Gold and the Asian Airport

By The Mogambo Guru

09/17/09 Tampa Bay, Florida

I was very interested in the news I read from MarketWatch that said, "Hong Kong is pulling all its physical gold holdings from depositories in London, transferring them to a high-security depository newly built at the city's airport", although it does not say why the depository was built at the airport, of all places, instead of being situated in a thick vault inside a mountain, out in the middle of nowhere so that you could see the enemy coming, and get a chance to try out some of that expensive firepower you have been itching to use without shooting up a lot of innocent bystanders; and then the police, as they tend to do these days, like to employ all their people and new equipment, too, and so they shut the whole airport down for a week and so you missed your flight and you didn't make the sale/meeting/weekend with your boss, and you end up getting fired and living on the street and that is when things start getting bad.

But apparently I am alone on this "don't build the damned thing at the airport" crusade, probably because my warning is too late and the gold depository is already built, and there may be other reasons why it would be a good idea to build it at the airport.

So why did they build it in the first place? Apparently, so it "would support Hong Kong's emergence as a Swiss-style trading hub for bullion and would lessen London's status as a key settlement-and-storage center" – for whatever that's worth.

But getting with the action and being a "team player", the Hong Kong Monetary Authority, "which functions as the territory's unofficial central bank, will transfer its gold reserves stored in other vaults to the depository later this year".

And how much gold are we talking about? "The monetary authority reported $63 million in physical gold reserves as of July 31, according to its International Reserves and Foreign Currency Liquidity statement", which doesn't seem like a lot, as I would have about that much gold – personally! – if my wife had always worked two or three jobs (instead of one job and children, which eliminated the whole economic advantage of "putting the old lady to work"!) and if I had been extraordinarily lucky in investing the money. And if somebody rich had left me some money in their will. A lot of money.

Anyway, it's not all that much, although Martin Hennecke of Tyche Group Ltd. said that gold and the ability to securely store it could be "appealing to regional central banks unnerved after watching the global financial system teeter on the verge of implosion last year", and that "Central banks are increasingly aware of the importance of having gold reserves at a time of financial crisis and having it easily available at their own disposal".

Of course, this makes me laugh and say, "Like who? You ever heard of the central bank gold agreement, where central banks are still, after all these years, selling gold into the markets in a controlled way? Hahaha! Does that sound like 'central banks are increasingly aware of the importance of having gold reserves at a time of financial crisis' to YOU? Hahahaha!"

Of course, he takes no notice of me, and may be talking about the results of marketing efforts that "will be launched to convince Asian central banks to transfer their gold reserves to the Hong Kong facility".

As we have just learned, one would be ill-advised to discount the effectiveness of modern marketing methods, which were able to create buyers for quadrillions of dollars' worth of derivatives with the pitch that by cutting up and reassembling risky debt, no matter how much the more the merrier, you can make risk disappear! Hahaha!

Or perhaps the attitude for gold has changed, like Ed Steer's gold and silver daily newsletter quoting Dennis Gartman as saying, "we get the sense that something really quite ominous is upon us and that some news…and clearly not good news…is waiting out there on the market's periphery that shall tend, on balance, to weigh heavily upon stock prices, shall weigh heavily upon government intervention efforts; shall weigh heavily upon the global capital market's collective psychology."

The result is, he says, that "we have the sense that we are at an historic turning point for the gold market," and one of those things that indicates as much is that, as you would expect, gold is in demand as exemplified by "The CEF [Central Fund of Canada] bullion vehicle closed at a 13.6% premium to NAV, a recently high level." Wow!

So gold is in such demand that investors are willing to pay a 13.6% premium over the gold holdings of CEF? Wow!

It's like I've been saying; buy gold, silver and oil because your government is acting irresponsibly with the money, and now people are finding out for themselves how good that advice is and how it is so easy that they probably gleefully shout, "Whee!" although the only person I ever heard gleefully shouting was me.