POLLITT & CO.

COMMENT

Sooner rather than Later

With many Asian, Eastern European, African and Latin countries now buying gold, something is up. After fifty years of official (US and allies) gold price suppression, sovereign countries around the world are finally starting to reconsider the wisdom of putting blind faith in the dollar, or the Euro, as a store of value.

There is only one objective behind Western central banks' gold sales over the last fifty years, and that has been to suppress the price, to frogmarch gold towards demonetization and to try to enhance the image of the dollar. The strategy has been, in a fashion, successful – big Western currencies have become global reserve currencies, thus conferring huge benefits to the Western powers. After all, they have printed far more dollars and Euros than they have realized on gold sales.

But they have failed to demonetize the stuff and the price is now being driven by logic, fear and greed. We watched the final phase of the $35 gold price rig and we are now seeing the final phase of the latest period of gold price rigging. Facts as we know them and markets as we see them suggest that Western policy makers appear to be finally recognizing that stopping the tide is beyond them and it might be best to conserve what gold they have left. The buyers are not going to go away.

And a few years hence people will look back and be stunned at the blazing stupidity of selling hard-to-mine gold for easy-to-print dollars.

Over the period Australia, Canada and several others have been flushed out of all their gold, the Brits, Swiss and many others have been flushed out of most of their gold, the IMF has lightened up a lot and the US and Euroland have both sold and lent gold. Whoever borrows gold, incidentally, sells it with a view to investing the proceeds more advantageously. There is a strong sense in bullion circles that Western central banks have lent significant quantities, knowing full well that the process also puts pressure on the price. This also permits central banks to still say they own so many ounces, which is technically true, but these ounces are not in the vault. It's also true that, when gold loans fall due or are called, repayment might not be forthcoming.

The global road to remonetization is long, but baby steps are being taken. A key development, which we don't think has happened yet, will be an effort to recover some of the gold loans. Watch the lease rate, if you can find a realistic one. However, a bigger step on the road will probably take place in the bowels of some think tank or Chancellery in which some obscure employee says something like this:

"It seems amazing, but after all the printing by all the entities who can print, our world today finds itself short of money. Billions of poor people want money for bread, hundreds of governments want money to cover deficits and service debt and there doesn't seem to be enough money to build/replace infrastructure. It appears the cost of food, debt service and capex is rising even more rapidly than the money supply. On top of this there seems to be unexpected difficulty deploying the jillions which are floating around the world in directions which would please policy makers. Even the US government would probably prefer to see some of the jillions which are flowing blindly into US Treasuries flowing instead into factories and jobs.

"It seems crazy, but we need lots more liquidity. What did President Roosevelt do? What about a Bretton Woods II with the dollar, Euro and Yuan convertible into gold at $10,000? This would give Italy a $700 billion boost and eliminate a lot of problems. America would benefit as well because it both holds and produces some gold and because the inevitable inflation would drive oil to, say, $200 and force Americans to finally slash consumption."

Of course none of this will happen – all too often our policy makers exhibit a pathological preference for chaos. But even if the above ideas, once considered heretical, get floated, it's progress. Sooner rather than later the idea that gold could be good will gain traction, and this will be the final, giant step on the road to remonetization. Fifty years of references to the barbarous relic will end.

Whether sanctioned by officialdom or driven by wild-eyed markets, higher gold prices will push solid stocks much higher. The train is leaving the station.

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Barbarous Relic

SIX days before his presidential term ended, Mr Eisenhower fired his parting shot for the dollar: he forbade any further purchases abroad of gold or gold certificates by United States citizens and gave them until June 1st to get rid of their existing holdings. It is not clear whether Washington expected this to provide any immediate alleviation of strain on the dollar; its actual effect has been to set off a new stir in the world's gold markets to greet Mr Kennedy's inauguration. In London the dollar price of gold did fall at the opening on Monday, from $35.70 a fine ounce to $35.40, but as private buyers considerably outnumbered sellers, the price then hardened to $35.45-60; turnover on Monday and Tuesday was substantial, probably at about six and a half tons a day (a ton of gold is worth something over a million dollars). Gold has been held at this price only by sizeable offerings from the Bank of England; there has been no change in the Bank's broad understanding with the American authorities under which it can replenish in New York gold used to keep the London market under restraint.

Any defensive act of currency management, as the Bank ... is acting on its own account or for an American client.

It is true that many individuals and corporations in the United States, almost certainly a large majority of them, would not now buy gold abroad, simply because Mr Eisenhower has made it illegal; thus the American authorities may feel that they have prevented the spread of gold speculation down to the level of the small town investors' club. But currencies are not often brought down by a majority of the people. They are brought down by people who know their way around—traders and tourists as well as bankers and financiers—and most of these are likely to know their way round the regulations too. It will be interesting to discover how much gold is finally disposed of by Americans before June 1st, though no one has any real inkling of how much they now hold. Guesses range between $100 million and $1,000 million.

WHATEVER might have been the merits of this ruling had it been part of a combined defensive operation, it is clearly no confidence booster. Oddly enough, many of the