

The more gold will be pushed down the harder gold will bounce back.

The lack of reported (versus real) inflation allows the Fed to

The lack of reported inflation allows the Fed to continue fuelling the markets ad infinitum whilst at the same time eroding the little wealth the middle class still has left and boosting the enormous wealth of the top 10% of our society. As a result the Fed is laying the basis for a modern type of revolution not seen before because of the inability of the majority of people to feed their families with pure basic foods. Surely the reported inflation versus the real inflation is kept low in order to allow the Fed to keep stimulating for growth, which in my point of view will not be achieved because we are at the boundaries of what our societies can bear and because of un-repayable debts. As a result between \$6 to \$12 of stimulus is needed in order to create \$1 of GDP growth. This tells you how inefficient our economies have become and how hopeless these QE measures are.

Whilst trying to stimulate growth with trillions of dollars the Fed also has to make sure it keeps a strong increase of the gold price at bay. A strong gold price would further undermine the already weak US dollar and would frustrate the results of the “confidence building measures” (of which the middle class doesn’t benefit) such as strong stock, bond and housing markets intended to create growth. Though explain to me how we have strong equity, bond and housing markets and a weak dollar? What is the weak currency telling you?

Anyway as we know there is no wage inflation, and thus no higher incomes, and thus the real inflation is impoverishing citizens to the state of despair. Next to the 50m Americans living on food stamps the purchasing power of the middle class is being eroded at a frightening pace. As a result of its actions the Fed is annihilating the so important buffer in society. And as such it is undermining the fabric of the US society. You just have to look at the boom and bust cycles Brazil has gone through in the past to understand the instability it creates if you only have poor and rich people and nothing in between.

The Fed has done too much whilst the President and Congress have done hardly anything.

As Paul Singer of Elliott Management said the Fed should say “we have done enough, let the President and Congress work it out.” In fact I think the Fed has

done too much and as such didn't force the authorities, corporations and citizens to reset the situation towards reality getting rid of the entitlement society, as I call it, which is "financed" with un-repayable debt. Almost everybody feels entitled to everything and nobody takes responsibility for his or her actions or is being held accountable. It is a sign of the time we are living in and the outcome will be ugly. It is the end of an era. You just have to look at how much progress the President and Congress recently made at reducing the US debt load! Zilch! Politicians want to be reelected they don't want to put the screws on expenditures as a result of which their election base would become unhappy and not reelect them. In a way the whole election system in the US is detrimental to choosing politicians that do what is best for the country and its citizens because their election base is not the country but their state. As I have stated several times, like history, this has to run its course. Say goodbye to the US dollar and other paper currencies. Desperate measures generate desperate results. When? I don't know but events will choose the moment for you as was almost done by the near default of the US. We are definitely getting closer. Fundamentals always win in the end.

Is the Treasury not tapping its gold reserves because they no longer have them?

According to Brett Arends who published an article on Marketwatch on October 4 you can grab any Wall Street trader in a bar, or any portfolio manager in his office, and he's likely to tell you gold is finished. Though according to him the people at the United States Treasury have the opposite opinion remaining firm believers in gold. That is in my point of view a very contrarian opinion of the US dollar, the reserve currency, because gold and the US dollar are each other's opposites. The gold price is expressed in US dollars and when the dollar goes up gold goes down and visa versa. This is the normal correlation. Gold and the reserve currency are competitors for the reserve status. And as I have explained in other articles gold will only be structurally strong if and when the US dollar and the US economy are weak and have passed the tipping point (a situation that can't be reversed).

In other words gold will only show prolonged strong price increases when people are getting worried about the reserve currency's purchasing power. Hence why gold is at approximately \$1,300 and not \$400.

Brett Arends asked people of the Treasury if they would consider selling some of the country's gold reserves to pay the bills if the budget crisis would have

escalated. **The Treasury said it wouldn't tap its gold stockpile (8,133 tonnes x 32,150 x \$1,300 = \$340bn), even to avoid a default. Though the question begs does the Treasury have the gold it says it has! Perhaps that is the reason why they say they won't tap the Treasury's gold stockpile.**

"Selling gold would undercut confidence in the U.S. both here and abroad," a spokeswoman said, "and would be destabilizing to the world financial system." She was quoting an official position laid out last year in a letter to Senator Orrin Hatch. So either she is telling the truth or she is saying it in order to give the wrong impression that all the gold is still present in the vaults and accounted for. How and when will we find out? Perhaps when the Chinese disclose how much gold they have in their reserves.

The Treasury's position is, in a word, extraordinary. We hear all this skepticism about gold these days. Yet the Treasury considers U.S. gold holdings, the opposite of the US dollar, to be a "key element in maintaining confidence in the country's soundness—and the stability of the international financial system." Then why don't they have independent accountants doing an accountancy report of all gold reserves owned by the US and other countries? And why do the Germans have to wait till 2020 before they get **their** gold back?

I think it is fair to say that people don't understand the movements of gold any longer

Nobody understands what is going on with gold and everybody is puzzled by the non-moving in the "right" direction of gold. Yellen has been nominated which is synonymous to printing or no tapering and thus a lower US dollar and therefore should result in higher gold prices. The unprofessionalism of the politicians havocs the confidence in the dollar and the US and gold often doesn't react! The question is: what is playing?

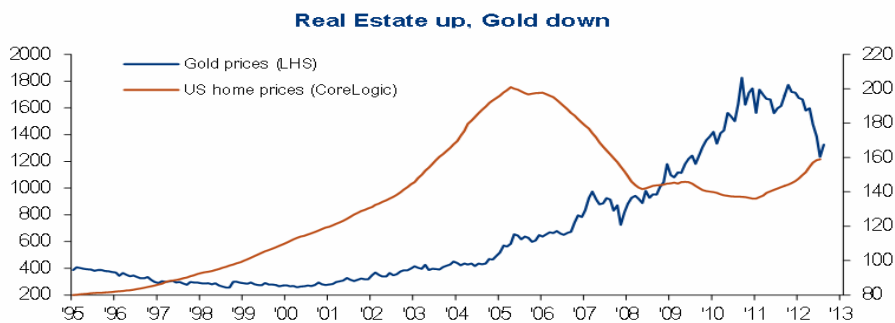
USD chart



Under the circumstances gold should go through the roof though gold behaves in a way that it could test the recent lows. And might even go lower. Wonder why? Ask the people that sell a total of 600,000 or 800,000 or 2 million ounces (a 20,000-lot (100-ounce per lot) order in the futures market) at once in a thin trading moment of the futures market in a period of like 10 or 15 minutes triggering important technical sell stops. Sell stops are pre-placed orders activated when certain chart points are hit. \$1325 was an important sell stop. The question begs why a hedge fund or other institution would sell so much gold in such a short time? To get the best price or to go short? Anyway it is clear that the Chinese are gladly using the opportunity of low gold prices to accumulate gold as is Goldman Sachs, now the 6th largest GLD holder. This whilst Goldman still issued a short (not a sell but a short!) recommendation for gold in April of this year. Though one could wonder is Goldman buying for Goldman or is Goldman buying for the Treasury? As we know the Treasury can't be seen to be buying gold because it would indicate a total loss in believe in its own creation: the US dollar and thus result in dollar crisis.

An explanation for lower gold prices could also be the higher housing prices (see chart below), which have reversed deflationary forces and thus reduced the negative real interest rates that normally fuel gold prices. Though I don't buy this theory. Housing is one aspect of inflation and deflation albeit an important one though. But we shouldn't forget that housing prices have been artificially

boosted by the hedge funds and private equity firms that have bought up large real estate portfolios from the banks in order to rent them out. Next to that home ownership is at an 18-year low. In other words housing prices are not sustained by real homeowners but by financially strong parties that are looking to exit whenever they can make a decent profit. Hardly an underlying sign of strength and a healthy housing market in my point of view.



- When US house price deflation ended, the “new normal” ended

Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg, CoreLogic

The Chinese are clearly not happy with the US dollar policy of the Americans and are accumulating record amounts of gold especially at the current low prices. A present from the US!

China currently owns about \$1.5trn of U.S. debt, and this enormous exposure to U.S. debt is starting to become a major political issue within China.

Xinhua, the official news agency of China, called even for a **"de-Americanized world"**, and said: "The cyclical stagnation in Washington for a viable bipartisan solution over a federal budget and an approval for raising debt ceiling has again left many nations' tremendous dollar assets in jeopardy and the international community highly agonized." Xinhua also said "Politicians in Washington have done nothing substantial but postponing once again the final bankruptcy of global confidence in the U.S. financial system". The commentary in the government-run publication also declared that the debt deal "was no more than prolonging the fuse of the U.S. debt bomb one inch longer." These are serious statements especially when they come from an important trading partner like China. Anyway it seems to fall on deaf man's ears in Washington. Again the politicians are not listening till it will be too late followed by "I told you so"

statements.

Mei Xinyu, Commerce Minister adviser to the Chinese government, warned last week that if the U.S. government ever does default that China may decide to completely stop buying U.S. Treasury bonds. China has of course already been looking for ways to diversify away from the U.S. dollar hence their currency swap agreement with Europe and the UK. Next to that China's State Administration of Foreign Exchange, the body that handles the country's \$3.66 trillion of foreign exchange reserve, is looking to diversify into real estate investments in Europe. And last but not least there are of course the increasing record purchases of physical gold.

Next to the fact that China is the largest producer of gold in the world it has also been accelerating their gold buying. During the month of August China imported 131 gross tons of gold, a 146% increase compared to a year prior, when the price of gold was substantially higher. China has been accelerating its physical gold purchases at lower price levels. So much more, in fact, that August was the second highest gold importing month in history, lower only compared to March when it imported an unprecedented 223.5 tons. Figures differ but what isn't different is the strong increasing trend of gold imports. China's gold imports in the first seven months of 2013 totaled 835 tonnes and with August's 131 tonnes it has totaled 966 tonnes so far! All of China's imports in 2012 amounted to 834 tonnes and we still have 4 months to go in 2013 in terms of gold import figures and therefore a total of 1,200 tonnes for 2013 doesn't sound unrealistic. 1,200 tonnes represents 44% of forecast global mine production of 2,750 tonnes! Picture what happens if it turns out that the USA doesn't have the gold it says it has and imagine what that will do to the dollar whilst the Chinese probably have accumulated between 5,000-10,000 tonnes so far since the last time in 2008 when they reported official reserves of 1,054 tonnes to the IMF!!

In fact in context of the irresponsible dollar policies the conviction that China eventually plans to back the Yuan with gold and try to make the Yuan the number one alternative to the U.S. dollar is being shared amongst an increasing number of people.

Conclusion

In my point of view the more gold drops the harder it will bounce back, it is like an elastic, because what is happening defies every logic and ultimately we always go back to the norm. Let counter forces do their unachievable work i.e

trying to push gold down with futures (paper) for the wrong reasons. Physical in the end prevails; paper is a derivative and has only a raison d'être because of the physical. The Chinese are buying record amounts of physical gold at very attractive prices which makes sense because it is the only real hedge against the worthless dollar. **What would you rather hold if you had to choose between these two asset classes that both don't generate any annual return? Value-losing US dollars or swap your worthless US dollars for real money, gold, which value is not being eroded by irresponsible policies.** Anyway something will have to give. We are getting closer to the inflexion point (if not because supply will dry up at lower price levels) and as mentioned before timing is impossible to predict but events will tell us and let us recognize when the unprecedented upswing will start. Just be aware because this Wahnsinn is at its last leg I only don't know how long the leg is!

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g.groenewegen@goldarrowpartners.com
www.groenewegenreport.com