Mining: Back With A Vengeance

By The Mogambo Guru

03/20/06 The U.S. dollar is declining…to the point that more than a few people have noticed and are looking elsewhere for their investments. Naturally, many of them are following our lead, and turning to the precious metals markets. The Mogambo Guru explains…

The big news (and if you don't currently think it is big news, you will) is the announcement that Japan will end their longstanding zero-interest-rate policy!! Note the two exclamation points that I cleverly used to indicate emphasis. At Bill Fleckenstein's Daily Rap we read, "Overnight, the Bank of Japan officially ended its quantitative easing policy, with the announcement that it would cut the amount of reserves available to the banking system by about 80%." Cutting reserves in the banks by 80%! I am astounded! And frightened! Where in the heck are the banks going to get money to lend?

The Japanese zero-interest-rate policy is the basis of the whole carry trade: Borrow money from Japanese banks at zero percent, and buy T-bonds, which pay four percent! Jim Willie CB, of the GoldenJackass.com site, writes, "The yen carry trade unwind is probably the biggest potential change factor in the financial world this year, whose unwind will last for at least two years with fits and starts. When it unwinds, the damage will be pervasive to investments bought with speculative borrowed money." He then quoted another guy, an HSBC analyst, who said, "[The yen carry trade] is going to come to an end later this year and it's going to be ugly, even if we haven't reached the shake-out just yet." And an economist from Monument opines, "The world has never been through this before, so there is a high risk of mistakes." Of course, the world has never been through this before! Nobody has ever been this stupid before!

But my wife is in the room, so I don't want to talk about stupidity around Jim Willie, because it always comes around to her inevitable comparisons of how he is so smart and I am so stupid, and how she is crazy not to just pack her bags and leave. So, I say, "Go ahead!" and she says, "Maybe I will!" She never does, and then I have something else to be grumpy about. Instead, he says, "Down the road a vicious secondary cycle is certain, marked by rising rates, housing pain, economic strain, price inflation pressures, gold gains, and U.S. dollar suffering."

But, the flight into gold has already begun, as Roger Wiegand, of TraderTracks.com, reports, "The World Gold Council's GFMS report update said gold demand hit a record of $53.6 billion in 2005 with a 26% rise in investment tonnage demand. Jewelry demand was overall 14% higher, in spite of those higher prices. What impresses us very much is the institutional demand, which means the big boys and the big money are coming into the gold game.

"Since the current one began in say 2000," they continue, "we have possibly 10 more years of bullish gold and other commodities moving through an inflationary and volatile period of time. With each year we advance, gold prices can only go higher faster."

Marc Faber, of the Gloom, Boom and Doom Report, hears this and says, "My target is for gold prices to rise to between US$5,000 and US$10,000 in the next 10 years."

None of this is lost on the miners, as David Bond, of SilverMiners.com, reports that the 74th annual Prospectors and Developers Association of Canada convention at the Toronto Metro Centre drew "Fourteen thousand people, people! Seven hundred exhibitors. Mining is indeed back! And with a vengeance."

And so, people have been asking me, "What the heck is going on with gold?" Of course, I laugh at them for thinking that I could possibly know anything about anything. For example, alert reader Hunter R. asks, "Why the recent correction when the bozos running our government are continually adding fuel to the fire that will eventually be consuming our fiat currency?" Good question! My reply was, "Think of rats trapped in corners. To think that they would not resort to extremes doesn't make sense to a cornered rat!" It is a rather pithy and nasty, yet descriptively accurate, way to put it, if I do say so myself! In short, they have been manipulating gold all these years by selling gold short, are now on the hook for more gold than actually exists in the world, and you think they are, now, just going to stop and take their lumps? Hahaha!

If you don't believe that they have been manipulating the markets, then you haven't read how the Gold Anti-Trust Action Committee, known by their acronym GATA, wrote an interesting essay entitled "Bank for International Settlements Confesses to Gold Price Suppression Scheme."

They write, "Alan Greenspan confessed to the gold price suppression scheme. The European Central Bank confessed to the gold price suppression scheme. Barrick Gold confessed to the gold price suppression scheme in U.S. District Court in New Orleans on February 28, 2003, the Reserve Bank of Australia confessed to the gold price suppression scheme in its annual report for 2003. And now, the Bank for International Settlements, the central bank of the central banks, has confessed to the gold price suppression scheme by saying, 'the provision of international credits and joint efforts to influence asset prices (especially gold and foreign exchange) in circumstances where this might be thought useful.'"

Leave it to the BIS, a shadowy collection of unaccountable international bankers and commie idiots, to think that manipulating prices, and thus distorting markets, all done with your money, is "useful." Hahaha! What a bunch of low-life creeps! No wonder I hate their guts!

But it may have been that they were asking the wrong guy about what is currently happening in the gold market. For instance, perhaps they should have been asking Toni Straka at PrudentInvestor.blogspot.com, who suggests that the fall in price lately has been the result of central banks selling. "In the week ending March 3, three Euro area central banks sold gold for 133 million Euros after they had gotten rid of gold for 75 million Euros a week earlier."

But, they are doomed to failure. Dan Denning, of the Strategic Investments newsletter, says that a higher price for gold is just part of the picture. "Soaring gold and oil prices will be accompanied by soaring interest rates and inflation. The convenient fantasy world where consumer prices don't rise and the dollar doesn't lose purchasing power will collapse. As oil rises in dollar terms – whether from geopolitical tension or the growing realization that Peak Oil is real – the run on the dollar will grow. Hard assets like gold won't just be fashionable: They will be indispensable to wealth preservation. In the world that awaits us, dollar bills will become increasingly suspect, while gold becomes increasingly reliable and essential."

And, it is not just gold! Listen to Greg Silberman, at FinancialSense.com, when he says, "Silver had a low of $1.50 in 1973 and a high of $40 in 1980. Projecting forwards, silver has a price target of $675. That's a 6,600% increase from current prices. Gold had a low of $35 (1971) and a high of $850 (1980). Projecting forward, gold has a price target of $13,000. That's a 1,400% increase from current prices."

Speaking of silver, Yusef S. wrote to say that the while there is some disagreement about how much silver there is in the world, "the relevant point about available silver is not that there are 500 or 600 million ounces. Even if we magically double the amount of total silver in the market to a billion ounces, that's only $10 billion dollars worth of metal, an amount that's less than what Americans pay annually for pet food: $15 billion."

Yusef notes, "The informed minority has already started to stock up on silver, and increasingly the general public as well. In one bullion store I know, large amounts of gold are being bought. But silver is going like gangbusters. Just one of their customers recently put in an order for $300,000 of the stuff."

As for the long-anticipated silver exchange-traded fund, Yusef notes, "The British already have approved a silver ETF. It's scheduled to start operations in a month on the LSE. And, lest we forget, the Chinese and Dubai Gold and Commodities exchanges are also starting to trade silver."

Alert reader Ajit V. writes that this is exactly true, and says, "The latest news is that China is going to open up silver trade on the Shanghai exchange. The Shanghai Gold Exchange is preparing to start silver trade, which will set the benchmark for Chinese prices. Industry officials expect the exchange to start the silver trade as early as June, since world silver prices have stayed at multi-year highs and investors were keen to trade."

Hmmm! I mull over the notion that Chinese investors "were keen to trade" silver!

Suddenly, I am more bullish than ever!

Until next week,

The Mogambo Guru
for The Daily Reckoning
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Mogambo Sez: Peter Spina, of the Gold Forecaster newsletter, says that he believes that the fall in the price of gold recently "is a healthy correction presenting 'buying' opportunities." And, I think that the whopping rise in silver is a buying opportunity, too, as the pleasant price increases in that particular metal is just getting started. So, I say, "Buy 'em both!"