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If you've always suspected the world's central banks of keeping gold prices down, Dimitri Speck's investigation will come as no surprise

Book lays bare chicanery of western governments

John Embry

As we head into February, gold and silver are showing signs of emerging from their slumber.

And they're doing so despite flack from the mainstream media, as well as predictions that gold will plunge to US$1,000 an ounce or even lower.

Still, a lot of the negative thinking has been fueled by the metal's counter intuitive pricing — something that's largely attributable to the anti-gold cartel.

Gold's poor price performance has also pushed many technicians into the bearish camp.

Still, technical analysis, I believe, is of only limited help in a market that's susceptible to heavy-handed manipulation.

On that subject, you might read Dimitri Speck's *The Gold Cartel: Government Intervention in Gold, the Mega-Bubble in Paper and What this Means for Your Future.*

Originally written in German, the book has recently been published in English.

I've had the pleasure of meeting Mr. Speck who hails from Eastern Europe. Not only he is a deep thinker and a well-informed one at that, but he's also someone who understands the subject very well.

By analyzing recurring trading patterns, Mr. Speck specifically identifies the start of the current bout of price suppression of gold.

He also provides solid arguments why western governments and their central banks would engage in such activity.

And he brilliantly describes the first three stages of the manipulation by illuminating the difference in the banks' approaches.

Any serious student of the gold market should read Mr. Speck's book. In fact, anyone who still clings to the notion that gold pricing isn't under the thumb of the West's central banks should be forced to refute Mr. Speck's allegations.

Book is a must-read

I strongly suspect they'd be hard-pressed to come up with a credible counter-argument. Unfortunately, the book was completed before the world's central planners revved up their rampage in gold and silver markets.

As readers well know, silver has been under attack for nearly three years, while the assault on gold began anew in September 2011.

That, of course, was after the metal made an all-time high of US$1,900 an ounce following Standard & Poor's downgrade of U.S. government debt.

So, a fourth stage has now been added to the gold saga that has dragged on for more than 20 years.

And when that saga takes yet another twist in the not-too-distant future, as it most certainly will, Mr. Speck will have more ammunition for his arguments.

It's likely most observers have little, if any, appreciation of the extent of the irreparable — and, systemic — damage done to precious metals over the past 20 years.

Simply put, the relentless suppression of gold and silver has created the false impression that irresponsible monetary policies — ones taken on a global basis — have had no lasting repercussions.

By killing the canaries in the coal mine — that is, both gold and silver — while consistently understating the inflationary impact of their money printing, the powers-that-be have been able to hoodwink most of the public.

Because the newly created money tended to migrate into financial markets, interest rates were able to fall to inappropriately low levels.

Bubbles were formed

This not only fueled the outrageous increase in debt and derivatives worldwide, but allowed massive bubbles to form in various asset classes.

The popping of these bubbles, which really started with the dot.com crash of 2000, threatened the integrity of the entire banking system.

Worse, it resulted in even more money printing. This, in turn, led to the market meltdown which began in 2007 and persisted into 2009.

That meltdown was only cooled by even greater enlargement of fiat currency — a process that was dignified by the ridiculous term "quantitative easing."

But there's one big problem with this orgy of money printing: it's solved absolutely nothing.

Global debt levels are rising, derivatives continue to sprout like weeds, the world's banking system is still very fragile, while joblessness in the West remains high.

Unfortunately, what's coming is a global financial crisis — one fueled by steroids. But the antidotes have already been used up.

With the world now where it's never remotely been before, any hard and fast prognostications are fatuous at best.

But what can be said is that the outcome isn't going to be pretty.

Our indiscretions have ruled out any happy endings — so much so that we're faced with a future of either mounting inflation or deflationary debt liquidation.

Standard will drop

What we'll most likely get is some combination of both, although our standard of living will be seriously undermined.

But back to gold where there have recently been been several revealing developments.

For example, a year ago, Germany, which holds title to 3,400 tonnes of gold, the vast majority of which is held outside the country, decided to repatriate 674 tonnes.

It requested 300 tonnes from the Federal Reserve Bank in New York, the remainder from the Banque de France.

Although the 300 tonnes represented less than 20 per cent of Germany's holdings, Berlin was told it would take seven years for the bullion to be repatriated. This alone should have raised a red flag.

Indeed, the gold is being doled out in dribs and drabs. True, over the past year, Germany has received 37 tonnes. But just five tonnes came from New York.

To make matters worse, most, if not all the gold, had been refined. In other words, it wasn't in the original bars that Germany initially deposited. In the wake of this bizarre situation, Germany's top financial regulator dropped a bombshell.

Banker breaks ranks

It said manipulation of gold prices may have been worse than the Libor-rigging scandal which has already cost the banking fraternity billions in fines.

Elke Koenig, president of the Bonn-based regulator Bafin, thus became the first global regulator to comment publicly on this delicate subject after investigations into the Libor scandal expanded into other areas.

And Ms. Koenig's comments could be a game changer.

On the heels of this, Deutsche Bank, Germany's biggest bank, said it would no longer participate in the daily fixing of the price of gold in London.

Move is ominous

Because Deutsche Bank was one of the five financial institutions that helped fix the price, its withdrawal brings to mind rats leaving a sinking ship.

As readers well know, I believe, as does Mr. Speck, that gold and silver prices have been relentlessly manipulated for many years.

A big part of this has been the increased quantities of gold that Western central banks have secretly dumped in the marketplace through leasing, swaps and various forms of rehypothecation.

The rising demand was driven by the constant underpricing of gold — itself the result of the constant manipulation of the yellow metal in bogus paper markets.

Not only has this process always had a finite life expectancy, but we're now likely rapidly approaching the finish line.

No one knows this better than China which is now snapping up every tonne of gold it can get its hands on at the current bargain-basement price.

But China is by no means alone as Russia, Mideast potentates and wealthy Europeans are all racing to buy what quantities of above-ground gold still remain.

When they finish doing so, most observers will likely be shocked by the speed with which gold will jump in price.

It's also important to remember that all the gold ever mined since the dawn of time amounts to roughly 170,000 tones.

Although much of this is now permanently out of circulation, it still adds up to a tidy sum: roughly US$7 trillion at the current price of US$1,250 an ounce.

Upside is enhanced

In the meantime, consider the tens of trillions of new fiat currency that has been created globally just since the beginning of the world's financial crisis in 2007.

When you do, gold's undervaluation becomes even more apparent, while its upside potential is only enhanced.

Because gold and silver bullion are truly core assets, they should be part of any investment portfolio.

But to benefit from the metals' real speculative potential, consider buying the shares of gold and silver miners themselves.

You should be able to get them on the cheap. After all, as readers know only too well, these stocks have been flattened over the past two years by the orchestrated takedown of gold and silver.

Still, although these miners have been driven to the wall, the ones with ore bodies and sustainable balance sheets will flourish.

Simply put, these companies will explode to the upside when gold and silver bounce back to the levels dictated by their fundamentals.

Returns will be big

Indeed, several outfits will likely earn more in a single year — over the next two-three years — than their current market capitalization.

Moreover, these companies have seldom been cheaper, even when depressed prices for gold and silver are factored in.

Then, too, the upside becomes particularly compelling when one considers the shrunken market capitalization of the precious metals sector itself.

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