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Gold bullion price: new all-time high dead ahead

With the terminal phase of the gold price suppression scheme now in sight due to a growing shortage of physical gold, the market shenanigans are becoming more and more transparent. There is now a repetitive drill that the bullion banks follow on those days that they feel the need to trash the market.

John Embry

It begins at 3 a.m. New York time in London, England, when the gold traders report for work and put heavy downward pressure on the gold price. Gold then generally stabilizes until the Comex opens at 8:20 a.m. in New York and the pressure intensifies again. If the downside objective hasn't been achieved, the anti-gold cartel then waits until after the London p.m. fix at roughly 10:15 a.m. New York time and then hammers the price once again when only the pure paper gold Comex market remains open. The final indignity, if necessary, occurs on the lightly traded Access Market, after Comex gold trading closes at 1:30 p.m.

Nothing that happens with this metronome-like regularity could ever be construed as normal free market trading. In my opinion, this is indicative of collusive, highly questionable trading tactics. To date, the regulator, the Commodity Futures Trading Commission (CFTC) has chosen to turn a blind eye to these activities, despite mounting complaints from precious metals investors.

This shouldn't come as a great surprise to anyone because the CFTC was created by the U.S. government and that very same government has a vested interest in seeing low gold prices in order to protect the value of the U.S. dollar. In reality, the gold price suppression scheme is probably the only truly identifiable undertaking in the much-ballyhooed "U.S. strong dollar policy."

The fact that, in the entire nine- year gold bull market, the vast majority of the violent corrective activity has taken place during the New York trading hours while the strength occurred more often than not during Asian trading is not, in my mind, a coincidence.

It has been an intentional policy carried out by the bullion banks but, fortunately, this reign of terror is shortly coming to an end. Perhaps speeding this along will be the scheduled CFTC hearing with respect to position limits in precious metals on the Comex. This hearing is welcome and a step in the right direction but it remains to be seen what will emerge from it, given the U.S. government's long-held stance on gold and silver prices.

In the realm of fantasy, U.S. Treasury Secretary Tim Geithner recently violated a cardinal rule, never say "never," when he boldly stated that the U.S. is in absolutely no danger of losing is Triple-A rating even in the face of the staggering deficits that the country faces at all levels of government in the upcoming years.

He said in an ABC News interview when asked if a downgrade were a concern, "That will never happen to this country." He then reiterated that investors around the world would turn to U.S. Treasury securities and dollar-denominated assets whenever they were worried about global stability. His unbridled arrogance, his apparent failure to grasp the changed realities in the world and his widely recognized inability to deal with the truth make his comments more than suspect.

Another much less sanguine take on the U.S.'s current position is provided by a little known rule promulgated by, of all people, Alan Greenspan in 1999 in conjunction with the then Argentine deputy finance minister, Pablo Guidotti. Known as the Guidotti-Greenspan Rule, it states that a country's reserves backing its currency should be equal to at least 100 per cent of its short-term external debt (one year or less maturity).

Gold usually languishes until about mid-March and then spurts higher until mid-May — The Privateer

Guidotti introduced the concept at a G-33 meeting and then Fed Chairman Greenspan widely publicized it in a speech at the World Bank. It was subsequently endorsed by the world's largest fund manager, PIMCO. The California-based financial giant believes that it represents the single best concept of reserve management and is supported by many adherents and solid empirical evidence.

So, just how does the U.S. measure up in this regard today? The U.S. lists gold, oil and foreign currency among its reserve assets. The U.S. allegedly has 8,133 metric tonnes of gold, the world's single largest stash, although I would be willing to bet my life that is has nowhere near that much following its participation in the gold suppression scheme for the past 15 years.

However, giving it the benefit of the doubt, its gold is worth roughly $300 billion. In addition, the U.S. has some $60 billion worth of oil in its strategic petroleum reserve and $136 billion in foreign currencies. Thus, its total reserves are less than $500 billion, a truly trivial sum compared to China's position and the current annual U.S. budget deficit.

The greater concern lies on the liability side. Using the U.S. Treasury's own numbers, some $2 trillion worth of debt is set to mature in the next 12 months. In addition, somewhere between $1.5 and $2.0 trillion of new money will have to be raised to fund the yawning budget deficit. Therefore the U.S. is going to have to raise and/or roll over more than seven times its reserve base in the next 12 months.

This might not represent a potential crisis were the U.S. funding its debt internally, but foreigners own nearly 45 per cent of the existing debt and are thus owed considerably more in the next 12 months than the U.S. has in its reserves.

There would appear to be only one viable solution to this crisis, and a foreigner long U.S. dollar-denominated assets certainly won't care for it. Very simply, it requires more monetization, quantitative easing, or whatever else you care to call it. Suffice to say, the Fed chairman, Helicopter Ben Bernanke, will have the printing presses humming and the helicopters revving.

On a different topic, one of the most frustrating organizations on this planet has to be the World Gold Council. It is funded by the gold producers and, accordingly, should be a strong advocate for the ownership of gold and the attainment of higher prices. For years, it has wasted the companies' money promoting gold as jewelry at the expense of the concept of gold as money, its long historical role.

While this has been a considerable aggravation for gold advocates, some recent statements emanating from senior WGC functionaries have been beyond irritating. The organization's CEO, Aram Shishmanian, whom I had the pleasure of meeting in London last year, had a particularly lame response to the International Monetary Fund's latest public utterance about selling the remaining 191 tonnes available following the Indian purchase late last year.

He said, "The public restatement by the IMF of its commitment to execute the final sales under the previous approved program in a responsible manner once again demonstrated its commitment to an orderly market." What an antiseptic remark that is! Given that the statement of the IMF's intention came just as gold was breaking through a key upside resistance level and was specifically designed to knock the price down, Mr. Shishmanian should have taken that feckless government creation to task for its unrelenting efforts to undermine the gold price.

However, he was then outdone by the council's managing director for government affairs, George Milling-Stanley. This gentleman, while responding to a Citigroup analyst's suggestion that China was likely to buy the IMF gold, directly refuted the idea by saying that the country was likely to only buy local gold production to beef up its reserves. Given the magnitude of China's monetary reserves, it could buy every ounce of gold on offer throughout the world for the foreseeable future without making a dent in its gold appetite.

Instead of making the asinine comment he did, Milling-Stanley would have better served his gold producers by spending his time encouraging the Chinese to step up to the plate. I must confess it is totally beyond me why the gold producers waste their money supporting this organization.

Gold has struggled somewhat in the early part of the year but I believe that better days are coming shortly. The extremely prescient Bill Buckler, publisher of *The Privateer* in Australia, offered an interesting seasonal insight recently when he stated, "gold usually languishes until about mid-March and then spurts higher until mid-May."

The fundamentals certainly support just such an occurrence this year and I would be very surprised if we are not looking at a new all-time high in U.S. dollars in that time frame. Incidentally, with the weakness in the euro, that landmark was already achieved in the euro gold price in February.

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