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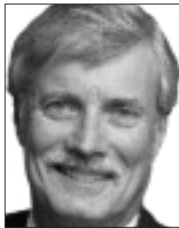
Gold doesn't change. What is changing is the value of the world's currencies, especially the U.S. dollar, and I see it going lower and lower

Once gold decisively tops US\$1,000, it'll stay there

There has been a distinct change in the tone of the gold market in the last month despite ongoing apathy among most investors and outright bearishness on the part of several high-profile gold pundits. Defying the best efforts of the anti-gold cartel, the gold price has moved inexorably higher and posted its highest monthly close in history on the London Bullion Market Association at the end of May (\$975.50 per ounce versus a previous high of \$971.50 in February of 2008. All dollar references here are to the U.S. dollar). The fact that this happened without any fanfare represents a very positive development on the sentiment front.

I strongly suspect that we will see a successful assault on the all-time daily high close of \$1,011, achieved in mid-March 2008, very shortly. When the important psychological level of \$1,000 per ounce is cleared convincingly, there is an excellent chance that \$1,000 will become a new floor for the gold price and it may never trade below that level again.

Admittedly, that is a very strong statement. Yet ironically, it has little to do with gold itself, which has been a constant store of value for millennia. Rather, this is all about the U.S. dollar and its present perilous condition. The



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latest projection for the U.S. federal budget deficit in the current fiscal year is \$1.75 trillion or a staggering 12.9 per cent of GDP. We are clearly in uncharted waters for these sorts of numbers are unprecedented in peace time.

The idea that this can be addressed by conventional methods, in my opinion, is simply wrong. I was amazed to see that U.S. Treasury Secretary Timothy Geithner, in an attempt to defuse controversy over the subject, recently stated that the budget deficit as a percent of GDP would be back in the neighborhood of three per cent by 2013. Exactly from what turnip truck does he think the rest of us fell off? To my mind, his projection is essentially mathematically impossible.

If fiscal stimulus of roughly 10 per cent of GDP were to be withdrawn from the economy over the next three or four years, it is very likely the economy would collapse, leading to even larger deficits.

At this point, the consumer remains massively over-indebted and effectively tapped out, capacity utilization is plumbing post-war depths removing the incentive for much private capital spending and the important real-estate sector is so overbuilt, both residentially and commercially, that it will probably re-

main in the doldrums for at least the next decade.

The economy requires massive government stimulus to stay afloat, so any significant tax hikes and/or spending cuts are off the table for the foreseeable future.

Accordingly, I believe we are going to see huge U.S. federal government deficits for as far as the eye can see. These will increasingly have to be monetized because there will be a distinct lack of willing investors available to purchase the swelling debt. This phenomenon will put constant downward pressure on the U.S. dollar.

None of this has gone unnoticed by the U.S.'s largest creditor, China. Having just returned from a trip to China, the president of the Dallas Federal Reserve, Richard Fisher, stated that he must have been asked at least 100 times by Chinese officials about "whether or not we are going to monetize the actions of our legislature."

The Chinese own \$1.3 trillion of U.S.-denominated paper and they are clearly not at all happy with what is unfolding on the U.S. monetary front. I personally think it is a very bad idea for the U.S. to constantly offend its largest creditor because any dollar dispositions by the Chinese are only going to make a bad situation infinitely worse.

Thus, if the U.S. dollar is as vulnerable as the foregoing would

suggest, the idea that gold may never trade below \$1,000 again, following a significant upside penetration of that level, may not be as outlandish as it first sounds. Gold will simply remain stable in real terms as the dollar implodes, creating a dollar price per ounce for gold that will truly shock the bears on the subject.

However, as logical as this seems to me, my view obviously isn't shared by all. There was no better evidence of this than a remarkable speech by Phillip Klapwijk, executive chairman of the gold consultancy GFMS at the New York Hard Assets Convention in mid-May. Mr. Klapwijk boldly stated that the fundamentals for gold are extremely negative and that the present supply-demand balance could not support even the gold price (around \$910 when he spoke). Apparently, he based his opinion on very weak jewelry demand and sharply expanding scrap supply, while downplaying the exploding investment demand worldwide.

I believe Mr. Klapwijk has forgotten the original J.P. Morgan's succinct observation, made in 1912 prior to the establishment of the U.S. Federal Reserve, that "gold is money and nothing else." With currencies throughout the world being aggressively debased, the resultant demand for gold has underpinned a robust, confirmed bull market in the yellow metal. What is surprising to me is that, al-

though this bull market is in its ninth year, the vast majority of investors still don't get it. All great gold bull markets occur when gold re-establishes itself as money, a point that Mr. Klapwijk apparently chooses to ignore.

Terrorists

However, Klapwijk really got on thin ice during the question period after the speech. Responding to a question with respect to whether he would be prepared to debate a representative of the Gold Anti-Trust Action Committee on the subject of the gold-price-suppression scheme, he totally dismissed the idea.

In rejecting it, he made an unfortunate reference to Margaret Thatcher not debating the IRA, thus making a veiled insinuation that GATA was little better than a terrorist organization. As readers know, I have been a strong supporter of GATA's work virtually from its inception, and I can as-

sure everyone that the representatives of GATA that I have encountered over the past 10 years are among the most honest and intelligent individuals that I have had the pleasure of knowing. The only ones who would equate them to terrorists would be the perpetrators and supporters of the nefarious gold-suppression scheme which GATA has assiduously been trying to blow up for years. The good news is that it is finally on the cusp of doing just that.

I had the pleasure of meeting with Phillip Cogan who writes the influential Buttonwood column in *The Economist* when I was in London in early May. It became quickly apparent during our discussion that, like most employees of *The Economist*, he was no fan of gold. Thus, it came as no surprise to me that his conclusion in a recent article discussing the declining appeal of American Treasury bonds was not complimentary toward gold. I actually greatly enjoyed his dissection of the Ameri-

can situation and his view that American Treasuries are not the risk-free vehicles they have been cracked up to be.

However, when musing as to which asset class would be a worthy replacement, he dismissed gold because it pays no interest and its nominal value is highly volatile. These are the same tired old arguments which I believe to be totally invalid, and I have tried to refute them many times in the past. Gold has no yield for the simple reason that, unlike paper currencies, it can't be debased. Paper instruments pay interest to offset this risk. With current interest rates at rock-bottom levels worldwide and the probability of hyperinflation rising by the day, fixed-income vehicles have seldom been less attractive, thus dramatically enhancing the value of gold.

On the subject of volatility, gold's high volatility is admittedly annoying but it is, in no small way, intentionally created by the

anti-gold cartel whose express purpose is to keep investors away from gold. The antidote for the volatility is to use the periods of weakness to add to positions at bargain prices for as long as gold remains in a bull market.

In the end, Mr. Cogan opted for German government bonds as an alternative to American treasuries. I am willing to put up any stake that he is prepared to wager that gold will materially outperform German-government bonds over any time frame he cares to choose.

This column completes six years of writing for *Investor's Digest*. Although I hadn't really planned to write this long, it has been a total pleasure for me and I hope for the readers as well. With the indulgence of the publisher, I intend to continue my monthly rant until gold's true value is reflected in the market.

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