

LIES, DAMN LIES & GFMS STATISTICS

By Adrian Douglas

On April 24, 2009 China announced that they had added 454 tonnes of gold to their gold reserves since 2003 to bring them to 1054 tonnes. This stunned everyone in the gold world except GATA. GATA had reported from a confidential source as early as September 2003 that the Chinese were buying large quantities of gold. GFMS continued to report that China carried only 600 tonnes of gold every year since 2003.

Recently Philip Klapwijk of GFMS announced that the fundamentals of the precious metals market looked very negative! Having missed such a large amount of gold being purchased by China would any one believe that collection of dopey analysts? Gold was trading around \$930/oz at the time so his call is not looking too good!

Anyone can make a mistake but if it is an honest mistake the appropriate action is to re-examine the data. From GATA's information China acquired most of their new reserves on the world market. But what is interesting is that by GFMS data China has become the biggest gold producer in the world, surpassing South Africa. Why would such a prolific gold producer be acquiring gold on the world market instead of from its own production?

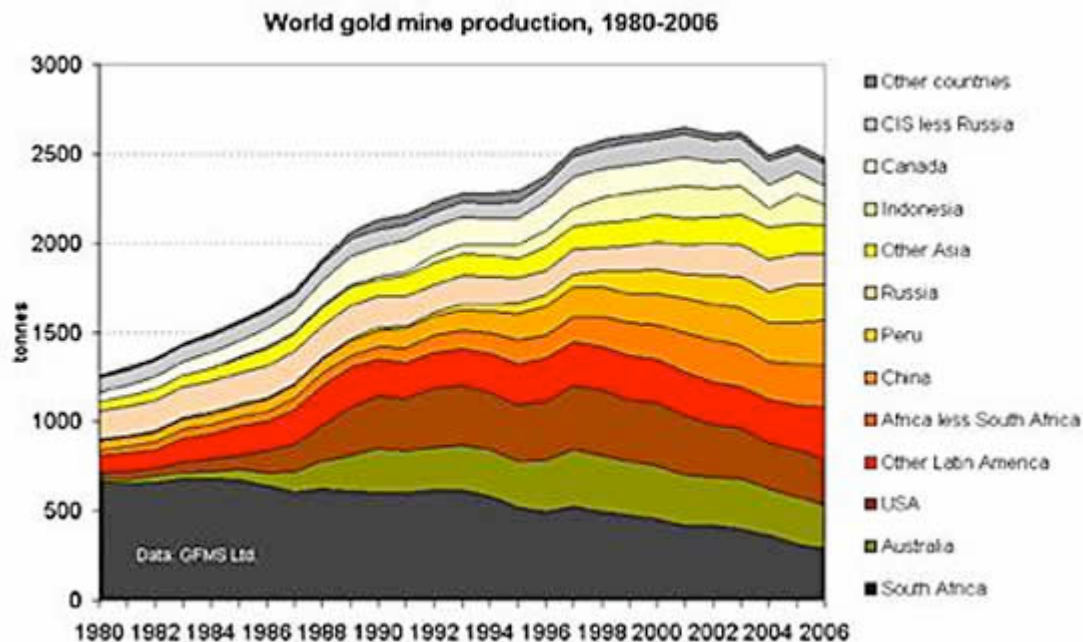


Figure 1

Figure 1 is the total world gold production from 1980 to 2006 compiled by GFMS. What is stunning is the supposed massive increase in gold output from China in the last ten years. Extracting the data for China alone gives the chart in Figure 2.

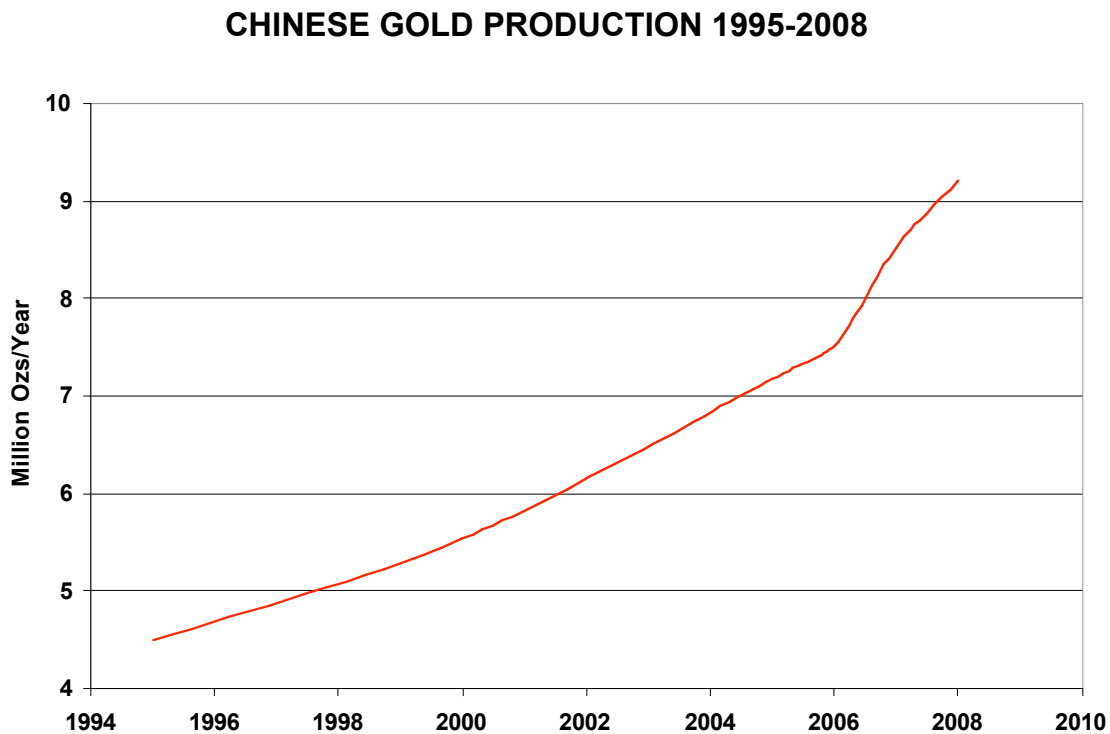


Figure 2

Apparently China ramped up gold production from 5 Mozs in 1998 to 9.2 Mozs by 2008. For anyone who knows anything about mining they would know that this is just not credible. This is like India surpassing Saudi Arabia as the world's biggest oil producer!

Does China have massive rich gold reserves and are they at the cutting edge of mine development technology?

Wikipedia has the following to say

QUOTE

http://en.wikipedia.org/wiki/Gold_mining_in_China

Gold mining in China dates back to the Song dynasty.

The Chinese government began reforms in the mid-1990s encouraging small operators to consolidate and allow foreign companies to form joint ventures so

that Chinese companies could learn modern management practices, financial controls, and industrial, environmental and safety standards.

Domestic producers still suffer from a lack of scale. In 2000, there were about 2,000 gold producers - most of them relatively small and unsophisticated by international standards with very few able to operate on a global platform, though the number of producers had shrunk to about 800 in 2007 after mergers and acquisitions and restructuring and consolidation. Most of these firms' technological standards and management are weak and inefficient.

In the last five years (2002-2007), China's Geological Survey Bureau said that five new gold deposits with reserves of 600 tons were found.
END

South Africa has 50% of the world's unmined gold and is at the forefront of mining technology with some of the biggest mining companies in the world operating there. Apparently a rag-tag collection of artisans with only 7% of the world's reserves can produce more than South Africa!

If you believe that you will believe anything. The fact that GFMS can publish such absurd information further detracts from their credibility which has already been seriously questioned by their inability to determine that China almost doubled its gold reserves without them noticing!

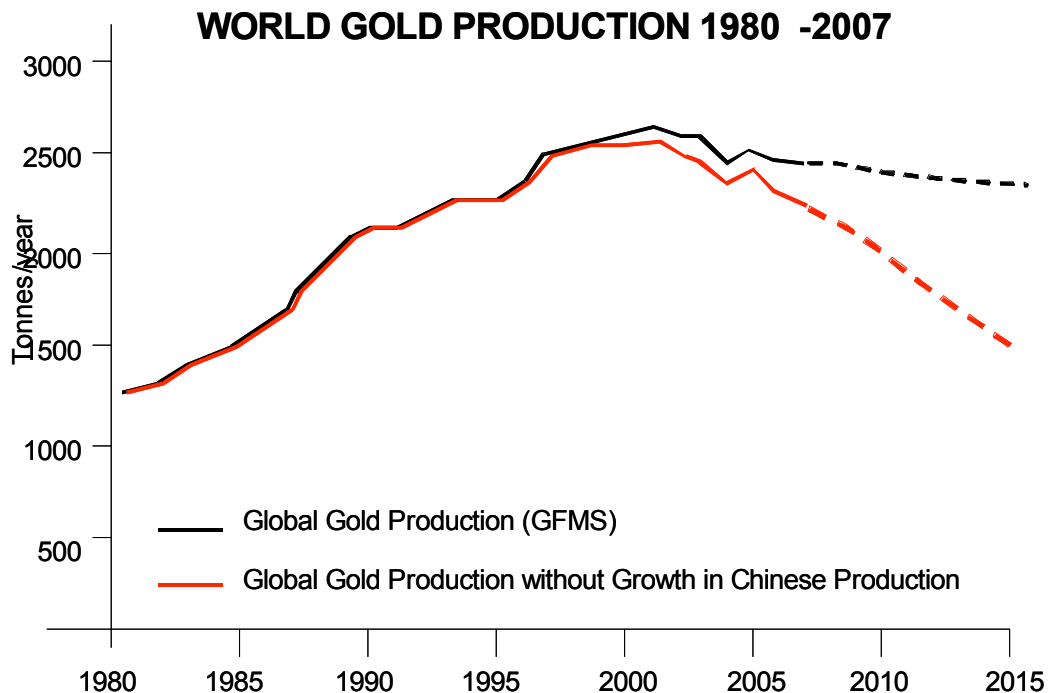


Figure 3

In figure 3 I have compared the GFMS world gold production with world gold production assuming Chinese gold output remained at 1998 levels of 5Mozs per year for the last 10 years. The shocking difference is in what this portends for future production trends. The GFMS profile has a gently declining production when extrapolated to 2015. When the absurd Chinese production growth is backed out the extrapolation is a shockingly rapid declining world gold output.

What a great ruse! China wanted to diversify out of the large amount of dollar reserves it was accumulating. They reported that their gold holding remained static at 600 tonnes for 6 years. At the same time they reported that their gold production became the largest in the world. In other words, they claimed that they were not adding to demand but massively adding to supply! That would certainly help to keep prices of gold depressed. But such a ramp up in supply was fictitious. But it was a superb smoke screen to allow China to out-smart the arrogant Gold Cartel and take the gold they were surreptitiously dumping without the price rising too fast.

Even now that China has admitted they lied about only having 600 tonnes of gold for the last 6 years, the dopes at GFMS have assumed that China was telling the truth about their mining output. They have swallowed the Chinese story hook line and sinker! They believe that China has increased its reserves from its supposed massive domestic production!

The implications that China has relieved the Western Central Banks of their gold in the ill-conceived strong dollar policy are huge. The strong dollar policy has allowed China to acquire cheap gold to hedge the dollars they were accumulating. The projected world gold production decline when it is viewed without the fictitious Chinese output growth is shocking but totally in line with the fact that the Gold Cartel has suppressed the gold price below the cost of production for the last 15 years.

The gold market action has recently changed dramatically. It is trading as if many big players have worked out what is really going on; that the end game is close. As more and more investors realize that there is very little gold available and the Cartel is desperately short, the price will rise to levels that will shock even the most staunchly bullish.

The US Congress is debating whether to approve the sale of 400 t of IMF gold. This, if approved, will be spun by the Cartel controlled financial press as being very negative for gold. But remember that China probably produced 650 t less than what is reported over the last decade and they acquired 454 t more than reported. That is 1100 t that has not been accounted for. The IMF gold, if it has not already been disposed of, will be snapped up by a market that is hungry for more supply. The Chinese will be more than happy to buy it with their stash of ever more worthless paper. Strong Dollar? That would probably make a group of Chinese students laugh!

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