

Got Gold?

By [The Mogambo Guru](#)

01/09/06 The Daily Reckoning PRESENTS: Gold has been on quite a tear lately, hitting a high not seen since 1981. This, of course, makes our Mighty Masked Economist very happy...

GOT GOLD?

We Americans are increasingly alone in this “gold is a barbaric relic and only lunatics and idiots like The Mogambo are stupid enough to buy gold” world, as we read in an article by Sean Brodrick in the Red-Hot Canadian Small-Caps newsletter, who writes, “The reopening of China’s gold market to investment after 50 years of Communist suppression is one of the great forces driving gold today. So, it comes as good news that China is planning to loosen its import/export laws on gold.”

So, why in the hell should you care about Chinese import-export laws on gold? Well, I was just waiting for you to ask that, because I have this terrific answer! It’s all about how a third of the world’s population is being encouraged to buy gold, the same third of the world population that has a tradition of 3,000 years of historically high regard for gold. This means that the Chinese are going to be buying a lot of freaking gold, and supply, even today, is not enough to satisfy current demand except by central bank dis-hoarding, and how that means that gold will necessarily rise mightily in price, and then people who have gold will be rich, rich, rich! And I even had this fabulous tagline at the end where I say, “The future of gold is golden!” whereupon I expected you to spontaneously break into wild applause with lots of cheering. But before I could gather my notes together or even open my mouth to speak, Mr. Brodrick jumps up like a little showoff and says, “Since China already consumes more gold than it produces, this couldn’t be more bullish for gold, in my view,” which was, although brief, far better than the confused little speech I had prepared. So, I sat down in a grumpy huff, and was in a bad mood for a long, long time.

What are these new Chinese laws on gold? Real snippy-like because I am still sulking, I say, “Ask Mister Expert over there!” Mr. Brodrick hears this and says, “The People’s Bank of China has recently published a draft of new rules which would allow any company with more than \$3.6 million in capital to start a gold trading firm.”

But this is not only about China, as Mr. Brodrick goes on to say, “Meanwhile, in India, the Forward Markets Commission (FMC) said it would allow both foreign institutional investors and mutual funds to begin trading bullion futures at national commodity exchanges.”

I guess Jas Jain heard us speaking about India, and he says, “The Indian financial system will definitely collapse because of its bankers, who are desperately pushing debt for higher current profits, a common disease around the world but worse in India. Ignorance about the future consequences of debt-driven consumption is mind-boggling. Indian banks and governments will collapse one after another and there will be massive riots. Indians will pay the price for badly copying Americans.”

Well, that's pretty damned spooky to have a nation with nuclear weapons be in that kind of shape, but as spooky as that is, if you recall, we were actually talking about gold. And in an odd way, he was talking about gold, as he goes on to say, "Safety should be your number one concern in the coming years of the collapse of the current world economic and political order. The world could not have had two more ignorant and dangerous men in power than Bush and Bernanke." Man, I heard that, loud and clear!

What is the one thing...the one sure thing...the one guaranteed thing that all people, of all generations, in all nations, in all of history have turned to when their governments destroyed their money and the world was on the brink of the "collapse of the current world economic and political order?" The Mogambo smiles as he says, "Harken to me, my darling dudes and dudettes. Gold! Got gold? Get gold!"

Thanks to Barb at 321Gold.com, we got a link to Neftegaz.ru, which is some kind of Russian site (although it is in English, so naturally I am suspicious as hell) that had an article headlined "Russian Gold Reserves Increased by \$50bn." In the body of the text, we find out, "The Central Bank of Russia official said Monday that Russia's gold and foreign currency reserves have reached \$173 billion," and that, "[The] reserves have increased by \$50 billion since the start of the year and would have grown by \$70 billion if not for foreign debt payments."

We learn that inflation is going to increase a lot in Russia, as we read, "The increase in gold and currency reserves has expanded the monetary base by 24%, whereas money supply has increased 40%, according to the bank official." With monetary inflation like this, price inflation in Russia (which is already 10.4%), is going to get a lot worse.

Thanks to SafeHaven.com, we linked to Kommersant.com, another Russian business daily, also in English, also suspicious, where we read the headline "Bank of Russia Will Re-Evaluate Gold" by Dmitry Ladygin. Hmmm! Interesting!

However, the reality is a lot more prosaic, and the Russian central bank is merely going to change the way they account for their gold holdings: "Instead of previous fixed prices, the CB will start to appraise the precious metal according its own quotes, which are close to the market price." Mr. Ladygin, or Comrade Ladygin or whatever in the hell they call themselves, writes, "For the first glance, it looks logical – currently the gold in state coffers is appraised by the CB fro \$300 per ounce. The same quotes were in the market in 2002. Since that time, the price for gold went up by 1.7 times. For instance, yesterday prices for the gold on world market were \$520 – \$524 per ounce."

The reporter sees something more than that afoot, and writes, "However, it looks like in reality the Central Bank (CB) is getting ready to buy massive amounts of gold, and the market prices will allow the bank to avoid accounting mistakes."

As grubby speculator trash, my Sensitive Mogambo Big-Move Detector (SMBMD) is going, "beep beep beep! Beep beep beep!" I rush over to the printer, and the computer printout says that the salient point in all of that was: "the central bank is getting ready to buy massive amounts of gold." Now, holding that thought in your mind, think about that basic cornerstone of economics,

the demand/supply dynamic, and you will realize that a vastly increased demand, encountering a relatively static supply, is equilibrated by a higher price! I love this economics stuff!

Until next week,

The Mogambo Guru
for The Daily Reckoning
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Mogambo Sez: Although the Hulbert Digest did not report it, the performance of the Mogambo Guru newsletter should have been at the top of the heap again this year, seeing as how I have been consistently screeching about precious metals and commodities (especially oil) for the entire time, which are two of the top-three big winners (the other being some foreign stocks), according to the Lipper Indexes. And to make it easy on you and the Hulbert Digest people, my top picks for this year are the same two categories, with a Big Old Mogambo Emphasis (BOME) on gold, silver and oil.