



## **AN HISTORIC WEEK IN THE GOLD MARKET**

**By Adrian Douglas**

It was an historic week in the gold market. Gold made its highest weekly close in history and never before has it closed on a weekly basis above \$1000. It was also the second highest daily London PM Fix in history. The move was not a massive vertical spike, but a move that came with a lot of back filling. This is good news.

I recommend listening to my interview with Eric King

[http://www.kingworldnews.com/kingworldnews/Broadcast\\_Gold+/Entries/2009/9/11\\_GATA.html](http://www.kingworldnews.com/kingworldnews/Broadcast_Gold+/Entries/2009/9/11_GATA.html)

There were two very significant pieces of news this week. First was the news that China has lost confidence in the US dollar. But more importantly is diversifying into gold.

<http://www.telegraph.co.uk/finance/economics/6146957/China-alarmed-by-US-money-printing.html>

Cheng Siwei, who used to be Vice Chairman of the Standing Committee, complains that when China tries to buy gold the price goes up so they have to do it very carefully. I would say that if you have that problem the last thing you do is air it in public! The Chinese are much smarter than that. After all they have just recently been running TV ads for their citizens to buy gold and silver. So why would the government want to make buying gold for their reserves even more difficult and compete with its own citizens? The logical explanation is that they already have accumulated a very large amount of gold. Perhaps even the largest in the world. Although they can never have too much gold they are probably in a comfortable position with an insurance policy against dollar collapse in place. What they would prefer is that they don't have to use this insurance. Just because you have fire insurance doesn't make you want to have your house burn down! I believe they are now trying to cajole the US into managing its currency more responsibly; to stop issuing a blizzard of fresh dollars and more debt. I suspect, however, that the US is not listening because politicians want a solution that has no pain, and printing money to pay off obligations seems the least

painful solution; for the moment, that is! Longer term the consequences will be catastrophic and the Chinese are mindful of this.

The conclusion for me is that if the Gold Cartel continues their shenanigans in the paper market the Chinese will eat them alive. They have said they will continue to diversify their reserves and they will buy the dips. This, of course, will mean they will want physical gold not paper substitutes. This is the Cartel's worst nightmare. India now has company in underpinning the gold price. The COMEX Commercials, however, do not seem to be paying attention. The Commercials increased their gold shorts by a staggering 56,893 contracts according to the latest COT report. Their net short position, like the gold price, has also reached an historic high level! This is a very dangerous game of chicken given what the Chinese have just said, and that the high season for gold has just commenced in India. I would guess that this increase is not the Gold Cartel but the Commercials who are not part of the few bullion banks who are the main market riggers which is principally JPM and HSBC. If the Commercials manage to break down the price they will be fighting with two very large entities in trying to buy back their shorts. This is likely to result in very little downside or a down move that is a "spike down" and very short lived which will be too rapid or too shallow to even contemplate trading.

Those market analysts who are advocating that gold will be smashed as it has always been in the past when the commercials are this short are not taking due account of what is changing. The Cartel has suppressed the gold price for over 15 years with a small amount of physical gold underwriting a huge mountain of paper gold substitutes in the form of futures, derivatives, ETF's and unallocated gold pool accounts. I estimate there is around 1 oz of gold for every 20-30 ozs of paper substitute gold. This leverage may have seemed smart to the Cartel as an ingenious way of suppressing the price, however, they have created Frankenstein's monster. If only 5% of the owners of the paper promises want to have real gold instead then there will not be enough gold to meet the demand. Such a scenario is a run on the bank of the gold cartel. We have already seen Greenlight Capital Hedge fund cash in 500 Million dollars of GLD and buy physical metal. We see the premiums on the bona fide metal backed funds such as CEF and GTU rise with a rising gold price and they have expanded dramatically their holdings. On the other hand the reported holdings of GLD have declined over the last year despite the gold price now being back at its high of 2008. Furthermore the contango on gold and silver is shrinking. Silver entered backwardation on Thursday and closed Friday with zero contango between SEP and OCT contracts. These are in my opinion the signs of the turning tide. An approaching tsunami first of all makes the tide go out before the massive wave arrives on the beach. The paper gold game has drained demand away from real metal but now that tsunami of demand looks set to come crashing on the shores of the bullion banks.

The second bombshell this week was the news that Barrick Gold is buying back the majority of its hedges. I have described this as a technical default because the spirit of a forward gold sale is that the mining company receives cash immediately and delivers gold in the future to the counterparty. The counterparty does not want to receive cash.

<http://www.gata.org/node/7773>

The panic hedge book reduction is a sure sign that gold prices are going much higher. Barrick was carrying a mark-to-market loss (MTML) on these hedges of 5.9B\$ and rising. As the gold price rises the MTML would rise rapidly and could cause a mass exodus from the stock and bankrupt the company as it would be unable to raise capital to buy back the hedges if its stock price collapsed. Considering how closely associated Barrick Gold is to the Cartel I would say this is a very strong indication that gold prices have a long way to run for the moment.

It was an historic week but in my opinion this is just for starters. The chance of a commercial signal failure, where the commercials will start to cover their shorts in a panic, is becoming a high probability. After all, this is what Barrick Gold, one of the biggest and most aggressive shorts in the gold business, just did!

Adrian Douglas

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