Part 2 - Finally the Bafin is unraveling the gold manipulation/intervention by the central banks and the Fed

Bafin independence from the Bundesbank also protects it from unduly Government ulterior motives

Back to Bafin. BaFin is an authority truly independent of the Bundesbank, unlike the Financial Conduct Authority in London, which is a division of the Bank of England. And indeed how can you otherwise be a supervising authority if you are not fully independent? And there is a growing level of expectation in Germany that the regulator will not be pushed around by foreign, particularly American interests. If BaFin does back off, this will almost certainly be interpreted by the German public and politicians that it has only done so under pressure. And the Germans are not really people that take no for an answer or are easily being pushed around!

What also doesn't help the US case is that Europe's top competition enforcer has scolded Britain and the US for failing to apologize or address claims that his phone was tapped by their intelligence services. In his first comments on the spying incident since the allegations emerged in December, Joaquín Almunia said he was "surprised" to have been targeted and even more angered by the lack of official response. What does this tell you? No regard or any respect for friendly countries and organizations. As Obama calls it "the US has unique responsibilities", I think Obama as a constitutional lawyer (he is not a professor as he likes to call himself) first has to understand the meaning of responsibility, respect and justice. The problem is that the he and those who rule clearly don't understand what the importance is of the "Trias Politica by Montesquieu", the complete separation of the government to be divided among three separate branches: the legislative, the executive, and the judiciary branch. There is a very specific and valid reason why these branches should be completely separated and independent: because it avoids the possibility of corruption or any temptation towards corruption and it prevents the erosion of constitutional rights.

And threats against Standard & Poor because of its downgrade of US debt are a clear example of violation of good government and justice

Anyway my point is that the US, by means of the very unprofessional and opportunistic behavior of its Government, listening into the phone conversations of friendly heads of state, is quickly losing the much-needed support it will need to keep its reserve currency intact. Even Fitch, Fitch Ratings Inc. is a jointly owned subsidiary of Hearst Corporation and FIMALAC SA of France, after Standard & Poor downgraded the US debt and subsequently was pressured, is now putting the US on its watch list. By the way according to a story on Bloomberg of January 21, 2014 Harold McGraw's (McGraw Hill owns S&P) affidavit tells the dramatic story of how Tim Geithner threatened him after the downgrade. The story was also featured in the WSJ of January 22, 2013.

Mr. Geithner expressed anger at the downgrade. In the course of our discussion, he referred to an asserted two trillion dollar error in S&P's work, an error that he had described in various discussions with the media following the announcement of the downgrade. Having been briefed on the issue by S&P personnel in the wake of those statements by Mr. Geithner, I

explained to him that in relying on Congressional Budget Office figures, as it had, S&P had not made an error. Mr. Geithner said that S&P had made a huge error and that "you are accountable for that." He added that S&P had a previous history of errors and that this was not the first mistake it had made. As I reported contemporaneously to my colleagues, he said that "you have done an enormous disservice to yourselves and to your country", that the U.S. economy was bad and that the downgrade had done real damage. S&P's conduct would be "looked at very carefully" he said. Such behavior could not occur, he said, without a response from the government.

What is even more troubling and cowardice is that the spokesman of Geithner denied his threat whilst he condemned S&P actions on CNBC?! This situation is in a way is so disturbing and laughable knowing that the government went after JPMorgan, and BoAML because of their dealings regarding the mortgage fraud and then they take action against and threaten Standard & Poor because of their downgrade of the US!??!?! There is something terribly wrong here. A lot of laws but very little justice!

Fitch has put the US on negative watch with respect to how the February 7th debt ceiling will be handled and Senate minority leader Mitch McConnell said at Fox news "We will attach something significant to raise the debt limit"

Senate Republican Leader Mitch McConnell said President Barack Obama's demand for an unconditional debt-limit increase is "unreasonable," and that "something significant" ought to be attached. "I think the president is taking an unreasonable position to suggest that we ought to treat his request to raise the debt ceiling like some kind of motherhood resolution that everybody just says 'aye' and we don't do anything," McConnell said. The question that arises is if this is another hollow political threat or if the Republicans really mean business this time. The Treasury says so-called extraordinary measures to keep the government from hitting the debt ceiling will be exhausted by late February.

In any case Fitch says Feb. 7 debt-limit date is 'Key' for U.S.'s AAA credit rating, according to Fitch ratings. Wrangling about lifting the borrowing limit "risks undermining confidence in the role of the U.S. dollar as the preeminent global reserve currency," Fitch said Oct. 15 in a statement when it placed the U.S.'s top ranking on rating watch negative. "Feb. 7 is a key date for us," James McCormack, managing director and global head of the sovereign and supranational group at Fitch said. "That issue alone isn't the only factor in the review of the rating," McCormack said. "It's how it's resolved". It will be interesting to see if Fitch will also be threatened and/or put under pressure. And if so would you have more confidence in US paper? Think again!

A downgrade of US debt could have far reaching consequences with a dollar crisis and gold and silver exploding

Considering all the unrest around the world and many things off balance I wouldn't be surprised if this time things won't go so "smoothly". The new Treasury Secretary Jacob J. Lew has warned Congress that the U.S. will run out of borrowing ability as soon as late February and has urged lawmakers to raise the debt ceiling weeks before then. In an interview with CNBC January 23, 2013, Lew reiterated the contents of a letter he sent to congressional

leaders a day earlier warning that the government would likely have to begin taking extraordinary measures to avoid default by Feb. 7 and would exhaust its ability to avoid default by late February. Lew said it was crucial that Congress avoid “another self-inflicted wound” to growth after last year’s government shutdown. Meanwhile, Lew said conditions appeared to be “queued up” for strong U.S. growth in 2014 (he was in Colorado when he said that!!). What is important here is that **a possible debt ceiling standoff could create a downgrade of US debt by another rating agency and force interest rates a lot higher and possibly create a US dollar currency crisis.** This in conjunction with the investigation and workings of the gold manipulation by the Bafin could have some far reaching consequences for the price of gold. Not even mentioning the further fall-out with respect to the EM currencies.

The possible currency manipulation, which also include gold and silver (because they are also currencies), is next to being investigated by the Bafin also investigated by the EU, and regulators in the UK, Switzerland and the US

Koenig is the first global finance regulator to comment publicly on the investigations as probes into the London interbank offered rate, or Libor, expand into other benchmarks. Joaquin Almunia, the European Union’s antitrust chief, said last week that its preliminary probe into possible foreign-exchange manipulation covers similar practices as in the regulator’s probe into Libor-rigging. What a coincidence that these investigations are coming to the fore at the same time!

Bafin said last week it is investigating currency trading, joining regulators in the U.K., U.S. and Switzerland, who are examining whether traders at the world’s largest banks colluded to manipulate the WM/Reuters rates. At least a dozen firms have been contacted by authorities and more than 13 traders suspended, fired or put on leave in the currency case. Regulators are examining how traders, who communicated in instant-message groups, exchanged information on client orders and agreed how to trade at the time of the fix, five people with knowledge of the probes said last month. Bafin interviewed Deutsche Bank employees as part of a probe of potential manipulation of gold and silver prices, a person with knowledge of the matter has said in December. Deutsche Bank will withdraw from gold and silver benchmark price setting as European regulators investigate suspected manipulation of precious metals prices by banks!?

The five banks who oversee the so-called London gold fixing -- Barclays Plc (BARC), Deutsche Bank AG (DBK), Bank of Nova Scotia, HSBC Holdings Plc (HSBA) and Societe Generale SA (GLE) -- have formed a steering committee that’s seeking external firms to advise how the process could be improved, according to the person, who asked not to be identified because the review isn’t public. Viva transparency! And none of the people of the five banks that co-own London Gold Market Fixing contacted by Bloomberg were willing to comment in detail on the situation of the London fixing. Why? If everything is above board and perfectly legal why can’t these banks explain to the public what is going on?

As mentioned the U.K. finance regulator, the Financial Conduct Authority, is also scrutinizing how prices are set in the $20 trillion gold market reviewing gold benchmarks as part of its wider investigation into how rates are set. A proposal by the European Commission to

regulate reference values is going “in the right direction, but not far enough,” Bafin’s Koenig said. It relies too much on self-control, she said, adding that trading on currency and precious-metals markets is “decentralized and to a large scale done bilaterally and not on exchanges or exchange-like platforms” and therefore hard to monitor. The Bafin understands that the investment banks it is investigating are only intermediaries for the main instigators of gold price suppression, the Western central banks and particularly the U.S. government.

Anyway it will be very interesting to see what the conclusion will be of all these supervisory and regulatory institutions considering that they all have different levels of independence and interests!

Why the manipulation and its history?

The current financial system is based on fiat money, reigned by the US dollar, the reserve currency, the “opposite” of gold. As Volcker said: “Gold is my biggest enemy.” It started with a memorandum from 1961 entitled ‘US Foreign Exchange Operations: Needs and Methods’ described a detailed plan to manipulate the currency and gold markets via structural interventions in order to support the dollar and maintain the gold price at $35/oz. It was vital for the US to ‘manage’ the gold market; otherwise countries could exchange their surplus dollars for gold and then sell these ounces on the free gold market for a higher price essentially devaluing the US dollar.

During meetings of the central bank presidents at the BIS (Bank of International Settlements in Basel) in 1961, it was agreed that a pool of $270 million in gold would be made available by the eight participating (western) countries. This so-called “London Gold Pool” was the pooling of gold reserves by a group of eight central banks in the United States and seven European countries that agreed on 1 November 1961 to cooperate in maintaining the Bretton Woods System of fixed-rate convertible currencies and defending a gold price of US$35 per troy ounce by interventions in the London gold market making sure the gold price didn’t rise above $35 per ounce by selling official gold holdings from the central banks gold vaults.

After the dollar was taken off the gold standard in 1971, bankers stepped up their intervention efforts and have tried to demonetize gold, which of course will not succeed considering the many “failed successes” of paper money. Often heard reasons for the demonetization of gold was the fact that gold and silver do not generate a yearly return such as interest or dividends and as we know therefore “cost” money. Interest is a payment to compensate for the inflation and default risk – the risk that money loses part of its purchasing power and that the debtor is unable to live up to its obligations. Physical gold doesn’t need an inflation compensation, because it translates in a higher gold price, and doesn’t have counterparty risk because the value is in the physical gold itself and not in an obligation represented by a piece of paper that is worth nothing if the debtor can’t or won’t meet its obligation to deliver the physical gold.

BECAUSE THE US TREASURY IS NOT WILLING TO SELL ITS GOLD RESERVES (WHY NOT IF IT WANT TO DEPRESS THE GOLD PRICE SO DESPERATELY AND BELIEVES THE US DOLLAR IS THE ONLY GAME IN TOWN? AND BY THE WAY HOW DO WE KNOW THE US TREASURY DIDN’T SELL ITS GOLD? NO INDEPENDENT AUDITS HAVE BEEN ALLOWED)! the Fed decided in 1995

to examine whether it was possible to set up a special structure whereby so-called ‘gold swaps’ could bring in gold from the gold reserves of Western central banks. Under this structure, the gold was ‘swapped’ with the Fed, which then would be sold by Wall Street banks in order to keep prices down. Because of the ‘swap agreement’, the gold is officially only lent out, so Western central banks could keep it on their balance sheets as ‘gold receivables’. **AGAIN WHY DID THE FED NOT SELL FROM ITS US GOLD RESERVES, AMOUNTING TO AN OFFICIALLY REPORTED 8,133 TONNES, INSTEAD OF BORROWING IT FROM FOREIGN CENTRAL BANKS? IS IT BECAUSE THEY WANT TO HAVE THE SAFETY NET OF THE GOLD RESERVES IN CASE THE DEMONETIZING OF THE GOLD DOESN’T WORK AND LET THE OTHER CENTRAL BANKS DEAL WITH THE FALL-OUT OF THEIR REDUCED GOLD RESERVES?** Next to the creation of the “gold sawps” The Fed started a “marketing campaign” informing foreign central bankers that they expected/believed that the gold price was going to decline further (as Goldman does continuously being co-responsible for heavy selling of futures contracts in April 2013 driving down the gold price and thereby forcing sales of GLD and other ETF shares, which were bought up by the bullion banks and subsequently redeemed for physical gold), and large quantities of central banks’ gold became “available” sold in the open market. **AGAIN I CAN’T EMPHASIZE THIS ENOUGH WHY DIDN’T THE US SELL ITS GOLD? OR DID IT?**

Fed Chairman Alan Greenspan did admit during Congressional testimony on derivatives in 1998 that “Central banks stand ready to lease gold in increasing quantities should the price rise.” He probably meant the gold reserves of the BOE. How naïve, Gordon Brown was.

Between 1999 and 2002 Brown, the British Chancellor, being a puppet of the Fed, was following the Fed’s strategy of inducing a fall in the gold price via a very unusual announcement of possible sales. Brown’s move was therefore clearly not intended to receive the best price for its gold for the UK citizens but rather to bring down the price of gold as low as possible in favor of the US dollar. The UK eventually sold almost 400 tons of gold over 17 auctions in just three years, just as the gold market was bottoming out now called the **Brown Bottom**. The “forced” sale of Britain’s 400 tons (32,150 x 400 = 12.86m oz.) of gold reserves by Gordon Brown for prices between $256 and $296 an ounce, only to watch it soar so far as $1,250 per ounce today has cost the English taxpayer approximately $13bn!!!!

As we know currently the primary purpose for short-selling futures contracts on the Comex is to protect the dollar’s value from the growing supply of dollars created by the Fed’s policy of Quantitative Easing. The problem with Quantitative Easing is that the annual creation of an enormous supply of new dollars is raising questions among American and foreign holders of vast amounts of US dollar-denominated financial instruments. They see their dollar holdings being diluted by the creation of new dollars that are not stemming from an increase in wealth or GDP. The markets understand that Quantitative Easing fuels the high bond and stock prices and recognize also that the gains from the rising stock market discourage gold purchases. Previously when the Fed had mentioned that it might reduce bond purchases, the stock market fell and bonds sold off. To neutralize the market scare, the Fed manipulated both gold and stock markets. Anyway the other side of the coin is that the Fed’s leasing operations supplying gold to the market in order to reduce the rate of rise in the gold price has probably drained the Fed’s and other central banks gold holdings and has very likely created a shortage in physical gold.

How is the manipulation carried out?

About $19.6 trillion of gold circulated globally in 2012, according to CPM Group, a New York-based research company. The Fed's gold manipulation operation which involves exerting forceful downward pressure on the price of gold is believed to be executed by selling a massive amount of Comex gold futures, which are dropped like bombs either on the Comex floor during NY trading hours or via the Globex system when trading is very thin. Trading of gold (and silver) paper futures occurs in an auction-style market on the floor of the Comex daily from 8:20 a.m. to 1:30 p.m. New York time. Although several large global banks are trading members of the Comex, according to insiders JP Morgan, HSBC and Bank Nova Scotia conduct the majority of the trading volume.

Globex is a computerized trading system used for derivatives, currency and futures contracts, which operates for 23 hours except on weekends. What happens is that without any apparent or specific reason and in order to have maximum effect within the space of less than a couple of minutes, thousands of contracts are being dumped – equal often a substantial percentage of the day's entire volume during the 23 hour trading period in which gold futures trade. The impact on the silver price is even more pronounced because the silver market is by far not as deep as the gold market and therefore far easier to manipulate.

In addition to the Comex, the Fed also engages in manipulating the price of gold on the far bigger–in terms of total dollar value of trading–London gold market. The Fed and its agent bullion banks sporadically sell large quantities of physical gold in London's LBMA gold market. The process of buying and selling actual physical gold is more cumbersome and complicated than trading futures. As the availability of large amounts of physical gold is limited, these "physical gold drops" are used carefully and selectively and at times when the intended effect on the market will be most effective.

The physical gold market in London is called the LBMA (London Bullion Marketing Association) market. It is comprised of several large banks that are LMBA market makers known as "bullion banks" (Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, Merrill Lynch/Bank of America, Mitsui, Societe Generale, Bank of Nova Scotia and UBS). Whereas the Comex is a "paper gold" exchange, the LBMA is the nexus of global physical gold trading and has been for centuries. When large buyers like Central Banks, big investment funds or wealthy private investors want to buy or sell a large amount of physical gold, they do this on the LBMA market. Hence why there is such an outflow from the LBMA to the East (Chinese) who want the physical. To put things into perspective In June last year the average volume of gold cleared in London hit 29m ounces per day. The world's mines are producing 90m ounces per year at $1,250/oz a value of $113bn!

When gold started to close in on $2,000/oz. the Fed started to panic

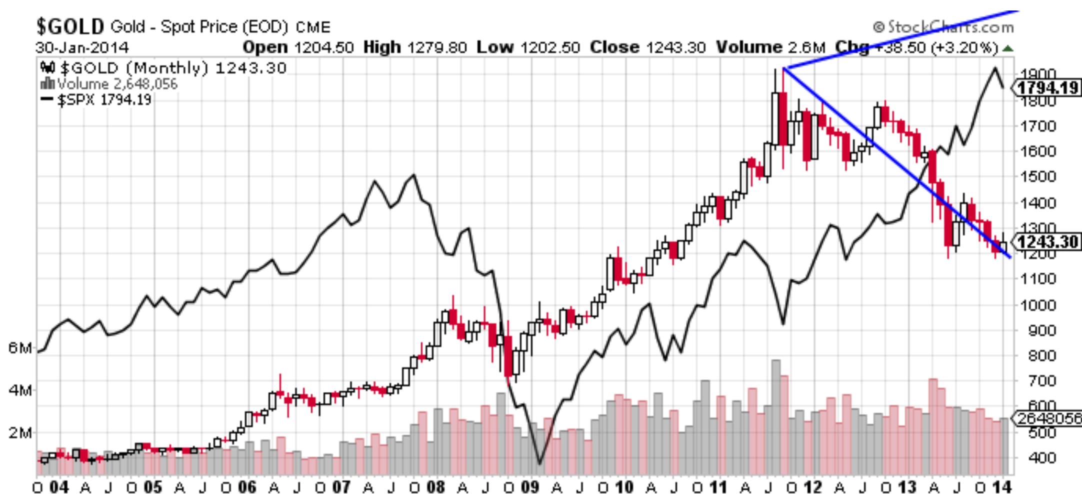
As we discussed the Fed's policy of monetizing one trillion dollars of bonds annually without any significant results to show for has put pressure on the US dollar, the value of which declined in terms of gold or goods. Hence why the middle class has seen its real income decline substantially. Truly if you print trillions of dollars out of thin air without any real GDP

growth something has to give. In the early eighties the US relaxed the debt ceiling in order to facilitate economic growth. Here we come tumbling purchasing power!!

When inflation is calculated the way it was in 1980, not the manipulated way it is today, a $321 monthly pension check in 1980 would have to be $3636 in 2013 to have the same purchasing power according to economist John Williams whose website www.Shadowstats.com provides this calculation. And thus according to John's calculation the loss of equivalent purchasing power since 1980 was a staggering 91%. Hence why gold has shown such a stellar performance being the true reflection of the fundamentals of the reserve currency: the US dollar.

The following chart can in my point of view give us some idea where gold could have been if gold wouldn't have been manipulated or engineered with hundreds of tons of paper gold being dumped in the market especially on Sunday evenings just after 5 pm EST, being one of the thinnest trading moments of the week. This time of day is one of the least active trading periods during any 23 hour trading day (there's one hour when gold futures stop trading altogether). If we would just follow the S&P500, being fuelled by the QE, for the gold price chart we would arrive at a gold price of at least $2,200/oz. if not higher because of the psychological effect of having crossed the significant $2,000 barrier. I flipped the downward blue line since the all-time high of $1,923 in April 2011 upwards (as much as I could do on the chart) to show where the gold price would at least have been wouldn't it have been for the adjustment of the gold price!

Corrected for inflation the former 1980 high of $850/oz. for gold is now estimated to be some $2,350/oz. One can only imagine what the comments of industry analysts and the mainstream media would be if gold would rise above the former for inflation corrected high. Investors would say what is gold telling us what is wrong! How much more information do you need as a reality check?



When gold hit $1,900 per ounce in 2011, the Federal Reserve realized that $2,000 per ounce could have a serious psychological impact on the psyche of investors which in turn could depress the dollar's exchange rate with other currencies, resulting in a possible run on the dollar as both foreign and domestic holders would sell their dollar investments to avoid the fall in value. As I emphasize all the time the currency is the benchmark of your wealth hence

the importance of its movements! Ask the Turks and the Argentinians. Once this realization hit, that the US dollar could be in danger of a crisis and/or default, the manipulation of the gold price progressed.

As mentioned here above short selling, using paper not physical, drives down the gold price, triggers technical stop-loss orders and margin calls, and pushes participants out of their physical gold holdings or ETFs and tries to systematically rock their confidence in the only investment, next to agricultural land and water and a couple of other investments, that makes sense when the hell is diluted out of the reserve currency.

The fractional (gold) reserve banking system will be tested in the not too distant future

Western central banks have pushed fractional gold reserve banking to the point that they haven't enough reserves to cover withdrawals. Fractional reserve banking is the practice whereby a central bank retains gold reserves in an amount equal to only a portion of the amount of paper gold claims it has issued to satisfy potential demands for withdrawals. The Fed has created paper claims to gold that does not exist in physical form and sold these claims in mass quantities in order to drive down the gold price. The paper claims to gold are a large multiple (100 x) of the amount of actual gold available for delivery. Fractional reserve systems break down when too many depositors or holders of paper claims present them for physical delivery and that is exactly what is happening at the moment. And even if the paper claims can then be repaid in cash because of the force majeure clause it will the writing on the wall of the collective psychology wanting the physical delivery indicating the worthlessness of "gold paper promises". As a result the system could be brought to its knees.

As we know in the last few years the Asian markets–specifically and especially the Chinese–are demanding actual physical delivery of the bullion they buy. This has created a sense of urgency among the Fed, Treasury and the bullion banks to utilize any means possible to flush out as many weak holders of gold as possible with orchestrated price declines in order to acquire physical gold that can be delivered to Asian buyers. Non-delivery of the physical to Asians is not an option because as just described it would bring the "value and acceptance" of paper gold futures to a shrinking halt.

Though in my point of view this is just a matter of time and the efforts of depressing the gold price will fail because the Chinese central bank and other central banks are buying any physical gold that is or comes available. A quote from the following book clearly expresses the mistrust with respect to the triple A status of US treasuries.

The Dollar Trap: How the US Dollar Tightened its Grip on Global Finance, by Eswar Prasad, *mentions in his book that in* Early in 2009 Luo Ping, an official at the China Banking Regulatory Commission, was asked whether Beijing would continue to buy US government debt. "There is nothing much we can do," he replied. "For everyone, including China, it is the only option." That seemed counter-intuitive then, in the febrile aftermath of the worst financial crisis since the Great Depression. As the Federal Reserve began aggressively printing money, the dollar was falling. Bader al-Sa'ad, the head of the Kuwait Investment Authority, captured the mood of foreign investors in September 2011 when he said he had

been brought up to think of US Treasuries as risk-free but no longer believed that to be the case.

And at the moment the paper gold can not be backed up by physical gold any longer, no inventories to deliver from, prices will have to go but up. When the Fed runs out of gold to borrow, to rehypothecate, and to loot from ETFs, the Fed will have to abandon QE, as it is doing now, or the US dollar will collapse and with it Washington's power to exercise hegemony over the world. It is now the EM currencies that are suffering and have their crises. The playing room is getting smaller and smaller.

At the same time the "demonetized" price of gold plays in the hands of the Russians, Indians and mostly the Chinese who get the weapon of mass financial destruction at the cheap from the US who is trying so feverously to defend the US dollar as the only "real" currency in the world. **Do you see the irony here? You try to defend the US dollar by depressing the gold price and at the same time you give your biggest competitor for the hegemony of the reserve currency the ultimate instrument/means to achieve that reserve status at bargain prices!!** The lower price resulted in much higher Asian demand. However, these large purchasers of gold, such as by China, now require as mentioned actual delivery of the gold (NO PAPER AND NO STORAGE IN THIRD PARTY HANDS) they buy contrary to the past when purchasers would keep it in the vaults of the central banks or bullion banks they purchased it from. The Shanghai Gold Exchange, China's largest bullion bourse, delivered 2,197 metric tons to customers in 2013, up 93% from 1,139 tons in 2012.

The Mints, producing gold and silver coins, can't keep up with demand

Austria's mint, Austria's Muenze Oesterreich AG, is running 24 hours a day to meet orders for gold coins, joining counterparts from the U.S. to the U.K. to Australia in reporting accelerating demand boosted by the bear market in bullion. Purchases of bullion coins at Australia's Perth Mint rose 20% this year through Jan. 20 from a year earlier. Sales by the U.S. Mint are set for the best month since April, when the metal plunged into a bear market. The U.S. Mint, the world's largest, sold 89,500 ounces so far this month. The U.K.'s Royal Mint, which traces its history back more than 1,000 years, ran out of 2014 Sovereign gold coins because of "exceptional demand," it said in a statement on Jan. 8. Global mints are manufacturing as fast as they can after a 28% drop in gold prices last year, the biggest slump since 1981, attracted buyers of physical metal. Goldman Sachs Group Inc. predicts bullion will "grind lower" over 2014, probably because they want to buy the bullion themselves. The long-term physical buyers clearly see these price drops as opportunities to accumulate more assets. Goldman expects bullion to fall to $1,050 in the next 12 months as the Federal Reserve reduces monetary stimulus, analysts led by Jeffrey Currie, the bank's head of commodities research, said in a report Jan. 12. How can you trust Goldman if they also work for the Government? Precious metals are also Morgan Stanley's "least preferred" commodities.

Gold futures in New York climbed 3.5% this month to $1,250 an ounce, heading for the first gain since August. Prices rebounded 8.7% since reaching a 34-month low of $1,150/oz. in June as physical buying rose. Before 2013, the amount of gold in the GLD vault was one of the largest stockpiles of gold in the world. The naked short selling "plundered" the ETF from the physical gold and "stole" gold from the ETF holders! The more the price of gold is driven down

in the Western paper gold market, the higher the demand for physical bullion in Asian markets. Some people say that all of this gold was “removed” with the “help” of the bullion banks in order to avoid defaulting on delivery demands being imposed by Asian commercial, investment and sovereign gold buyers

Analysts from Barclays Capital said that physically backed gold ETPs in total rose by 7.4 tons on Friday January 24, 2014. The analysts added this was the first time money has flowed back into ETPs in almost a month and the largest daily inflow since November 2012. Inflows back into gold-backed exchange traded products is a good sign and could be an indication that the market is starting to stabilize, said commodity analysts. According to data compiled by the ETF, the trust holds 797.05 metric tons of gold, as of Jan. 17. At the beginning of 2013, GLD still held 1350 tonnes of gold. “The last time holdings increased by that much was in November 2012 when gold prices were trading over USD1,700/oz. This is an encouraging sign for the bullion markets as liquidations from the ETFs were attributed to gold’s decline in 2013,” said analysts from HSBC.

We conclude that the ability to manipulate the gold price is disappearing as physical gold moves from New York and London to Asia, leaving the West with paper claims to gold that greatly exceed the available supply. The Fed’s use of gold leasing to supply gold to the market in order to reduce the rise in the gold price has drained the Fed’s and other Western central bank gold holdings and is creating a shortage in physical gold. As mentioned historically most big buyers would leave their gold for safekeeping in the vaults of the Fed, Bank of England or private bullion banks rather than incur the cost of moving gold to local depositories. However, large purchasers of gold, such as China, now require actual delivery of the gold they buy!

Even the Bundesbank is now talking about a one-off capital levy to pay for the Government debt! What does that tell you?

And there is all the reason to demand physical delivery because things are not improving. Germany's Bundesbank said on Monday January 27 that countries about to go bankrupt should draw on the private wealth of their citizens through a one-off capital levy before asking other states for help." A capital levy corresponds to the principle of national responsibility, according to which tax payers are responsible for their government's obligations before solidarity of other states is required," the Bundesbank said in its monthly report.

The German Institute for Economic Research calculated in 2012 that in Germany a 10% levy on a tax base derived from a personal allowance of 250,000 euros would add up to around 230 billion euros. It did not give a figure for crisis countries due to lack of sufficient data.

In considering some of the potential measures likely to be required, the reader may be struck by the essential problem facing politicians and thus ultimately the taxpayers: **there may be only painful ways out of the crisis.** One way or another, sooner or later, it will be implemented. Namely a one-time wealth tax: in other words, instead of stealth inflation, the government will be forced to proceed with transfer of wealth. According to the Bundesbank, the amount of developed world debt between household, corporate and government that

needs to be eliminated is just over $21 trillion. Which unfortunately means that there is an equity shortfall that will have to be funded with incremental cash, which will have to come from somewhere. That somewhere is tax of the middle and upper classes, which are in possession of $74 trillion in financial assets, which in turn will have to be taxed at a blended rate of 28.7%.

($ bn)	Wealth Tax Needed	Financial Assets	% Tax on Wealth
United States	$ 11,216	$ 43,134	26.0%
European Union	8,329	24,493	34.0%
United Kingdom	1,704	6,314	27.0%
SUM	**$ 21,249**	**$ 73,940**	**28.7%**

Conclusion: where would you rather put your money if even the Bundesbank comes with these kind of suggestions? In the bank, of which you are a creditor for your deposited funds in US Dollars, Euros or any other currency for which you don't receive any or very little interest. Or would you rather have gold or silver in your possession (not in a bank's deposit) of which you are the legal owner? Gold and silver also don't generate any return but don't have any counter party risk and will preserve your capital because they are inversely correlated to the currencies! See the graph below which shows that the first resistance is $1,270/oz. and that the fun really starts when we break the $1,390-1,400 level. Happy sailing.

February 1, 2014 Gijsbert Groenewegen

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