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Financial front: the Four Horsemen are riding

The gold market has become more fascinating by the day as we move through the fall season. In mid-October gold surged to new all time highs approaching US\$1070 an ounce despite a massive buildup in short positions by the commercials (bullion banks, etc.) on the Comex and widespread, mainstream commentary that it was overpriced and in a bubble phase. Nothing could be further from the truth, but the failing currency markets require the dissemination of considerable disinformation on gold to keep the public in line.

In the face of another option expiry, gold was then subjected to its usual vertiginous drop with the price being driven down nearly \$30 an ounce in less than 24 hours early in the last week of October. Ostensibly, this was caused by dollar strength, but the true explanation was another bear raid related to the option expiry and the approach of yet another massive U.S. Treasury auction.

I believe that it is absolutely essential that investors realize that the U.S. government is becoming ever more panic stricken as its financial condition deteriorates. Its fear of a failed auction (in spite of the Fed buying a significant amount of the bonds) is now so ingrained that it feels the need to aggressively groom markets to create the impression that all is well in the debt world. Ergo,



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the U.S. dollar is forcibly propped up, and stocks, commodities and precious metals are taken down with the express purpose of getting a solid bid into the bond market on the eve of the auctions. As preposterous as this sounds, it is unfortunately a reality. The great news, in this instance, was that, within a week of this travesty, gold was away to the races again, posting new highs in the wake of a stunning Indian purchase of 203 tonnes of IMF gold.

However, what I find particularly objectionable is the blatant manipulation of the gold price prior to option expiries. In my mind, under any reasonable interpretation of the law concerning market interference or restraint of trade, it should be seen as highly illegal.

Legitimate call-option holders are essentially being defrauded by big banks as the gold price is intentionally driven down to ensure that the options expire out of the money. The Commodities Futures Trading Commission bears the responsibility for monitoring the Comex, but I feel it has been derelict in its duties by ignoring a battery of complaints on the issue by aggrieved investors. In reality, how does this differ from the SEC's failure to seriously investigate Bernie Madoff despite 10 years of well-documented complaints from Harry Markopolous. In my opinion, the

evidence concerning gold-market manipulation is both repetitive and compelling and should be addressed forthwith.

Fortunately, it may not have to come to that because the physical gold market may be in the process of overwhelming the chicanery in the paper-gold market, thus making it less relevant. There have been numerous developments recently that suggest the physical markets are getting increasingly tight. Indian ex-duty premiums have held up remarkably well in the face of the recent, sharp price rise in gold, indicating that Indian demand remains firm despite the higher price. This is somewhat unusual in that Indian demand traditionally takes time to adjust to a higher price level. However, the Indians are now in competition with the Chinese for the shrinking amount of physical gold available and, thus, they can no longer afford to be as circumspect. Similarly, the premiums to import gold into the increasingly important market in Vietnam have dramatically widened, suggesting that demand in all of Asia is on the rise.

Of perhaps greater import, there are strong rumors that the Germans have requested that the gold held for their account in the U.S. be repatriated, while Hong Kong has announced that it is going to have its own depository near the airport to hold Asian gold, thus removing it from the increasingly suspect London market. In both instances, this re-

flects growing concern that the gold being held on the behalf of others in both the U.S. and England might not all be there.

A recent study by Paul Mylchreest of Thunder Road, a consultancy in London, lends credence to this concern. In his report, he examined the gold turnover on the London Bullion Market Association, by far the world's largest gold-trading exchange, and concluded that the staggering volume transacted raised serious questions about how many paper claims there were on each London Good Delivery bar.

An even more fascinating story making the rounds in the upper echelons of the gold business claims that at the end of September, a number of well-heeled investors in London with a large position on the LBMA called for physical delivery. Their counterparties, which apparently included J.P. Morgan Chase, could not deliver and offered a huge premium for cash settlement. The investors refused and demanded physical, which sent the bullion banks, hat in hand, to their central-bank conferees to get actual gold bars in order to make delivery.

The tightness in the physical market in London was further confirmed by one of London's largest gold traders who has recently picked up two major new American accounts with a voracious appetite for physical gold. He apparently is having considerable difficulty obtaining the gold

and observed that physical gold is becoming extremely hard to acquire in size.

It is my strong feeling that a dramatic inflexion point in the gold market is rapidly approaching and it will reflect the growing realization by investors that hold substantial amounts of paper-gold vehicles that they may not actually have the protection they think they have. A flood out of paper gold into physical will obviously increase the demand for the latter dramatically and should have a very salutary impact on the price.

Switching themes, it has now been 85 years since the renowned U.S. sportswriter Grantland Rice penned what is arguably the most compelling lead in the history of American sports. Following Notre Dame's stirring football upset of a vaunted Army side, Rice opened his account of the game with the following classic:

"Outlined against a blue-grey October sky, the Four Horsemen rode again. In dramatic lore, their names are Death, Destruction, Pestilence and Famine. But those are only aliases. Their real names are Stuhldreher, Crowley, Miller and Leyden. They formed the crest of the South Bend cyclone before which another fighting Army team was swept over the precipice at the Polo Grounds this afternoon."

In my opinion, the current equivalent of the mythical Four Horsemen of the Apocalypse are

our financial leaders in the western world who are enthusiastically promoting and aggressively implementing quantitative easing in an attempt to sustain an obviously failed system and to bail out their banking cronies. They would include the atavistic Lawrence Summers, President Obama's economic guru and a key figure in the gold-suppression scheme, the extremely naive Fed chairman, Ben Bernanke; the truly feckless U.S. Treasury Secretary, Timothy Geithner and Bernanke's British equivalent, the hapless Mervyn King, head of the Bank of England. To be fair to the latter, he has partially redeemed himself in my eyes by recently calling for a breakup of the largest British banks, a move that drew a frosty response from British Prime Minister Gordon Brown. I'm on the side of anybody opposing Brown, who is the true villain in the British saga and one of the world's great hypocrites.

There is absolutely no doubt in my mind that what these gentlemen are trying to engineer is going to end in an utter debacle. Any serious attempt to withdraw the stimulus at this point will trigger a deflationary depression and a continuation of the current policies will put us firmly on the road to hyperinflation.

The futility of this was foreseen in the middle of the last century by the father of Austrian economics, the brilliant Ludwig Von Mises, who correctly observed that:

"There is no means of avoiding a final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system."

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Mr. Bernanke and his fellow travellers have clearly chosen the second option, and as a result, the strong probability is that we will ultimately see the worst of all worlds, hyperinflationary monetary conditions in conjunction with very depressed economic activity. The Fed chairman foreshadowed all of this with his infamous speech some seven years ago in which he claimed that he could combat deflation by the use of a printing press or, if need be, by dropping money from helicopters to sustain demand. The whole concept was ludicrous at the time and remains so today.

In reality, the only significant recoveries in the western world at

this time are occurring in the financial and commodity markets. The real economy continues to stagnate and, if left to its own devices, would undoubtedly implode. Thus, the suggestion of any serious attempt to remove the excessive monetary and fiscal stimulus currently in effect seems bogus to me.

I have always believed in the immutable economic law which postulates that what goes before dictates what comes afterward. We experienced the most abusive credit cycle in history, fuelled by former Fed chairman Alan Greenspan's wildly expansionary monetary policy, which created serial bubbles and amplified by the creation of unfathomable quantities of unregulated OTC derivatives that increased leverage to ridiculous levels. The whole exercise was then masked by a continuing litany of doctored economic statistics in order to conceal the true state of affairs.

As a result, should there really be any wonder that we are now confronted with a situation that appears to have no reasonable outcome? I continue to believe that gold and silver remain the preferred refuges in what I suspect is going to remain an extremely difficult financial and economic environment for the foreseeable future.

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