GOLD CARTEL
versus
South African Mines
Investment Indicators from Peter George
Friday, April18, 2008

Issue
No. 83

MANIPULATION
OF GOLD
A SOUTH AFRICAN PERSPECTIVE
PAST, PRESENT AND FUTURE

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Scripture
'Your sons hasten back,
and those who laid you
waste depart from you.'
Isaiah 49, verse 17

SUMMARY
S.1 DISCOVERY OF THE WITWATERSRAND BASIN
The history of South Africa in the last 120 years revolves around the story of gold and the discovery of the world's richest deposit, the 'Witwatersrand Basin'. Translated into English the name means 'Ridge of White Waters' and refers to streams of white water which pour from the hills when it rains. They surround the 'Central Rand'. That was where prospectors first picked up samples of the 'Main Reef' lying in open farmland.

Fortune hunters poured in – from Britain, Germany, France, Canada and the United States. Within a decade what was initially called **'Ferreira's Tented Camp'** had been transformed into the bustling mining town of **'Johannesburg'**.

Although George Harrison is credited with discovering the 'Main Reef Leader' at Langlaagte in 1886, he foolishly sold his claim for a meagre ten pounds. He had no idea what was in the ground. It was his associate Fred Struben who prophetically sketched the significance of the find in a letter to his brother's wife:

"This new discovery means the commencement of a very large goldfield and will give work not only for a few machines but for hundreds of thousands of miners. There are, I believe, innumerable similar veins …extending for miles in each direction. If this should turn out as I think, I wonder if the world will ever give me credit for no little trouble and thought to discover all this or will they merely call it luck. My idea it will be the latter."

He was wrong. Today the world does acknowledge the prescience of his comments and the role he played in encouraging his friends to hope.

100 years after he made his prediction the number of men employed on the mines reached an all time high of **534,255**. Struben had been right.

S.2 GOLD TRIGGERS FOUNDING OF JOHANNESBURG

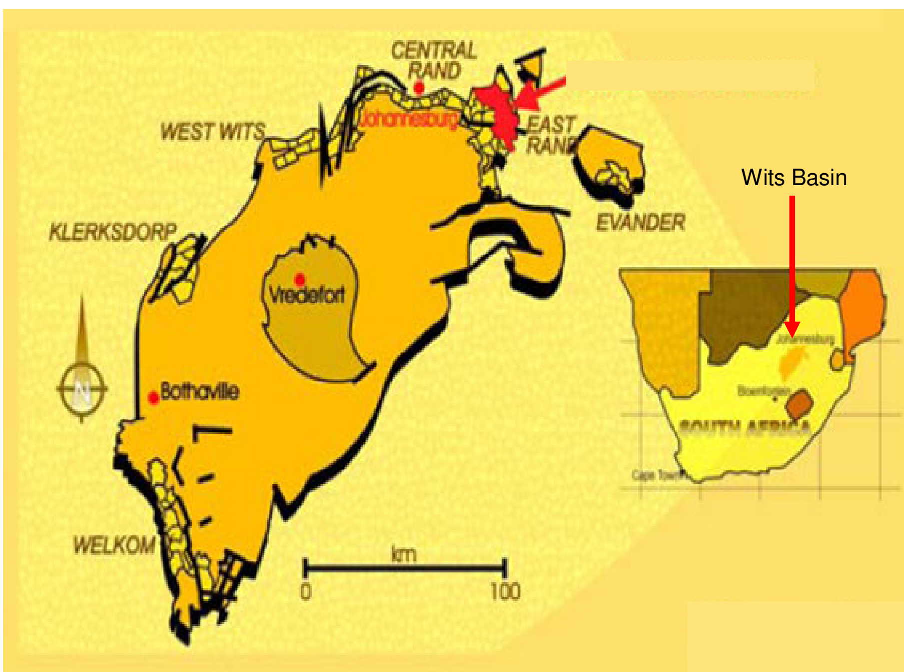
On January 2, 1902 the South African Star newspaper published its first post-war edition after the Anglo-Boer war of 1899-1901. Its editorial a day later shared Struben's confidence.

"One cannot breathe the air of Johannesburg today without feeling instinctively that a great future is in store."

There were also pessimists. One was the acclaimed American geologist Gardner Williams. A leading South African politician of the time, Dr Hans Sauer, asked Williams his opinion of the new goldfield. His reply will go down in geological history as the all time wrong call:

"Dr Sauer, if I rode over these reefs in America, I would not get off my horse to look at them."

Today the greater Witwatersrand Basin encompasses a semi-circular arc of **440 kilometers** and includes 7 separate goldfields. See map below:



Since inception the basin has yielded over 50,000 tons of gold. That compares with total world production since the beginning of recorded time, of less than 150,000.

Mined grades have averaged 8.3gms a ton but, in recent times, have fallen sharply. This year, instead of 8.3gms they hit the inverse, down at 3.8. Higher values invariably persist at depths down to 4,000 and 5,000 meters in most of the above fields but, until the mines have the cash and financial courage to sink a succession of brand new, ultra-deep shafts, they will be stuck in low grade areas previously deemed un-payable.

There are definitely new areas of potential. Some – like Goldfields' giant SOUTH DEEP mine – are located more than 3,000 meters below surface. Their single drop twin shaft is unique and the deepest in the world. Over the next five years they could raise output to a million ounces of gold a year, with a minimum 30-year life and a high recovered grade of 10gms a ton. Deceased entrepreneur Brett Kebble had many failings but South Deep was his baby. In the words of one analyst the project is likely to become:

"The mine of the twenty first century"

It promises to reveal an eventual 100m oz resource.

S.3 FUTURE POTENTIAL OF THE WITS BASIN

The South African Chamber of Mines believes the Wits Basin contains a further 40,000 tons of gold. Of that amount, 25,000 tons is believed to be accessible with known technologies down to a depth of 5,000 meters. Extracting it will involve challenges. These include greater depth, higher temperatures, and less stable ground. They also involve the excitement of discovering new fields within the Basin itself and mining different reefs previously ignored. The process requires filling in the gaps on the outskirts, then going deeper.

1.0 THE PURPOSE OF THIS EXERCISE – is to learn from history

The above facts and figures may be of interest to those with a love of history, but are of minimal value unless investors learn the lessons of the past. In this context, mining industry author John Handley begins with an appropriate observation:

"New developments depend usually on a few stalwart people ….DRIVEN by a desire to find and exploit."

The contrast between the attitudes of optimists and pessimists reminds the writer of a statement by Alexander McClaren when describing the opposition faced by Joshua and Caleb in the Old Testament. They were attempting to persuade their fellow Israelites to face the 'giants' of the 'Promised Land'.

"One bold push forward, and their feet would tread on their inheritance. But, as is so often the case, courage oozed out at the last decisive moment, and cowardice, disguised as prudence, called for 'further information', that cuckoo-cry of the faint-hearted."

The history of South African mining is peppered with similar short-term challenges. Some revolved around the nature of the deposit. Others were triggered by war and politics. More recently there were power cuts. **However, the biggest and most recurring challenges stemmed from factors affecting the price of the metal.**

Gold is money. Since the beginning of time it has demonstrated THREE vital characteristics. Through good times and bad it retains its high value, and is

both portable and indestructible. These qualities pose an insurmountable threat to paper currencies – often printed at the whim of politicians.

There have thus been numerous occasions since the beginning of the twentieth century when international central banks sought to intervene to protect their FIAT money. Most times actions were simply intended to contain the price of gold within a range which was no longer realistic**. In face of continually rising costs, mines would then come under pressure**.

The industry in South Africa today faces a similar situation but a study of past events over the life of the Basin, demonstrates three constants in the cut and thrust of fluctuating fortunes:

CONSTANT NO. 1

1. The South African mining industry has always found new ways to mine deeper, cheaper and smarter. The conduct of operations at depths of up to 5,000 meters will become 'routine'. The deposits which exist will eventually be opened. In an address to the Gordon Institute of Business, Mark Cutifani, recently-appointed CEO of Anglogold Ashanti, told of how his company was currently considering how to mine **BELOW** 5,000 meters.

CONSTANT NO. 2

2. Attempts by central banks to cap the price of gold have always ultimately failed.

CONSTANT NO. 3

3. For investors there is always Rothschild's challenge for timing a purchase:

   "Buy when the guns are firing"

The South African gold share market presents just such an opportunity today. Industry analysts complain about the poor sentiment affecting junior gold stocks in Canada. An even lower rating afflicts the share prices of mature producers operating in South Africa. Although the metal's recent break above $1,000 marked an all-time new high, the price would be over $2,000 were unfettered markets free to operate. Until that happens, high cost mines will suffer. The deep mines of South Africa fall into this category but offer most potential for sharp appreciation when the price gap starts to close.

1.1 FIVE CHARTS THAT DEMONSTRATE MANIPULATION

i) The first chart shows the relationship between the prices of GOLD and OIL.

ii) The second, the relationship between the prices of GOLD and PLATINUM**.**

iii) The third, the relationship between the prices of GOLD and COPPER.

iv) The fourth the relationship between GOLD and PLATINUM, but with gold production in the background shown FALLING as gold is suppressed in relation to the price of platinum.

v). The fifth chart, shows the RELATIONSHIP between the price of GOLDFIELDS and the international index of un-hedged gold shares, known as the HUI.

Note how in the first FOUR charts the prices of other commodities accelerate away from GOLD, post **1994.** That was the year in which recent manipulation began in earnest. It was also the year in which major South African producer Anglogold Ashanti- announced its intention of beginning to sell gold 'FORWARD'.

CHART 1 – GOLD versus OIL. NB: With oil up from $40/barrel in 1980 to $110 today, gold's 1980 intra-day high of $875, suggests a comparable $2,400/oz. Using gold's 1980 monthly close of only $690, yields a figure of $1,900/oz.

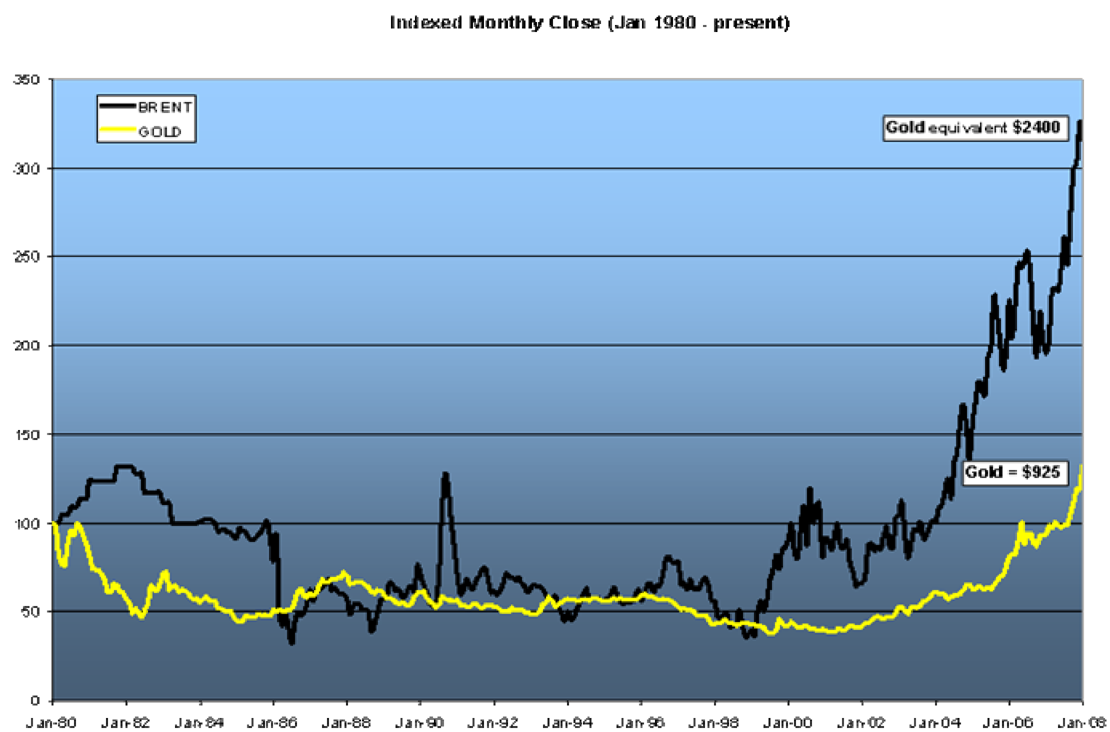


CHART 2 – GOLD versus PLATINUM – Note Platinum is ABOVE $2,000, while Gold is still below $1,000. (11/4/08) Yet in the past 20 odd years their respective prices have intersected 9 times.

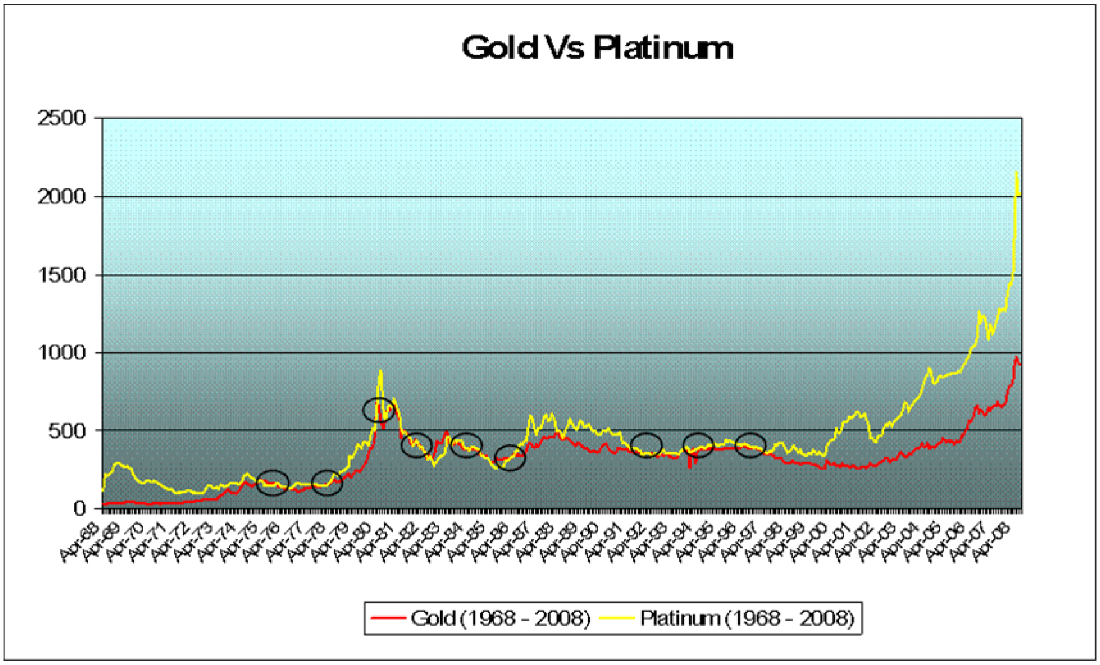


CHART 3 – GOLD versus COPPER. COPPER peaked at 2655 in 1980 but is currently 3.2X higher at 8520. In relation Gold should be $2165, not $925.

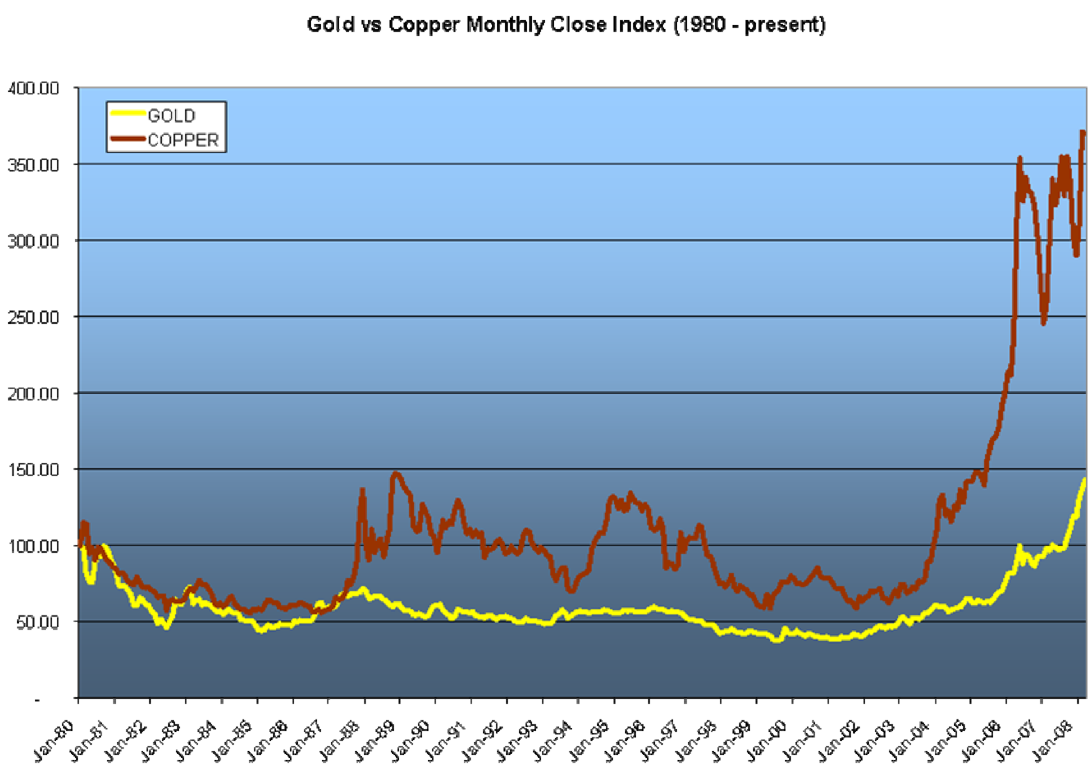


CHART 4 – The relationship between GOLD and PLATINUM, but with gold production in the background shown clearly to be FALLING as GOLD is suppressed.

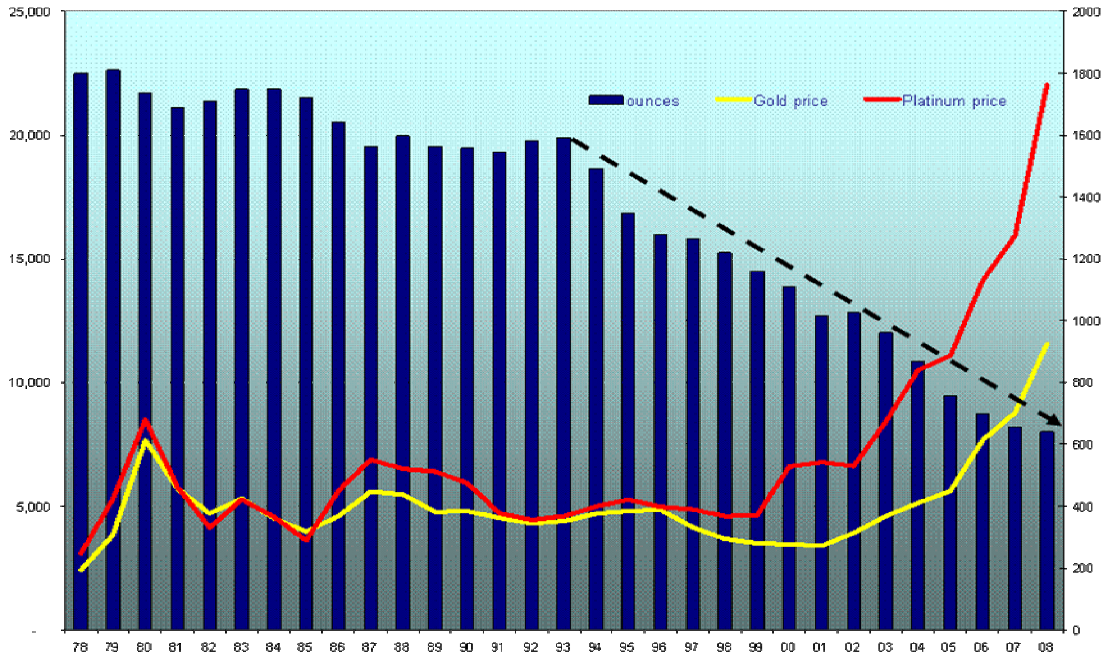
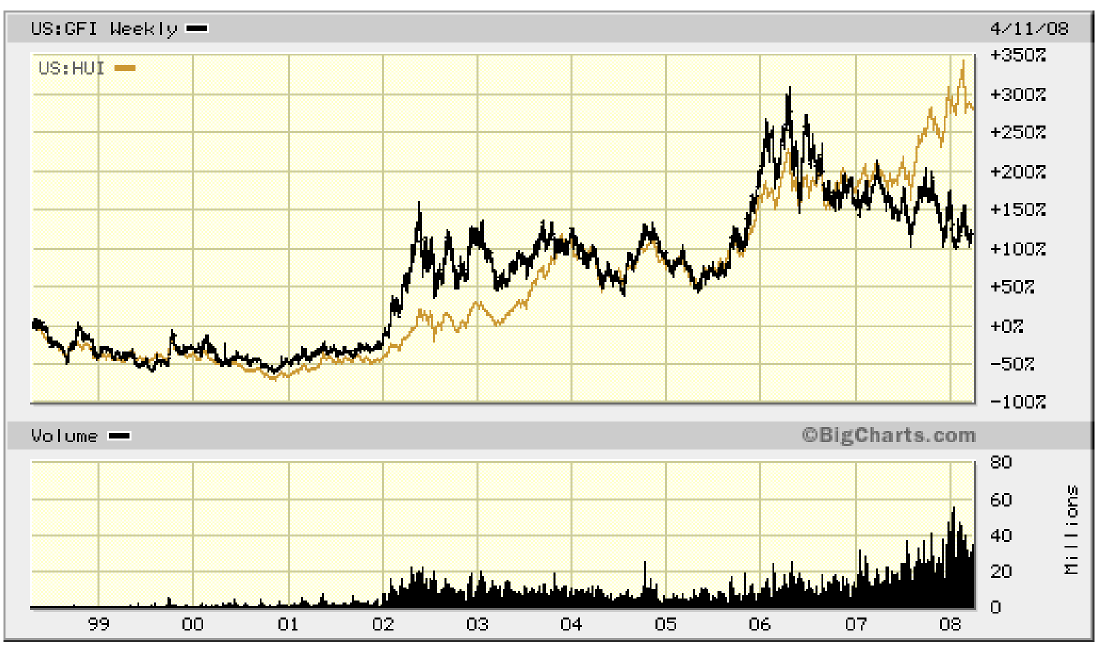


CHART 5 – GOLDFIELDS of SOUTH AFRICA versus the HUI index of un-hedged international gold stocks. Since early 2007 GOLDFIELDS has significantly UNDERPERFORMED its overseas counterparts .



1.2 REASONS FOR SA GOLDS LAGGING

Imputed high cost structures have been a major reason why South African shares underperformed. Political uncertainties, power cuts, and fatalities have also contributed. But in a conversation a week ago a director of a South African mining house put forward his own explanation. He is convinced that international market leaders like Goldfields have been the victim of Bear attacks by members of the Cartel. Successful suppression of the share prices of major 'un-hedged' international producers naturally raises investor concerns. **Shares normally lead the metal**. Goldfields' failure to perform – other things being equal – suggests the current price of GOLD is unsustainable. If true, it would be a clever supporting strategy for a CARTEL wishing to discourage the buying of GOLD. In a tightening environment it might be easier to borrow and dump shares than borrow and dump gold as lenders sense any parting with their metal will be permanent.

1.3 PROVING CONSPIRACY

Whenever one draws the ATTENTION of members of the FINANCIAL ESTABLISHMENT to the glaring inconsistencies shown in these charts, proclaiming it as evidence of MANIPULATION of the price of GOLD, one is invariably accused of being a **'Conspiracy Theorist'.**

That very accusation was made as recently as a week ago when the writer attempted to convince the **'hedge manager'** of a major mining house as to the wisdom of closing his company's outstanding 'short' position as soon as possible. The reason the writer gave was that the present price of gold was artificially suppressed and unsustainably low. His company would be ruined if they didn't listen. The size of their loss is disclosed later on. The 'hedge manager' scoffed.

Do GATA members imagine the intervention, or is it real? The records of history support GATA contentions. Interventions have been REAL and repeated. In some cases those responsible have accidentally **let slip their strategies**. One was Alan Greenspan when testifying to the House Banking Committee on July 24, 1998:

"Central Banks stand ready to lease gold in increasing quantities should the price rise."

The other was ex-Governor of the Bank of England, Eddie George, when talking to friends. He was describing how the surprise announcement of the Washington Agreement in September 1999, triggered a wholly unexpected explosion in the price of gold. It threatened to ruin certain of the London Bullion Banks which were seriously short gold:

"We looked into the abyss if the gold price rose further. A further rise would have taken down one or several trading houses, which might have taken down all the rest in their wake. Therefore at any price, at any cost, the central banks had to quell the gold price, manage it. It was very difficult to get the gold price under control but we have now succeeded. The U.S. Fed was very active in getting the gold price down. So was the U.K."

It is important to have evidence such as this ready to hand. It strengthens GATA's case when attempting to convince cynics that GATA's views are fact not fiction.

2.0 CENTRAL BANK INTERVENTIONS OVER 120 YEARS

The long history of South African gold mining has witnessed dramatic changes in the role played by the metal in the sphere of international finance and almost without fail they have been accompanied by interventions to freeze the price.

From 1885 until 1932 the US enjoyed a working Gold Standard. Then in April 1933, President Roosevelt made it unlawful for private persons to own gold. Two months later Congress cancelled the gold clause on all existing contracts.

On January 30, 1934 Congress passed the 'Gold Reserve Act'. All gold certificates and gold held by the Federal Reserve were taken away and transferred to the US Treasury. Fed banks would be given 'Gold Certificates' in return for their gold but no specific value would be assigned to them. When a witness testifying before a Senate Committee protested he was taken aside by a Senator and told:

"Doctor, you don't understand about these gold certificates. These are not certificates that you can GET gold. These are certificates that gold has been TAKEN away from you."

One day later, on January 31, 1934, President Roosevelt devalued the dollar against gold, raising the price of the metal by 69%, from $20.67 an ounce to $35. The Treasury now 'owned' the gold. No one else inside the US was allowed to own any gold except by express permission of the Treasury.

In retrospect Roosevelt's action was foolish. The nation was in the midst of a Great Depression. Had he continued to allow ownership of gold, but simply RAISED the price, the Treasury would have been swamped with sellers taking profits. Much of the proceeds might have been spent. The economy would have received a massive boost at a time of great need. Instead it took another 20 years for the Dow to recover its 1929 high. Would-be gold investors moved offshore.

Private ownership remained illegal until 1974.

2.1 1919 - ENGLAND ABANDONS GOLD STANDARD: SA GAINS

Prior to raising the price in 1934, the environment for a major gold producing nation such as South Africa grew difficult. She was caught in a squeeze, forced to accept a fixed price in face of rising costs. As an ex British colony however, her currency was tied to the pound.

In the aftermath of the First World War erstwhile participants were in a financial mess – the UK in particular. In 1910 working costs on the mines had been 17 shillings a ton. By 1919 they had risen to a record high of 25 shillings.

In 1917, shortly before the end of World War 1, Ernest Oppenheimer founded the **Anglo American Corporation** in London, with backing from **Newmont Mining, J.P. Morgan** and **Morgan Grenfell**. Oppenheimer's first trip to South Africa took place in 1902 when he visited the Kimberley diamond mines. He eventually became Mayor of Kimberley but was forced out in 1916 as anti-German feeling swept the country. Amazing how, by the time the Second World War arrived, Germans themselves would turn against him for being a Jew. In 1916 he sailed back to England but not before catching the **'whiff**' of gold. Returning in 1917, he pounced on the East Rand, grabbing the mines of Daggafontein, Springs and Brakpan. Anglo eventually doubled their holdings on the East Rand to six.

After the Great War of 1914-1918, Britain attempted to return the pound to its pre-war exchange rate against gold. She soon discovered it was unrealistic and instead abandoned the Gold Standard. The pound began to devalue. The Bank of England began to up its purchase price for South African gold. Towards the close of 1920 she was paying a 50% premium above the level prevailing in 1919.

2.2 1931 - 1944: GOLD INDUSTRY BOOMS IN DEPRESSION

In September 1931 the pound devalued a further 30%. South Africa followed suit in 1933. This was a prelude to America's dramatic decision of 1934 when the US Treasury expropriated all privately owned gold before raising the official inter-bank dollar price of gold by 69%, from $20.67 an ounce to $35.

The combination of these events set in motion one of the greatest mining exploration booms ever seen, in the midst of the greatest economic depression the world had ever known.

Gold's contra-cyclical role was dramatically demonstrated and ought never to be forgotten– especially when experts are comparing the present sub-prime crisis with the crash of '29 and its aftermath.

By 1942, two decades after South African revenues began to improve the East Rand had witnessed the formation of **27 new mines.**

2.3 1944 – BRETTON WOODS: 'GOLD EXCHANGE STANDARD'

As World War II began, the US inexplicably banned all mining of gold. Then, in 1944, a year before the War's end, central banks held their famous meeting at the Mount Washington Hotel, in Bretton Woods, New Hampshire. It marked the official launch of the Gold Exchange Standard, designed to limit currency fluctuations and prevent a repeat of the 'competitive devaluations' of the 1930's.

Why were they so destructive? Originally intended to increase a country's exports, and reduce balance of payments deficits, competitive devaluations achieved the opposite. They triggered deflationary spirals. This resulted in plummeting national incomes, shrinking demand and mass unemployment. Hence the ECB's current concern with a weakening dollar and pound! Unless all are careful, the pattern of the 1930's could repeat. The ECB should stop playing tough and get in line.

Back in 1944 the situation was different. Following the Second World War, the only currency of substance was the dollar. It was effectively 'as good as gold'. Bretton Woods made it official. Nations who managed to accumulate dollars in their reserves became entitled to 'exchange' them for gold as and when they wished.

Most felt it was unnecessary because **‘gold didn’t pay interest’**. The dollar became the world’s official ‘reserve currency’.

In 1945 the IMF was created to police implementation of the Bretton Woods’ agreement and limit volatility of currencies and gold. Because the dollar had become the world’s reserve currency, the US was led into temptation. They could print and spend to their heart’s content. Bretton Woods is long dead but the IMF is still alive – but not so well. Sixty years down the line their function has morphed into one of helping to suppress the price of gold. Hence their regular threats to dump the same 400 tons of gold from their 3,500 ton stockpile, whenever the price threatens to run. Even a controlled rise exposes the increasingly shaky foundations of the FIAT system of paper currencies.

2.4 1960 - 1994: DOLLAR UNDER PRESSURE

From the beginning of the 1960’s, as inflation began to bite, the $35 price of gold became subject to increasing upward pressure. Late 1960 was election time in the US. How would Kennedy tackle the balance of payments problem? Would he devalue the dollar? On a day in **October 1960**, panic gripped the London Gold Market. The price of gold jumped from $35 to $40. It was unheard of. Up ‘till then fluctuations had averaged 20 cents. Thirty years of a fixed dollar price was no longer sustainable. Instead of raising it in recognition of a change in circumstances, the US attempted to hold it down. It led to the start of active central bank intervention through what became known as **‘The London Gold Pool’**.

Collectively central banks became increasingly determined to protect the face value of their respective national currencies by artificially capping the price of gold – even as US ‘exchange’ cover ebbed away. At the outset the new scheme worked. In February 1962, ‘The Pool’ was selling gold as the price rose, then buying back as the price dipped.

By 1965 however, ‘The Pool’ was consistently supplying more gold to cap the price than it was winning back. The beginning of the end was the **devaluation of sterling in November 1967**. It started a run. Within weeks ‘The Pool’ had lost 1,000 tons of gold. Led by President Charles de Gaulle and his economist Jacques Rueff, the French withdrew from ‘The Pool’ and began to cash their dollars. They were ‘exercising their legitimate right’ to call for gold in exchange for increasingly unwanted dollars. By then US dollar gold backing had fallen to 20% of international obligations. Failure to deal with reality resulted in many central banks – particularly the Fed and the Bank of England - losing tons of gold at ridiculously low prices. Escalation of the war in Vietnam made matters worse. President Lyndon Johnson had tried to fight a war and simultaneously create a Great Society back home. Without running a massive budget and trade deficit it wasn’t possible. The cost of empire had become onerous.

On Friday March 8, 1968, ‘The Pool’ sold 100 tons in a single day. That weekend they reaffirmed their determination to defend gold’s fixed price of $35 an ounce. The following week to Thursday they sold over 500 tons. The writer was in London on a visit in 1968 and recalls seeing queues of bullion trucks outside the Bank of England. They were waiting to cart the gold away – allegedly 400 tons in a single day. The banks had had enough. The London market closed for two weeks. The

Pool was dissolved. The banks began their brief farce of a two tier market, $35 for themselves, a free market price for everyone else. Within twelve years to 1980, the price had risen 2400% from $35 to an intra-day high of $875. **A repeat percentage move today would take gold from its 2001 low of $250 to $6,000 by 2013.**

Major Central Banks could so easily have resolved the problem by accepting the logic of making regular adjustments for ongoing inflation, devaluing currencies and raising the price of gold whenever the situation required.

Had the US not abandoned the true Gold Standard in 1934 – the dollar's value would doubtless have held intact. As it was, unilateral cancellation of an American public's long-cherished right to exchange Federal Reserve 'notes' for gold, was a crucial first step in destroying an important perceived element of dollar stability.

De Gaulle paid a price for his refusal to kow tow to US pressure. Before the year was out, the Paris Riots of 1968 mysteriously ended his rule.

Germany and Japan also began to buy gold for the first time since the war – but not for long. The US soon had them back in their respective boxes – particularly the Japanese. **'Reinvest your surplus dollars in Treasuries or forego your unlimited freedom to export to the US market!'**

To compound America's problems, in 1968 the South African Chamber of Mines launched their One Ounce Gold 'Kruger Rand'. Coin sales exploded, surging to a record of nearly 200 tons in the first year alone. Thirty five years later total Kruger sales had reached 1500 tons but were never again marketed as aggressively. The Anti-Apartheid Act killed exports to the US – then the Chamber's biggest market. To date the Rand refinery has minted in excess of 55m coins. Maybe the time is right to start another major campaign?

By 1971, despite the limitations imposed by a two tier market, the drain on US gold stocks had become intolerable. Nixon closed the 'gold window' and the dollar glided into free-fall against all stores of value except other paper currencies. Financial discipline was out the window.

In 1974 US citizens were given permission to buy gold for the first time since 1934. If gold was no longer a 'monetary' item – only a 'commodity' - then there was no longer any justification for interfering in the market by maintaining controls, right? **Wrong!** Less than a year later, to dampen enthusiasm, the US announced two gold auctions in quick succession. For 18 months the price slumped. As it began to recover, the IMF announced a series of auctions of their own - to no avail. The gold market had developed an unstoppable momentum. The price eventually peaked at an intra-day high of $875 in 1980 - the last year of IMF sales. It only turned down when Fed Chief Volcker took the gold bull by the horns – and **raised short term rates above 20%.** It is doubtful whether such bold measures will ever be taken again – certainly not with debt markets as overstretched and fragile as they are today. That being the case, the next run in gold will be far more difficult to stop.

THE CRASH OF 1987 witnessed the first recorded intervention in the gold market by the US Treasury's secret **Exchange Stabilization Fund.** The truth took time to emerge. **The gold they dumped was the gold originally expropriated from US citizens in 1933.** ESF action was triggered as gold touched $500 – a normal spike in response to falling markets. Despite being 'normal' it was not a response welcomed by US Authorities. **The ESF action of 1987 broke the 100-year uptrend in South African gold production.** See chart below later.

2.5 1994 to 2005: CENTRAL BANKS PUSH 'FORWARD SALES'

1994 was the year in which gold loans by central banks and forward sales by gold companies first became common practice. The banking establishment actively encouraged them as an indirect method of boosting 'sales' to depress the price. The writer remembers the head of Anglo's gold division announcing his group's intention to sell gold forward for the first time. It coincided with the assumption of power by a black-controlled ANC government. Little did the 'new boys on the block' know what the Gold Cartel had in mind for their country's then major export.

Anglo knew and went 'short'. At this point readers would do well to recall events surrounding the founding of the Oppenheimer Empire from its small beginnings in 1917. Its merchant banker then – as today - was **J.P. Morgan**, official agents to the US Treasury. If anyone was aware of US intentions it was them. What better strategy than to tip off the world's three biggest gold producers – AngloGold, Newmont and Barrick – **that the US was committed to capping the price.** On learning the news they would naturally wish to protect their hides by 'selling forward'. Their actions were self-fulfilling. Instead of merely selling 'current production' the world's top three producers were selling future production as well.

'Forward sales' by gold producers assisted central banks find takers for their **gold loans**. Bullion Banks would then 'borrow' the gold before selling it 'forward' on behalf of mines who had yet to produce it. For the next five years the strategy worked. Gold prices slumped from $400 in 1994, to a multi-year low of $253 in 1999. Companies like Barrick initially made money and were able to raise cash to finance expansion. But look who advised them!

Jeff Steinberg of the Executive Intelligence Review states that in May 1995 Barrick established an International Advisory Board. Ex-President George Bush was invited to head it up as **'honorary senior advisor'**. He was joined by Brian Mulroney, ex-Prime Minister of Canada, and Karl Otto Pohl, President of the German Bundesbank from 1980 to 1991. Pohl was also a previous top official of both the IMF and the BIS. (Bank for International Settlements).This particular trio would most certainly have been in a position to warn Barrick of the coming war against gold. No wonder they went 'short'!

2.6 A NIGHTMARE FOR HEDGERS – from 2002 onwards

Major sales were concluded around $300 per oz. Then the tide turned. Newmont merged with a company full of gold bulls and covered. Barrick and Anglogold now bleed. Ever since 2002 the costs of buying back have risen with relentless cruelty. Apparent relief was gained by extending agreements at higher prices to earn interest. It was a mistake. A strategy of 'first loss, best loss' is hard to fault. Last year AngloGold Ashanti - as they later became known - were forced to 'recognize' a major potential 'book loss'. When gold was $680, they would have needed a '1-for-4' rights issue at market to clear their hedge. When gold touched $1030, their hedge exploded to 11.3m ounces at an average forward price of $400. They were in the red to the tune of $7billion. (11.3 x $630) The company's current market cap is only $9.5billion. If they were to attempt a '1-for-1' rights issue it would only work at a 30% discount. That would cut the market cap to $7billion – the same as the loss on their hedge when gold was $1030! Imagine how the price will run if Anglo tries to cover and is not discreet!

The current plan is to deliver 60% of outstanding commitments into the hedge over the next three years – averaging 2.2m ozs a year. The company's Annual production is barely double that – ranging from 4.5 to 5.0m ozs.

What happens if gold trebles to $3,500 over the next three to five years – before they can close the balance of their hedges? Instead of receiving an average 20% discount if the price is $900, they will be receiving less than 20% **OF** the current price! The alternative would be to cover now. Where would they find 11.3m ozs? **Enter the IMF who days ago announced their intention of selling over 14m ozs or 400 tons. How convenient. It's always nice to help old friends!**

Barrick's predicament is a trifle less onerous. Their current production is 8.6m ozs versus an outstanding hedge of 9.5m – all of it against Pascua Lama which is still not permitted. Today Barrick says their hedge has been 'allocated' against Pascua. The interesting point is that the hedge was originally entered into BEFORE the company ever acquired the above project. It's what's called '**post facto'** allocation.

Barrick and Anglogold both thought they were onto a good thing, benefiting from 'inside information' via banker friends 'in the know'. In retrospect it's been a disaster. No wonder Anglo want OUT of Anglogold and INTO platinum! All upside in their gold investment has been hedged away.

2.7 HEDGING HURTS SOUTH AFRICA

One of the unfortunate side-effects of unsuccessful hedging in a major bull market is that the country whose sales have been sold forward, eventually receives substantially LESS than market price for its exports. It would be to South Africa's great advantage were Anglogold to 'buy back' their outstanding hedge with immediate effect – at least that portion of it which has been allocated to domestic production.

2.8 1999 - THE WASHINGTON AGREEMENT

The Washington Agreement of 1999 proved a tipping point. Designed to restore 'predictability' to the gold market it instead provoked a crisis. The US Treasury was allegedly forced to borrow 1700 tons of German gold in exchange for 'custodial gold' set aside at West Point. The German gold was dumped into European markets to quell the panic. The British then launched gold auctions of their own. These were eventually all absorbed at an average of $275 an ounce. Don't ever fall for the British sob story of **'wishing to help the poor of Africa'**. Their actions in helping suppress the price of gold have over time exacted a heavy toll on the mines and nations of Africa. Africans need to be made more aware of the truth. This will make them less tolerant of those of their brethren who gloss over or minimize the potential damage. South Africa's Minister of Finance is one of them.

He should be more cautious in his condoning of IMF gold sales. Their justification is contrived.

2.9 2005 - UNEXPECTED INTERVENTION BY THE ECB

When the renewed Washington Agreement failed to garner sufficient willing sellers for the second five year round, the European Central Bank unexpectedly declared it had sold 50 tons in its own right. Trichet's attitude towards gold had changed since the days he worked for France - and a void had to be filled. One could sense back in 2005 that the noose was beginning to tighten round the necks of the 'shorts'. Suddenly gold broke THROUGH $470 and began to run. In three years the price has more than doubled. The next three years will be better still. This time the price can treble.

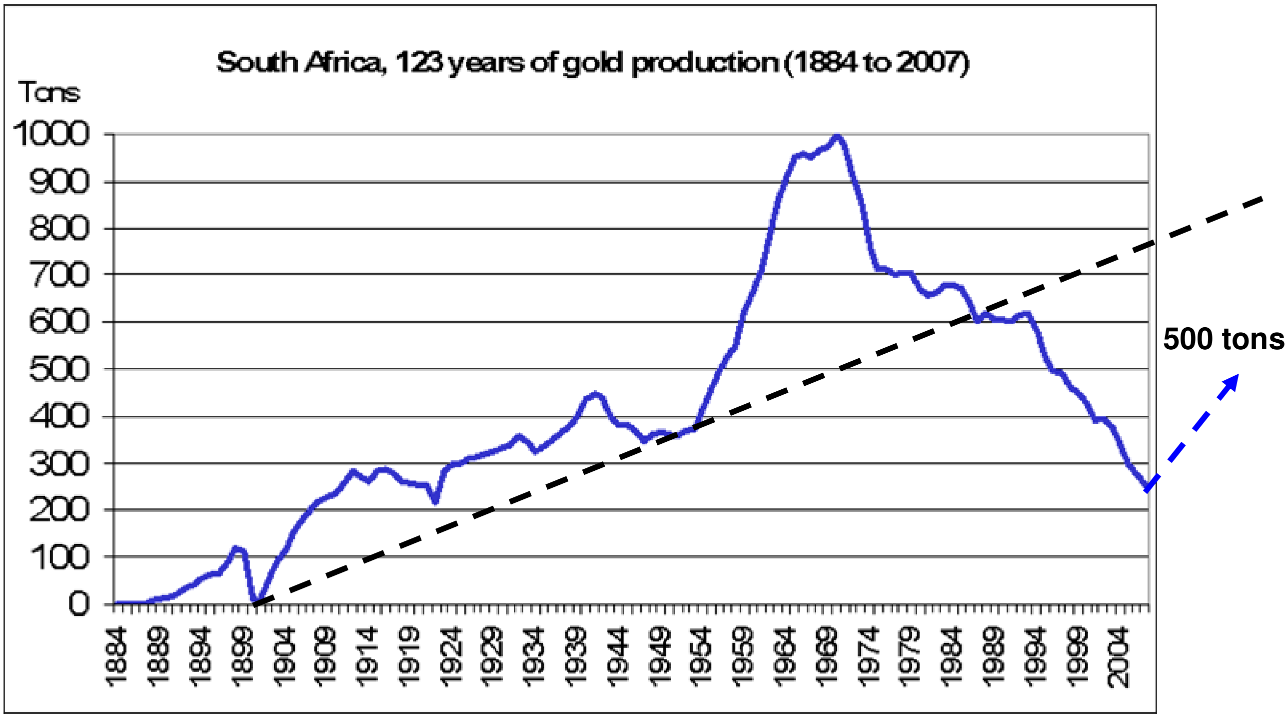
3. COUNTING THE COST OF MANIPULATION

As one surveys the entire 123-year history of South Africa's Wits Basin, the pattern of suppression repeats itself, but with increasing sophistication. The extent of damage has also escalated. A full quarter century after gold hit $875 in 1980, the price was still languishing at barely HALF what it was back in 2005. It wreaked devastation on the South African gold mining industry. Recall that in 1987 the industry employed 534,255 people. Twenty years later, by end-December 2007, the figure had shrunk to a numbing 160,000. For the year as a whole the country's gold output fell to a 35-year low of 254 tons. That's barely a quarter of the industry's all time record of 1,000 tons in 1970 – a year before Nixon closed the gold window. Then the price took off and the industry could afford to raise tonnage and mine lower grades. Today South Africa doesn't have that option – not till they mine deeper.

4. SA GOLD PRODUCTION 1886-2007 AND GOING FORWARD

The chart on the next page tracks South Africa's total gold production since the Wits Basin first opened in 1886. Note the break below the dotted trend-line in 1989. It followed the smashing of the gold price in 1987 by the US Exchange Stabilization Fund.

If the price were restored to where it ought to be – over $2,000 and rising fast - production could jump by 50% within 5 years. Jobs would follow. Over a decade or more the recovery could potentially double – given the time required to sink ultra-deep shafts. One fact is undeniable. The gold is there for the taking. Even at a doubled rate of 500 tons a year, the remaining resource would still last 50 years!



The cost in jobs to date has been high. If current production is HALF where it ought to be, the loss due to Central Bank intervention equals the current shrunken figure of 160,000. Add in a 10:1 ratio of dependants - common for the mining industry - and there are probably up to 1,6m South Africans jobless and hungry thanks to the short-sighted actions of the Gold Cartel. What makes their actions so cruel and pointless is that in due course their strategies will fail. No FIAT system has ever been able to exclude the foundational importance of precious metals on any permanent basis. When **'bark money'** burns gold bounces back. Interventions always turn out ineffective, unnecessary and hurtful.

The US debt and credit bubble has burst. Having hit ceiling, the only resort for a Bernanke-led Fed has been to print and inject government cash and credit – the faster the better. Even so, the mortgage bubble is imploding faster than the Fed can fill the holes. Help from other central banks is required as the tsunami spreads.

In many of his articles in recent years the writer has continued to emphasize his belief that oil, gold and commodities are locked into multi-year super cycles, boosted by the rapid industrialization of India and China. These will ultimately take oil to a minimum of $200 a barrel - possibly as high as $500 if Peak Oil proves correct. That will take gold to at least $3,500 an ounce before it pauses to catch its breath. At 545, the CRB Index of commodities is already up 65% from its 1980 high of 330. It can easily double again. Food shortages are not going away anytime soon, nor are supplies of iron ore and copper about to become plentiful.

5. REDEFINING THE IMF'S ROLE

The West complains about high commodity prices but that's why many emerging nations no longer require the services of a cash-strapped IMF. In fact the IMF would be well-advised to shrink itself and refocus its efforts on returning to the purposes laid out in its founding charter. Police the implementation of a working Gold Standard – this time let it be the real thing. Far from selling their gold, they ought to return it to its original contributors.

That brings us to the IMF's latest caper – a planned sale of 400 tons of its 3,500 ton stockpile of gold. If the institution's real purpose was the raising of cash to finance its continued existence, central banks would print or lend as much as they need in seconds – in the same time it took to rescue Bear Sterns or Northern Rock.

Unlike the 1980's, the end-game scenario to the current crisis cannot contemplate a major rise in long term rates as used by Paul Volcker, then Chairman of the Fed. Debts today are far too high. Monetization of these debts is therefore inevitable. Destruction of the FIAT system will follow. At that stage a return to gold becomes the only way out or the world will face a mild version of modern-day Zimbabwe. A return to a proper gold standard will ensure that the REAL price of the metal stays high for a very long time. South Africa would enter a golden age.

6. A FINAL WORD ON SOUTH AFRICAN GOLD PROSPECTS

The South African gold industry is entering a period reminiscent of occasions in the past. There are undoubtedly challenges. As before, they require a certain type of person to meet and overcome the obstacles that exist. There is therefore a POSITIVE side to the suppression of gold by the central bank Cartel. It has created untold opportunities for would-be prospectors of the 21st century. John Handley put it well and the writer repeats his advice:

"New developments depend usually on a few stalwart people ….DRIVEN by a desire to find and exploit."

As we speak companies are being formed in South Africa to drill and prospect the promising parts of the Wits Basin. The gold is there. Goldfields is opening up South Deep. Wits Gold is focusing on areas in the Southern Free State, Potchefstroom and Klerksdorp. Central Rand Gold, established in 2006, is set to re-explore and re-mine shallow areas in the original Central Rand goldfield. They are aiming to produce 1m ounces a year by 2012. Durban Deep is drilling two substantial areas south of ERPM where grades are apparently averaging 8gms a ton in situ. Great Basin Gold is opening up a new mine targeting the Kimberly reef, south of the East Rand Basin. AFGOLD is busy opening a shallow 'black reef' deposit at Modder East on the perimeter of the East Rand Basin. They have ambitious plans to bulk up their assets for further expansion.

Sooner or later someone in the area will dewater the East Rand Basin which was prematurely abandoned when gold was discovered in the Free State. Down the line others will drill and explore to the West, looking for extensions of the Wits Basin at depth.

Time and circumstance will inevitably drive the manipulators into the sea. Then those who had the faith and foresight to prepare in advance will reap a huge reward. Maybe a 24-fold rise from the $250 double-bottom lows of 1999 and 2001 is not just a pipedream. A $6,000 target is possible after all! South Africa will recover her golden glow.

7. SA'S TOP UNHEDGED PRODUCER - Goldfields

The writer has selected two charts on Goldfields, a long term one which shows years of going nowhere and a short term one which looks set to explode.

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For urgent enquiries while the writer is away in the US, call Chris Hall or Charlene Key in Cape Town, South Africa at : +27 21 700 4880.

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