Money-Grubbing at the Central Bank

By The Mogambo Guru

08/04/03 Mogambo on Monday! And the price of gold…The Nobel Prize…and the "Best Investment Advice Anybody Will Ever Get For The Next Thousand Years Or So"…

I have something of vital importance to tell you.

Recently, I received intelligence that central banks plan to continue manipulating everything concerning gold, or money, or anything remotely connected with gold or money, until – and you may want to make a note of this in your planning calendar – long after we are all dead.

A very interesting article in the Financial Times entitled "Central banks to extend gold sales pact," written by Kevin Morrison on July 23, says that the "current agreement, which expires in September 2004, allows for 400 tonnes of gold to be sold each year. One central banker told the Financial Times recently that he thought "there was room for an increase in gold sales." The article speculates as much as 100 tonnes more room per year – upping the contract to 500 tonnes per year for five years, or another 2,500 tonnes of room to sell, sell, sell.

"Room," in this case, I guess, is a euphemism for "central banks would love to sell more" and that there is also a rising demand, too.

Well, duh.

Deflation: A Lousy Hundred Billion Dollars

Since the central banks have no interest in gold or real values for the money they are pledged to protect, then obviously there is LOTS of room on the supply side for an increase in gold sales. Like, sell all of it, dudes! And as for rising demand, well, all one has to do is look at the current selling price of gold, which is rising.

Too bad that all that gold, selling at around a measly $350 an ounce, is only worth about a lousy hundred billion or so dollars, eh? Imagine the money the government could have if gold was selling at $3,500 an ounce! Think of the social programs they could start with that trillion dollars! And if gold was $350,000 an ounce, and I gotta tell you that I'm getting pretty excited right here, then the governments could sell the gold for, let me get my calculator here, wait a minute, where is the damn thing, okay, here we go, let's see, $350,000 an ounce would be, ummm, $100 trillion dollars!

Mr. Morrison continues: "The original arrangement was signed in September 1999 in response to increasing concerns that uncoordinated central bank sales of gold were adding volatility to the market and pushing prices lower." This is what I call Exhibit A – that something is very weird, because when the supposedly biggest brains in all of Economics-dom had "increasing concerns" about whether or not adding huge dollops of supply in sudden chunks involving hundred of tonnes at a crack, and promises of more on the way, would meet with the demand curve at a lower price, you gotta go "Huh? This is news to you?" My God! If this is the depth of understanding of basic Economics 101 that is truly indicative of Fed and central banking thinking, then both common sense and history say that you would have to be a complete moron to have anything to do with them or their money, because something is worrisomely wrong with these guys (and here you gotta imagine that I am crossing my eyes and waving my index finger in little circles at my temple, to indicate what is referred to in polite company as "loony tunes").

The author of the article thoughtfully added a little educational content when he later writes, "The gold price fell to a 20-year low of $252 a troy ounce when the Bank of England announced its gold sales in the summer of 1999."

Deflation: Buy Gold, You Fools

I remember the time well, as I have scrapbooks filled with newspaper clippings of me running around the city yelling, "Gold is at the biggest bargain basement prices of your lifetime, or any lifetime of your children, or your grandchildren! Buy gold! Buy gold, you fools! Buy buy buy!"

Well, to be truthful, most of the clippings are photos of grim policemen trying to wrestle me to the ground and snapping handcuffs on my wrists because I am creating another hysterical disturbance somewhere, or determined mental health workers wielding hypodermic needles full of powerful tranquilizers are trying to drag me into an ambulance, and all the accompanying narratives are along the lines of "Brave government professionals were again involved in subduing local lunatic."

But the important thing, and you know that this is an important thing because I just said so, so it must be important, is that I was right about gold being the biggest freaking bargain of the whole freaking millennium, and anyone who had followed my advice would be fabulously wealthy by now, and would be sending me expensive presents out of sheer dumb-ass gratitude, like one of those spiffy new motor scooters would be nice, or maybe a batch of yummy toll-house cookies or something, but noooOOOooo!

So I say that you are welcome, you ungrateful little rascals, for giving you the greatest investment tip in all of recorded history, or what historians will naturally call the "Best Investment Advice Anybody Will Ever Get For The Next Thousand Years Or So." Which is, now that I think about it, worthy of a damn Nobel Prize, wouldn't you think?

Deflation: The Exact Bottom of the Gold Market

And, since we brought up this whole Nobel Prize thing again, let me say that if I don't get this deserved Nobel Prize, then I promise you – and look me directly in the eyes so that you know that I am serious – that I am going to spend the rest of my life repeatedly repeating the phrase, "I called the exact bottom of the gold market," and you know that I am dead serious when I wrote "repeatedly repeating," which implies that there will be a time when you are going to get so sick of hearing me say, over and over and over, how I called the exact bottom in the gold market I called the exact bottom in the gold market I called the exact bottom in the gold market I called the exact bottom in the gold market that you will make it your holy crusade duty to get me that damn Nobel Prize even if it's the last thing you ever do on this earth, just to shut me up because you're so damn sick of hearing it! So if you know anybody on the Nobel Prize committee, then you let them know the evil that lurks in the mind of Mogambo, and perhaps that little bit of knowledge will prompt them into doing the only decent thing. And, if they ask, I'd like the million-dollar prize money in gold, as my clever way of being, well, you know, clever.

Anyway, right after he mentions that the gold price fell to a 20-year low when the Bank of England announced gold sales back in '99, this Mr. Morrison fella follows up by concluding that "the current pact has proved successful in adding order to the market." Man! This is too, too much! I mean, here I was paying attention, all serious and all, and out of left field he lets me have it between the eyes with this zinger! Pounding down the price of gold is, and believe me that I am as shocked as you are, known as "adding order to the market!" Well, I gotta say that I know a lot of economic buzzwords, and some slang words too, but I never heard that falling prices was "adding order to the market!"

But he is right, when you stop to think about it! Back then, back in the olden days of 1999, gently falling prices was a GOOD thing, and but we were so backwards that we merely called it "adding order to the market." And, actually, when the market is functioning perfectly, prices SHOULD be gently falling, as productivity works its magic! That's the whole freaking point of productivity! Ask Alan Greenspan, for crying out loud! He is positively obsessed with the idea of productivity, so he should know!

Deflation: The Truth About Deflation

Okay, class, now put your books away, because we have a treat today. We are going to have a filmstrip supplied to us by SixSixSix Productions, an agency of the federal government, entitled "The Truth About Deflation." The lights go off in the room and the screen fills with images of price tags being replaced with lower and lower prices, one after another, as pages of old calendars are being flipped through in the background. Happy, bouncy music is played. Off in the distance, smiling little adorable children are happily playing with adorable puppies, that are, I might add, also being sold for lower and lower prices.

Now, the scene dissolves in a blur to signify the shifting of the scene, and the background music becomes discordant and dark, with low and gloomy tones. As the screen clears, we see, gradually coming into focus, that we are back to the present time. Price tags are being replaced with other tags for higher prices. The pages of après-2003 calendars are being flipped through in the background.

In the distance we see nasty, dirty little children tearing the body of a dead dog apart with their bare teeth. The scene is soon replaced with the image of an evil creature, who looks a lot like Greenspan, but with devil's horns because he is a lying, deceitful, amoral Demon From Hell Itself, and is thundering from the pulpit of some satanic dungeon! And whose voice sounds like the hiss of a snake as he calls prices that are gently falling a "deflation."

And who is chanting, in a rising, thunderous ovation, "Deflation is evil! Prices are not rising as fast as necessary! We must raise prices! This is because inflation is good! Inflation is your friend! I am your friend! Higher prices are good! Higher prices are your friend, too! We're all your friends! Ahhhh-hahahaha!" The filmstrip ends by fading to black, and there is the slight odor of sulfur in the room.

But, continuing with the metaphor of Greenspan appearing as the Devil and Jerry Mathers as the Beaver, the forces of Good and Light were not to be denied. They bought gold. Mr. Morrison adds credulity to that off-hand remark of mine when he writes, "Gold rose to about $320 shortly after the agreement was reached. After a brief subsequent fall it has risen steadily for the past two years."

"So why would governments, our own governments, do this to us – why would they sell gold and try to manipulate the price?" you ask in that charming little way you have that just melts my heart.

Deflation: A Frantic Search for Answers

Grabbing our magnifying glasses on a frantic search for answers, we sleuth around for the vital clues. "The low returns to be made from lending gold to market participants hedging forward sales," says Mr. Morrison, "and the budgetary pressures on Germany and other leading economies will encourage the banks to continue sales of the precious metal."

"Although the gold price has firmed," our friend Mr. Morrison goes on, "the rate central banks can charge borrowers such as gold miners – which use it to hedge forward sales of the metal – has fallen. The miners have needed less gold as they have unwound their long-term hedge positions…Germany would be motivated to sell gold because it could probably earn a better return from a switch to other investments."

Of course, Mr. Morrison is befuddled along with the rest of us when he notes that in the EU, "central banks are not allowed to sell assets or reserves to help finance government budgets…" for fear of violating the Maastricht treaty.

Alas, there are other clues beneath the glass. "…there will be a day," says Robert Pringle of the World Gold Council, "when [central banks] will be able to conduct buying and selling activity without disrupting the market too much." But until such a day, "there are also ways that funds can transfer from the central banks to the Treasury, such as dividend payments," chimes in Matthew Turner, an analyst at Virtual Metals, a consultancy.

The reason, my nimble-minded reader, that European central banks would like to see their contract for gold selling renewed…even boosted up from 400 tonnes to 500 tonnes a year…is as old as the midas metal itself: good old- fashioned money-grubbing. Even they know a bull market when they see one coming.

Always with the money grubbing. Even at central banks, it seems, money-grubbing makes the world go round. I've already told you what I think you should to get in on it.

Regards,

The Mogambo Guru
for the Daily Reckoning

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