture and appliances more affordable when using consumer financing.



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Above we can see a graph depicting the changes in US Interest Rates since 2001. From 2004 through 2007 the Federal Reserve took a policy of raising interest rates. This is known as a tightening policy, which is normally used to control inflation. Since this point rates have decreased dramatically from a high of 5.25%.

An expansionary policy has been in effect since 2008 as the Fed has used interest rates to expand the monetary base to spur the economy. Then there was a period of halt for 6 years from 2009 to 2015, where rates kept unchanged at 0.25%. FED started increasing interest rate from Dec 2015 to Dec 2018. In 2019, FED started cutting rates amid slowing global growth and muted inflation.

The most meaningful rate cuts happened on March 3rd and March 15th after emergency meetings in the United States in 2020 as COVID-19 was declared pandemic. First, FOMC cut the target rate from 1.5% to 1.0% – and then on Sunday (March 15th) the rate got chopped by an entire percentage point to rub up against the lower bound of zero. This led to lowering of dollar index in 2020 and Gold prices rose 25% and Silver by 50% in 2020 due to ease monetary policy across the globe.