Who Wants to be a Jillionaire?

By The Mogambo Guru

10/04/04 The Mogambo Guru holds the key to eternal happiness and prosperity. Unfortunately, before he can share this information, he must gnaw through the hand being held over his mouth… Never fear readers, a mouth that big can't stay contained for too long…

The World Gold Council reported that Argentina bought 42 tons of gold bullion recently. Of course, there are those of us who hope that the Argentines have decided to go back to using gold as money, so that the citizens of Argentina will never again have to suffer the woes of inflation and crushing debt.

And then maybe people in other countries will take note of how happy and prosperous Argentina is, and they will also demand to start using gold as money, and then the next thing you know everybody is on the gold-as-money bandwagon, and the world is suddenly full of happy people, and beautiful and fragrant flowers are springing up, and every day is sunny and bright, and everyone lived happily ever after because governments no longer had the suicidal option of printing up excess money.

Who hopes this? Well, me, for one. And maybe David Morgan, of Stone Investment Group, too, who writes, "With Argentina's leadership there is little doubt that other countries will buy gold to secure some type of stability in a world awash in all types of paper currencies. In fact, I would go as far as to state this is a clear signal that we are not too far from a perceived currency crisis."

And it is not only the Argentines. The guys at the World Gold Council and China Financial Services think that maybe the huge appetite for gold in China could cause the sales of that metal to soon rise to 600 tons, from the current 200 tons, a year. They figure, "That would add about 12% to current world demand."

Gold Price Manipulation: The Writing on the Wall

They didn't mention those who live in India or Argentina, who are also buying more and more gold, and they didn't mention you, dear reader, whom I assume is also buying lots of gold because you are smart enough to see the writing on the wall.

In a similar vein, Drew Hasselback wrote an article for the National Post entitled "Price of Gold Manipulated." He writes that John Embry, who was a senior money manager at the Royal Bank of Canada and is now chief strategist at Sprott Asset Management Inc., lays out the case that the price of gold is being held artificially low. This means that one day it will rise in price to its natural level, and thus those who own gold will, at that exact point in time and space, make a jillion dollars in profit.

One of the reporters in the back of the room raises his hand, and asks, “How did the manipulation scheme work?” I say, “It worked very well, thank you!” and then notice that nobody is laughing at my spontaneous witticism.

Embarrassed, I sit down in a huff and throw the microphone at Mr. Hasselback, who deftly catches it in midair and explains, “They worked like this: Central banks would lend gold at extremely low interest rates. Borrowers would take that gold, sell it short and then invest the proceeds in bonds paying higher interest rates than those charged by the central banks. The borrowers were therefore making two gambles: the gold price would fall, making it easier for them to cover the short position, and bond rates would remain higher, making it possible to generate a profit on the spread.”

This is where I jump up out of my seat and rudely break into the conversation. I say, “Of course, most of the gold has now leaked out into the market, and there is no way that the borrowers can return the borrowed gold! So the idea is that there is a gigantic short squeeze coming, and this stark fact represents one of the best investment ideas you ever heard of!”

Another reporter raises his hand and asks, “Why are th ey doing this?” and I scream at him, “Because they are out to get me, you jerk! They are all out to get me!”

Gold Price Manipulation: Keep the Price Down

Richard Benson of the Specialty Finance Group slaps his hand over my mouth to try to shut me up before I embarrass myself any further. While I am trying to wiggle and squirm my way out of his grasp, Benson remarks that this very question was addressed in has his latest screed, entitled “Complacency and the Rain Dance for Money,” which touches on this whole manipulation thing.

He writes, “You might wonder why our government is so actively involved in keeping the price of gold down. Well, a logical reason would be that when the price of gold takes off, even the investment masses will focus attention on the real problems of massive trade and federal deficits and worldwide money creation.”

Well, being the Mogambo, I finally grab his hand away from my face and blurt out, “Maybe yes, and maybe no!” This set off the security guards, who instantly swarmed all over me at that point, so I didn’t get a chance to say that I know that one of the surefire things that they WILL pay attention to is the money that is being made in gold, and they will want some, so they’ll buy some, and then the price will go up even more, and then other people will notice the money that is being made in gold, and they will want some, so they’ll buy some, and then the price will go up even more, and so on and so forth for all of eternity…

And since we are talking about gold and China (well, to be fair, I was talking about gold and China, and you were sitting there with that glazed look in your eyes that means, “Will this Mogambo idiot ever shut up?”), Julian DW Phillips wrote an essay posted at the Financialsense.com site.

He says, “Considering that China and its approaching 2 billion people are growing in wealth at a dynamic rate, perhaps one of the most important statements made about gold was made this week. In no uncertain terms, the governor of the Bank of China has shown that the government of China is determined to increase the levels of gold held in China by Chinese citizens. It is a lot easier to encourage this than for the central bank to go into the open market to acquire gold for its reserves.”

The Xinhua News Agency quoted Zhou Xiaochuan, the central bank governor, as saying, “Trading in gold will provide another choice for individual investors who keep their money in bank accounts due to a lack of desirable investment options.”

Looking at transactions on the Shanghai Gold Exchange, 235.35 tons of gold valued at 22.96 billion yuan (US$2.7 billion; 2.3 billion euro) was traded last year. Compare that to the first seven months of this year, when trading volume jumped to 363.76 tons valued at 36.9 billion yuan (US$4.5 billion; 3.6 billion euro).

Got gold?

Regards,

The Mogambo Guru
for The Daily Reckoning
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