

Chinese Golden Eye

By [The Mogambo Guru](#)

04/24/06 The Daily Reckoning PRESENTS: The Bank of China has recently announced that they plan to launch a dollar-denominated certificate that is linked to the price of gold. What exactly does this mean? Is this just a bet on gold – or the Chinese equivalent of a gold ETF? The Mogambo explores...

CHINESE GOLDEN EYE

The price of gold is (to coin a phrase) a-fixing to go a-booming. It's also a-fixing to go a-zooming and we'll all be rich, rich, rich, cha cha cha. The reason for my frivolity is that on Fin24.co.za, we read the headline: "Chinese Eye Solid Gold."

Of course, we immediately think, "Duh! Big deal! Who doesn't? Why are you wasting my time? Are you trying to start something with me by wasting my precious time, punk? Is that what you want? You want a piece of The Mogambo? Huh, punk? Is that what you want? Huh?"

But, methinks that maybe we are a little too hasty, as right off the bat we learn "Chinese banks are expanding the options they offer rich depositors in the face of greater competition from foreign banks." What is this new option for the Chinese rich? "Next month," the article reveals, "the Bank of China plans to launch its newest product, dollar-denominated certificates linked to the price of gold."

Hmmm! Suddenly, my brain is going every which way! This is very, very interesting! On the one hand, this seems to prove that rich Chinese people are no more sophisticated than the rest of us clodhopper bozos out here who mess with dollars. I mean, these rich Chinese people are supposed to be so dull that they will line up to buy a certificate, denominated in dollars, a currency that is due to fall in purchasing power because of massive over-creation by the Federal Reserve over decades, that is also linked to gold? Huh? Why? Isn't this merely a bet on gold, which these foreign people will naturally price in their own currency anyway, which will also trade up and down against the dollar in the currency exchange markets, negating the gain made in dollars using these certificates? What's the point?

Or, much more excitingly, perhaps this is actually the Chinese equivalent of a new gold exchange-traded fund! If so, wow! The impact of gold ETFs on the price of gold has been, so they say, significant in producing the stellar performance of gold. And if it is, and here is another one – a potentially enormous one – to add to the impact!

Naturally, I am wondering, "Are these Chinese gold certificates, paid for with dollars, going to be backed by physical gold, newly bought with the investor's dollars?" If so, like I said, wow! A Chinese gold ETF! Animated by glee, with the lithe, sinuous grace of a panther, I dance the Forbidden Mogambo Dance Of Love (FMDOL) in celebration that my bullish stance on gold is apparently vindicated!

If the certificates are not going to be backed up with physical gold bullion, then who is so incompetent, or insane, that they would take the other side of that trade, in essence going naked short? Or, is there a derivative hedge that can be laid on? Is this some kind of government scam? In frustration, I scream out, “What is happening here?”

And if not that, then I fall to my knees, pleading, pleading, pleading with that pathetic look in my eyes, my lower lip trembling, and my hands clenched together as I beg you to please, please, please tell me what in the world is the attraction of these certificates, linked to gold, denominated in dollars, to rich Chinese people?

As I crumble, blubbering at your feet in what is probably my greatest dramatic performance ever, I suddenly think to myself, “Wait a minute! Maybe it has something to do with how Nick Godt, writing about gold at TheStreet.com, reports, ‘With all the uncertainty surrounding the dollar, gold bugs believe that the precious metal will increasingly act as a hedge for countries, such as China, which seek to invest a surplus of savings in financial assets.’”

So, energized, I leap to my feet, my Bright Mogambo Eyes (BME) shining with excitement, because the way I figure it, the plan is that if Chinese businessmen will accept gold for their accumulating dollars (thanks to the trade deficit and their financing of our budget deficit) instead of asking for them to be converted into yuan, then the government does not have to print so many yuan to keep the dollar/yuan exchange rate from changing! And thus, too, their overheated economy is somewhat cooled by reducing the expansion of the money supply! And, China also winds up, believe it or not, with the gold of the United States at a huge discount! My head is spinning!

On the other hand, this germinates into my new idea for a great Tom Clancy novel, starring the larger-than-life her The Mogambo Guru. He is the popular and handsome head of the Economic Stupidity Task Force To Wipe Out The Aforementioned Economic Stupidity (ESTFTWOTAES), bravely tangling with the dark forces of fiat-money evil, like Congress, the U.S. Federal Reserve and the Supreme Court. The plot is that perhaps there is a lot more going on here than meets the eye! Economic warfare kinds of stuff!

The camera pans in to the office of The Mogambo, just as the phone rings. A voice calls out from offstage, “If that’s my wife, tell her I’m not here! And, if it is the police, tell them that I have been here all morning, and you are willing to testify to it!” The phone keeps on ringing and ringing, until finally The Mogambo enters the room. He reads the note left under the phone, and he recognizes the handwriting of his own secretary as she scrawled, “Dear Creepy Pervert, I quit! I hate you! Expect a lawsuit! Yours truly, Yolanda.”

Again the phone rings. Distractedly, The Mogambo picks up the receiver. Immediately, a voice comes over the phone line saying, “Mr. Mogambo, your mission, should you decide to accept it, is to check this out: perhaps these Sneaky Chinese Dudes (SCDs) have realized that the idea is not to make money (as in ‘wealth measured in dollars’), but in painlessly and effortlessly obtaining astonishing amounts of U.S. dollars! See, as the purchasing power of the dollar falls and falls, and falls, thanks to the U.S. Federal Reserve creating so many of them, the price of gold goes up. As those dollars wind up in China, thanks to the trade deficit, pretty soon any

Chinese dude (or dudette) with a handful of gold could own whole swaths of everything in America! Welcome to the future, dudes! Hahaha!”

I slam the phone down, springing to stage front. I tear off my disguise (mild-mannered reporter for the Daily Mogambo Planet newspaper) and begin to sing my first aria as the orchestra begins playing and the stage fills with beautiful dancing girls. My voice belies my Breaking Mogambo Heart (BMH) as I croon, “You thought that the debasement of the dollar by the over-creation of them was going to be so painless (chorus sings ‘Painless! Painless!’) that you laughed (chorus: ‘Ha ha ha!’) and scorned (chorus: ‘Ho ho ho!’) the Founding Fathers because they deliberately made it a Constitutional requirement that money would be only – only! – of silver and gold...precisely so the government couldn’t do that? Hahaha! Morons!” The chorus melodically echoes “Morons! Morons!”

And if the audience thought they were going to get off with that one short aria, they were wrong! I silence the orchestra with a wave of my hand, and the operatic patrons were deathly silent in rapt attention as I went on to say, darkly, like the voice of doom, booming from Hades, “You thought the promise of an ‘elastic currency,’ the very antithesis of gold, was going to be so terrific that you let them create the Federal Reserve? And then, you let FDR and a cowardly, traitorous Supreme Court rule that the Constitution was wrong, and that money did NOT have to be gold? Hahaha! Morons!” And the chorus replied “Morons! Morons!”

The sound of my crazed laughter echoing down the hall, I majestically went on to bellow the tragedy of: “You thought Jefferson was crazy when he warned that the use of a fiat currency/debt-based economy would cause us to wake up as slaves in the very country that their fathers gave to them? Hahaha! Morons!” And the chorus again returned, “Morons! Morons!”

Drawing myself to my full height and repeatedly adjusting my oversized codpiece so that everybody gets the point, I gravely intone, “I scorn you all!” The curtain falls, and another lovely evening of grand musical theater comes to a close.

Until next we meet,

The Mogambo Guru
for The Daily Reckoning

P.S. Regardless of the audience booing and angrily demanding their money back, in that one power-packed operatic scene alone are three more very good reasons to own gold, to add to the thousands of other perfectly good reasons to own gold, right now.