

Nothing New Under the Sun

By Adrian Douglas

King Solomon is attributed with the statement that “There is nothing new under the sun”. It is rather fitting to this article that he was also the chap with all those gold mines!

The Federal Reserve was created in 1913. It has done nothing but inflate the money supply since its creation, while bluffing anyone who will listen that their mission is price stability and full employment! Up until 1934 the US was on a gold standard whereby anyone could redeem their paper dollars for the gold backing at a rate of \$20.67 per ounce of gold.

The inflationary habits of the FED came home to roost in the early thirties that it was no longer tenable to back the inflated paper money supply with gold. FDR made it illegal for US Citizens to hold gold and, after a bank holiday in 1934, Citizens were commanded by an Executive Order to hand over their gold for \$20.67 in paper currency. The dollar was then devalued to \$35/oz. From that day forward only foreign Central Banks were able to exchange paper dollars for the underlying gold backing. The inflationary money printing to finance the Vietnam War resulted in a huge drain of gold from the Treasury, as foreign Central Banks, and notably France, cashed in their dollars for real money. To prevent the total draining of all gold reserves out of the USA Nixon closed the gold window in August 1971 and the dollar became a deposit slip that was not honored by the issuing bank! It was the world's biggest default. In the following decade gold rose to \$850/oz before Paul Volcker raised interest rates to 20%.

In the period of 1934 to 1974 the price of gold for US citizens was \$35/oz. Except they were not allowed to buy any! But others who could, such as Foreign Central Banks, exposed the fraudulent mis-pricing of gold and benefitted greatly in the process.

This brings me to the title of the article that there is nothing new under the sun. The mechanics are slightly different but the result is the same. Ted Butler has written about the cause of the recent dramatic decline in the price of the precious metals

<http://news.silverseek.com/TedButler/1220986679.php>

He shows from the US government's own data that a couple of US Banks in just one month sold futures contracts short that represent 25% of global annual silver production and 10% of global annual gold production. I don't think I will insult your intelligence to discuss whether they have that much silver and gold, or if they did why they would want to dump it to get the worst possible price for it!

These short contracts are similar to the strictest definition of the gold standard. If the holders of these contracts deliver dollars to the banks that originated them the holders must receive the underlying quantities of precious metals. But just like the Federal Reserve in 1971, these banks don't have the goods. So why did they do it? The key is that this is just the tip of the iceberg. GATA has compiled large amounts of evidence that the large bullion banks have been borrowing gold from the Central Banks for years at rates less than 1%. They sold the gold into the market and used the proceeds to make returns of more than 1%. This served the agenda of the Fed and the Government as it kept the dollar artificially high (the strong dollar policy) and was lucrative for the bullion banks. But now the banking system is failing due to over-leveraged lending schemes. The banks are now on the hook for all the gold and silver they have essentially sold short. By selling the obscene amount of contracts short they were able to trigger a massive sell off on the long side allowing them to buy back their short contracts and the long contracts that are being dumped by panicked long holders.

But in doing this criminal maneuver they have created a market price for gold and silver which are ridiculously low, or put another way, a ridiculously overvalued price for the US dollar. Just like in 1971 this is an excellent opportunity to cash in the dollars for precious metals. This can no longer be done at the Central Bank as in 1971 but it can be done at any coin or bullion dealer. And that is exactly what has been going on. Many smart investors have been exchanging overvalued dollars for precious metals to the extent that all available silver inventory of the bullion and coin dealers in the US are depleted and gold is becoming scarce also in that Eagles and Kruggerands are unavailable. The bullion dealers have behaved like a proxy for a central bank on a precious metals standard. They have handed over their inventory in exchange for the dollars!

What will happen next? The crooked gold Cartel through their blatantly manipulative short selling is working on covering and even becoming net long. I have shown how Goldman Sachs has adroitly almost achieved this in the last 30 months on TOCOM. The poor speculator who has been bludgeoned to death on the long side will probably think that he should switch to the short side! Once the Cartel is long or neutral and the speculators are short the metals will come roaring back as the new weakly capitalized shorts will have to cover.

As the metal prices soar the bullion and coin dealers will be able to buy only a fraction of the size of the inventory they had when they try to re-stock from the refiners because the dollars they hold for having liquidated their inventory will not go very far. This will exacerbate the shortage in the retail market just as higher prices act to turbo-charge retail demand.

The result of mispricing gold from 1934 to 1974 resulted in the price exploding to \$850 when it finally became a free market. The mis-pricing of precious metals through the use of leveraged paper derivatives is now leading to the same result.....an explosion in the price of precious metals, which will lead to even

more shortages which will feed into even higher prices. The fuse is now lit with out a question of doubt. There is nothing new under the sun...but it could be orders of magnitudes bigger!

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September 10, 2008