If Only King Midas Would Return

By The Mogambo Guru

12/05/05 In this world of financial insanity, there is one way to preserve your purchasing power: Buy gold. But, of course, longtime DR sufferers already knew that…

Gold has passed the $500-per-ounce mark, and it will go higher from here, too, as I gather from the Fin24.co.za site, where we read, "Global gold production is set to decline dramatically over the next four years and this is set to generate a scramble for gold ounces, DRDGold chief executive officer Mark Wellesley-Wood said in the company's latest investor newsletter." So, gold demand is higher than supply, creating a deficit, which is making prices go up.

And don't think that there will be many new gold mines started to take advantage of this rising demand. Mr. Wellesley-Wood continues, "Expenditure on exploration peaked in gold mining in 1997, and has been pretty flat since then. There are 29 new gold mines in the pipeline right now and even if all these are developed, it would require a further seven projects every year to make up the deficit."

Mr. Wellesley-Wood goes on to say, "The reality is that not all these 29 mines will get the go-ahead as cost inflation, especially capital cost inflation for resources projects, has increased by a great deal more than the gold price. So, where are the ounces going to come from?" Good damned question! And it is an especially good question because every jackass from the Fed, to the government, to "economists" on Wall Street are all in full agreement that there is no inflation, regardless of prices rising alarmingly. Hahaha! Somebody is lying their heads off here, and of the two camps, I note for the record that Mr. Wellesley-Wood has never lied to me before, and I am pretty sure that he is not going to start now.

But you don't want to hear about how your fascist government is lying to you, or that the despicable U.S. Federal Reserve is lying to you, or that corporate Wall Street hucksters are lying to you, because I know that you have stories of your own about that, which would curl my hair if I heard them. Believe me, I do not want to hear them because I just got my hair uncurled from the last time I heard some of those stories.

Invest in Gold: The Dehedging Trend

But this rise in the cost to mine gold is a theme you hear all over the place, as it takes a lot of expensive energy, expensive labor, expensive permitting, expensive fees, expensive equipment, and expensive taxes to mine gold nowadays – all of which have to be passed along in the price of the gold they mine, which means gold prices will have to go up just to cover the higher costs! For example, he notes, "Newmont's cost per troy ounce of gold produced increased by 22% to an average of US$232/oz, while South African costs per oz doubled to an average of $395/oz. From 2002 to 2004, the gold mining industry was also hit by sharp increases in explosives, steel, fuel and water as well as other costs."

He then gives us an additional boost to the idea of big price increases in gold. He states, "The dehedging trend is set to continue," he says. Why are people dehedging gold? He replies, "Who would want to be short gold in four years in this climate?" Hahaha! Exactly! They'd be financially wiped out if they were!

Finally, he concludes with one last reason to buy gold, as if we needed any more, "Merger and acquisition activity and industry consolidation will continue apace – if you can't find it, buy it."

Fortunately, we unwashed, mouth-breathing troglodyte investors out here can buy gold bullion, helping to drive up the price by increasing the demand for gold, and we can also buy the shares of the gold miners, too, thus benefiting from the rise in the price of the shares as the price of gold goes up, due to the increased demand of us buying the stuff all the time! It sounds like it should be illegal, but it's not!

Peter Spina of the Global Watch Gold Forecaster also has an idea why gold is rising so fast in price, and it has to do with Exchange Traded Funds. "ETF share demand contributed to 56% rise in investment demand for gold in the third quarter of 2005, whilst total gold demand increased 7% in tonnes and 18% in dollar terms. Against this, mine supply was up 3% year on year with the two big elements increasing supply coming from more scrap availability and a drop in de-hedging [Producers lowering their buying back of hedged gold, so allowing production through to the spot market]."

Beyond that, he notes, "The gold price has risen in all currencies!"

Newmont's President, Pierre Lassonde, said, "Worldwide gold production in 2004 had the biggest fall in 39 years." He also said, "Demand in India, the world largest consumer, rose 47 percent last fiscal year, and 14 percent in China, the world's fastest growing economy."

Invest in Gold: Things Are Getting Strange

Paul van Eeden at PaulVanEeden.com writes that things are getting strange in the world of gold. "We are witnessing a change in central bank behavior. Last year, Argentina bought 42 tonnes of gold and now Russia wants to increase the gold in its reserves from 5% to 10%. The Moscow Times quoted President Vladimir Putin this week as saying he supported the Central Bank in paying greater attention to gold in its foreign reserves."

Perhaps this has something to do with the very weird stuff that is happening to the gold lease rates, as they are upside down! Short-term rates are higher than the long-term rates! You pay more to lease gold for one month than to lease it for a year! Weird!

Finally, to show you the absolute intellectual impoverishment of the people who are teaching our children, let's turn to an article sent to me, entitled "Precious Metal's Elusive Value," and written by Andrew Cassel, who is a columnist for the Philadelphia Inquirer. He quotes Jeremy Siegel, who is a professor at Wharton. Mr. Cassel quotes this, ummm, "professor," who is so smug in his arrogance that he dismisses gold, "If you bought $100 worth of gold in 1802, Siegel says, your inflation-adjusted return would be about 30 percent. That is, you'd have a mere $130 in purchasing power after more than 200 years."

This is exactly the point of the stuff, you preening halfwit! Gold preserves purchasing power! Hahaha! What a buffoon! What the lackluster professor Siegel did not mention is that if you had saved a $100 in fiat cash, even as late as 1913, then your loss in buying power would have been over 96%! Hahaha! So, what do you want in your future? Depreciated and stupid fiat money, where you end up broke and bitter, or gold, where you end up where you started in terms of buying power, or (as now) ahead of the game and making big, big money on gold's rising price? Hahaha!

Regards,

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for The Daily Reckoning

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Mogambo Sez: Let me quote John Hussman of the Hussman Funds, as he says, "The current market condition is extremely overbought, and the constellation of internal divergences and interest-rate action has 'whipsaw' written all over it." In short, things will soon start falling apart, and if you are in equities or bonds and not in gold, you will soon be shown the tragic error of your ways, and your sleep will be disturbed as the words of The Mogambo ring in your ears, "We are freaking doomed!"