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Gold's on the cusp of a parabolic move up

By John Embry

Gold moved to several new all-time highs in the month of June despite the absence of any overt enthusiasm for the yellow metal amongst the general public. Sentiment is remarkably negative when one considers the fact that were it any other asset class making new highs in a powerful multi-year bull market, the mainstream press would be trumpeting the news and the public would be falling all over themselves to buy.

Why is gold different in this instance? Very simply, the public is being bombarded with misinformation and propaganda as the monetary authorities try to sustain a doomed currency system. In addition, the anti-gold cartel is creating excessive volatility in the paper-gold market that unnerves the average investor.

Fed Chairman Ben Bernanke got into the act recently when he was confronted with a question about gold while testifying at a session of the House Budget Committee and his lame response was:

"Gold is out there doing something different from the rest of the commodity group. I don't fully understand the movements in the gold price, but I do think that there's a great deal of uncertainty and anxiety in financial markets right now. Some people believe that holding gold will be a hedge against the fact that they view many other assets as being risky and hard to predict at this time."



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Mr. Bernanke was correct in acknowledging that other assets might be risky (they most assuredly are) but, in my mind, he was totally disingenuous in stating that he didn't fully understand the movements in the price. He knows full well that it is his monetary policy, featuring zero-based interest rates for the world's reserve currency, and the profligacy of his own government which are fuelling the desire to own gold. To keep his job, he also knows that he could never publicly acknowledge these facts.

On the subject of U.S. government profligacy, the numbers just keep getting worse, essentially refuting the notion that the economy is improving to any significant degree. A recent review of all the U.S. state budgets for 2010 revealed that they will experience a collective \$200 billion shortfall equal to 30 per cent of total expenditures. If I'm not mistaken, the individual states are constitutionally prohibited from running deficits at all so this number is beyond shocking. When this is aggregated with the federal deficit that is still in excess of 40 per cent of total expenditures, the true depth of the U.S. financial malaise can be appreciated.

This state of affairs has deteriorated to such an alarming extent that it has even caught the attention of Mr. Bernanke's predecessor at the Fed, Alan Greenspan. He recently opined that the U.S. may soon face higher borrowing costs due to the swelling debt and

called for a "tectonic shift" in fiscal policy to contain borrowing. Hopefully, the irony of his new stance is not lost on Mr. Greenspan since he actively aided and abetted an expansion of U.S. Treasury debt from \$2.3 trillion to \$8.2 trillion during his tenure as Fed chairman. However, in this instance, Mr. Greenspan is correct. The U.S. fiscal situation is out of control, and unless President Obama and the Democratic Congress can reign things in, foreigners are not only going to refuse to buy American debt, they are going to dispose of some portion of what they already own, leading to a surge in U.S. long rates and a collapse in the dollar.

... the increasing debt load accumulated by governments all over the world will never actually be repaid

President Obama, however, faces a huge conundrum, because it has been revealed that U.S. M3 in the first quarter was falling at a rate last seen during the Great Depression in the '30s. The U.S. government no longer deigns to report M3 but it has been reconstructed by analysts in the private sector from available government data and the most recent number is, to put it mildly, disturbing. Historically, a decline in M3 was always precursor to a sharp deceleration in the economy and, if it occurs this time, the budgetary numbers at all levels of government are

going to deteriorate further.

If the Obama government were to pursue aggressive deficit reduction at this time, it would exacerbate the recessionary conditions that appear to be reasserting themselves. Obama's advisors seem sufficiently concerned that there has been discussion of another stimulus package which would certainly be at odds with short-term deficit reduction.

This is in distinct contrast with events occurring in Europe. When it became apparent that bond buyers wouldn't go near the paper of the weaker members in the European Union (Greece, Spain, etc.), a bailout package was arranged, and the miscreants embraced fiscal austerity. It is more than ironic that the European problems revived the safe-haven status of the U.S., permitting rates to fall while momentarily taking the pressure off the U.S. deficit and potential funding problems. This respite, in my opinion, will be short lived.

On a more theoretical note, there has always been an unstated acknowledgment that the increasing debt load accumulated by governments all over the world will never actually be repaid. However, because of their power to tax and create money at will, it was also assumed that the debt would always be serviced. The fact that the money with which it is being serviced seldom, if ever, retains the purchasing power of the original debt tends to be conveniently ignored.

This whole underlying belief has now been severely challenged by the mounting sovereign-risk crisis in the western world. This is un-

doubtedly a primary factor in the rising price of gold although very few mainstream commentators would admit to this because it calls the whole system into question.

I expect gold to continue to rise inexorably in price although corrections orchestrated by the Orwellians who mistakenly believe they can maintain control will remain an irritant. Their true Achilles heel in this instance is the growing shortage of physical gold. The IMF is now being forced to dump what gold it still has available into the market to restrain the rising price. The European central banks, who for years, like lemmings, sold considerable quantities of their gold under the Central Bank Gold Agreement appear to have finally come to their senses

and have sold none of their quota for the current year.

What may not be widely understood is that western central banks have nowhere near the amount of gold in their vaults that they claim. They go to great lengths to obscure this fact and receive support from organizations like the feckless World Gold Council which just released an updated number for world official gold holdings of 30,462.81 tonnes. By virtue of their considerable leasing and swapping activities over the past 15 years, I would strongly question whether the western central banks even have half of that number in their vaults today.

This chicanery is facilitated by an IMF-endorsed accounting trick that allows a one-line entry for

physical gold and gold receivables on central bank balance sheets. There has been abundant evidence throughout the years that they have been very active in clandestinely oversupplying the market and, thus, suppressing the price.

Now that they really need their gold as the world financial crisis intensifies, a significant proportion of their reserves that has been disposed of through leasing and swapping is gone and their chances of getting much of it back is remote. It is dangling from the necks of Indian women, filling the vaults in the Middle East (Saudi Arabia just announced that it has an additional 180 tonnes that was never accounted for in official statistics) and moving in ever greater quantities to Russia and the Far East.

We are on the cusp of a parabolic move in the price of gold underwritten by physical shortages. Central banks can no longer supply the amount needed to balance supply and demand while mine production continues to stagnate at best.

It is imperative that investors ignore the volatility created by the anti-gold cartel and use every opportunity that is created by them to purchase more physical gold.

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