

GOLD WAR v1

Why Are the US's "Enemies" Buying Up All the World's Gold?

On Monday, April 15, gold prices tumbled 9.3% in *just one day* – the sharpest drop in 30 years. Then, just two days later – on April 17 – the US Mint reported that a record 63,000 ounces was sold in a single day.

Of course, gold has always been volatile. Ron Paul says it's just "part of its tradition."

Still, this extreme 12-month volatility, coupled with this year's crash, may have you worried or even sitting on the sidelines.

The Gold Crisis: Confusion or Correction?

If you're hesitant, even confused, it's only natural given all the volatility and polarized opinions about gold and its future. For every bullish analyst screaming "Buy gold!," you have another saying the "bubble has burst" and it's "done."

Yet, do you know who's **not** confused nor ambivalent about the future of gold?

Countries like China and Russia.

These former "enemies" simply cannot get enough, and they're buying gold at faster rates and higher quantities than at any point in history.

How Much Gold Is China Really Buying?

Indeed, China is buying so much gold it's hard to know just how much it is currently holding. More on this in a moment.

Let's focus first on what we think we know about China's gold buying:

- China's consumption reached a record 11.3 million ounces in the first quarter of this year
- Purchases of gold bars surged 49 percent to 4.2 million ounces, and jewelry gained 16 percent to 6.2 million ounces
- As recently as June 14, over 10,000 Chinese civilians lined up in the streets of Jinan to buy physical gold

Clearly, the Chinese are not shying away from gold. Even as the price has risen from April's drop, they've continued to buy. Meanwhile...

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Russia Has Been Quietly Betting on Gold for 10 Years

While a major news source incorrectly reported that Russia had overtaken China in gold buying, there's no doubt that the country has become a big player.

In fact, Putin has personally pushed for the purchase of over 20 million ounces in the last decade.

"The more gold a country has, the more sovereignty it will have if there's a cataclysm with the dollar, the euro, the pound or any other reserve currency," said Evgeny Fedorov, a lawmaker for Putin's United Russia party.

In April alone, Russia added over 296,000 ounces, taking the nation's total holdings to just under 35 million ounces.

India Trumps All in Demand for the Yellow Metal

Up until this year, India has been the world's leading consumer of gold. And the country may continue to be, though it's expected to duel with China for the number-one spot throughout this year.

Indeed, India reported a 27% increase in gold demand for the first quarter of this year, surpassing China's reported demand growth of 20%.

In fact, experts at *Bloomberg* predict India will have imported between 10 million and 14 million ounces in the second quarter of this year. That's almost half as much as all its previous shipments for last year!

And it's not just these countries that are getting the gold bug, either.

Central Banks All over the World Have Been Quietly Stockpiling Gold

China, Russia, and India aren't alone, of course. Central banks all over the world have been leading net buyers of gold for at least two years now. Record-breaking levels, in fact.

The following table lists the countries that have added to their gold reserves in 2012, while the second one tallies those that have been selling. You'll see how recently each country has reported, along with its percentage increase.

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**Changes in Central Bank Gold Reserves in 2012
(Million Troy Ounces)**

	Year-End 2011	YTD 2012	Last Reported	Net Change	Percent Change
Countries Increasing Reserves					
Turkey	6.28	11.56	Dec	5.283	84.1%
Russia	28.39	30.79	Dec	2.405	8.5%
Bank for International Settlements	15.6	16.71	Dec	1.114	7.1%
Brazil	1.08	2.16	Dec	1.08	100.0%
Philippines	5.12	6.2	Nov	1.079	21.1%
Kazakhstan	2.64	3.71	Dec	1.07	40.5%
South Korea	1.75	2.71	Nov	0.965	54.9%
Iraq	0.19	0.96	Nov	0.773	405.3%
México	3.41	4	Dec	0.596	17.3%
Paraguay	0.021	0.263	Sept	0.242	1,152.4%
Ukraine	0.9	1.14	Dec	0.239	26.7%
Belarus	1.21	1.37	Dec	0.164	13.2%
Tajikistan	0.15	0.2	Dec	0.05	33.3%
Brunei	0.06	0.09	Oct	0.031	50.0%
Mozambique	0.08	0.11	Oct	0.025	37.5%
Serbia	0.46	0.48	Nov	0.022	4.3%
Jordan	0.41	0.43	May	0.02	4.9%

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Kyrgyz Republic	0.08	0.1	Dec	0.014	25.0%
Greece	3.59	3.6	Dec	0.008	0.3%
Mongolia	0.11	0.12	Nov	0.004	9.1%
Suriname	0.071	0.074	Dec	0.003	4.2%
South Africa	4.02	4.02	Nov	0.003	0.0%
Moldova	0	0.002	Dec	0.002	
Bulgaria	1.28	1.28	Dec	0.001	0.0%
Pakistan	2.071	2.072	Dec	0.001	0.0%

Subtotal Gross Increases

15.2

Countries Decreasing Reserves

Sri Lanka	0.32	0.12	Sept	-0.204	-62.5%
Germany	109.19	109.04	Dec	-0.159	-0.1%
Czech Republic	0.4	0.37	Dec	-0.028	-7.5%
Macedonia	0.22	0.22	Dec	-0.001	0.0%
France	78.3	78.3	Dec	-0.001	0.0%
Malta	0.01	0.01	Dec	-0.001	0.0%

Subtotal Gross Decreases

-0.39

Total Net Change				14.8	
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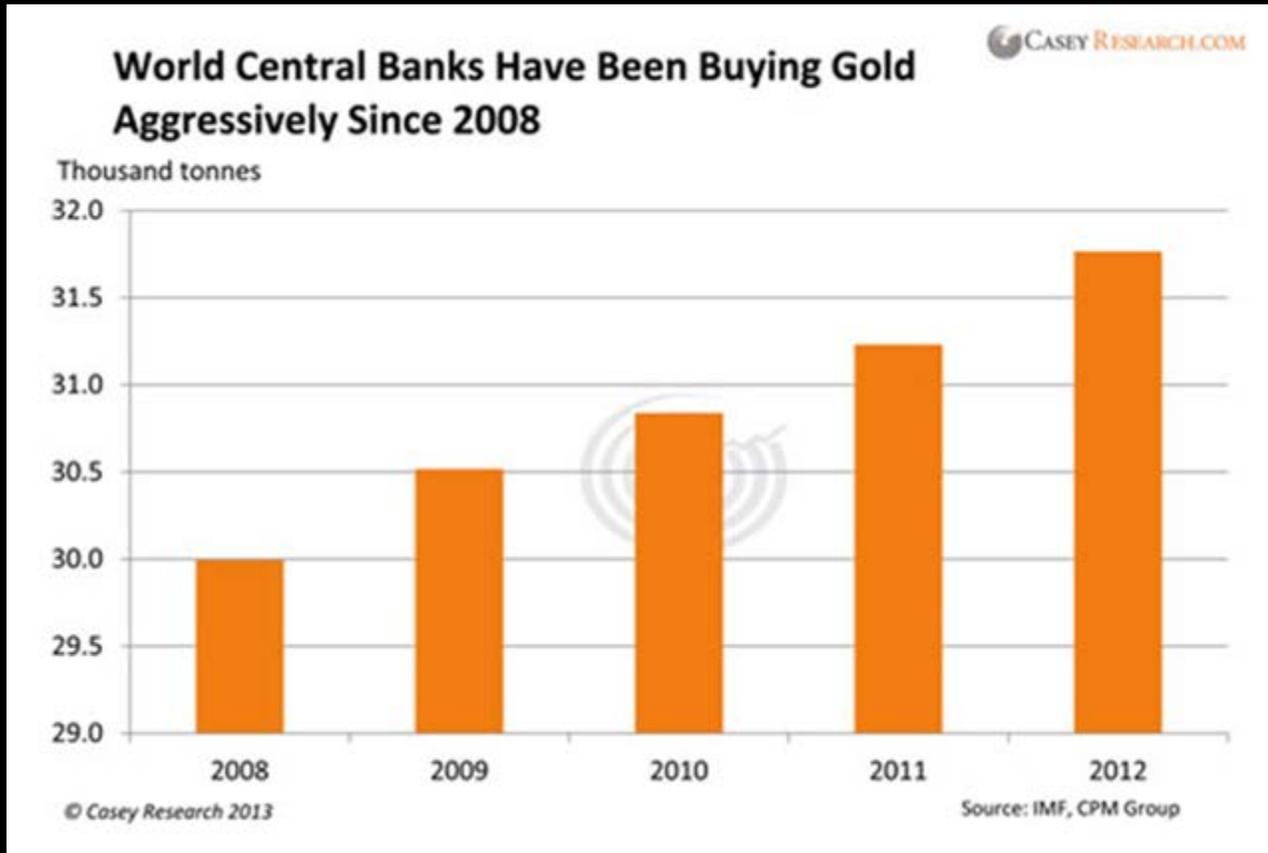
Sources: IMF, CPM Group. Data as of 1-31-13.

Based on current data, the net increase in central bank gold buying for 2012 was 14.8 million troy ounces – and that's before the final 2012 figures are in for all countries!

To put that into perspective, on a net basis, **central banks added more to their reserves last year than any year since 1964.**

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Here's a picture of total central bank reserves since the financial crisis hit.



It's clear that, whatever gold's price movements, positive or negative, central bank officials have continued to buy *en masse*.

Central banks bought 18.8 million ounces of gold last year, the most since 1964, and may add as much as 19.4 million ounces in 2013, the World Gold Council estimates.

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What Does This Massive Buying Tell Us About the Real "Enemy" We Face? (Hint: It's Not China)

All this gold buying by central banks is very ominous, especially when you consider that we don't even know how much gold China is really holding.

You see, most of the data we just covered **excludes** China, as well as a few other small countries. China last officially reported gold reserves in 2009, so the totals in the chart since then exclude whatever its purchases might have been.

Jim Rickards, a highly respected author and hedge fund manager, said last month that China has probably already accumulated between 70.5 and 105.8 million troy ounces of additional gold reserves.

In fact, Jim thinks the next big catalyst for gold will be an announcement from China about its reserve position. Here's what he told *BIG GOLD* editor Jeff Clark in late December:

"The catalyst for a spike into the \$2,500 to \$3,000 price range for gold will be an announcement by China, probably in late 2013 or 2014, that they have acquired 4,000 tonnes or more in their official reserve position. This will put China on an equal footing with the US in terms of a gold-to-GDP ratio, and validate gold as the real foundation of the international monetary system. Once that position is validated, gold will move to the \$7,000 range in 2015 and beyond."

Even if Jim's estimate is high or China doesn't make an announcement until later, it's clear that central banks around the world are buying gold in record quantities.

What Do These Banks Know That We Don't?

To answer that question, let's look to those who have more intimate knowledge of our government's real fiscal state and the true health of the dollar.

President Vladimir Putin told his central bank not to "shy away" from the metal, adding, **"After all, they're called gold and currency reserves for a reason."**

And Hu Jintao, General Secretary of the Communist Party of China, says: **"The current international currency system is the product of the past."**

Others have provided clues as well.

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"We're in the midst of an international currency war," said Guido Mantega, finance minister of Brazil.

"Quantitative easing also works through exchange rates... The Fed could engage in much more aggressive quantitative easing, to further lower the dollar," said Christina Romer, former chair of the Council of Economic Advisors.

Economist Kyle Bass recently spoke to a senior member of the Obama administration about its planned solutions for fixing the US economy and trade deficit. When he asked, *"How are we going to grow exports if we won't allow nominal wage deflation?"*, the answer he got was, *"We're just going to kill the dollar."*

Why the Real Enemy Is Among Us

Perhaps some investors have gotten complacent about the risks to the world's reserve currency – but not central bankers.

They recognize the real enemy in all this: our own government, with its reckless, historic money printing and runaway federal debt. The \$16.8 trillion we owe as of March, 2013? That number is expected to grow by at least another \$7 trillion in the next 10 years, maybe more.

Of course, central bankers see this and fundamentally know the consequences of running the printing presses the way the US has since 2008, even if price inflation is not immediately obvious.

It's no surprise they want to hedge their bets, moving more reserves into something with actual value... something that can't be debased by Helicopter Ben revving up the printing press at will.

Just because the US dollar has been the world's reserve currency since the 1940s doesn't mean it will stay that way.

Recklessly Debasing Our Dollars

Given the radical debasing that's occurring now, the dollar's days could truly be numbered. Indeed, the movement into gold is just one facet of that change.

The massive buying by central banks is exactly what one would expect to see as we approach the end of the dollar's worldwide reign.

The message from central banks is clear: they expect the dollar to move painfully lower.

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It doesn't matter that it's been holding up against other currencies or that the economy "might" be getting better. They're buying gold in record amounts because they see a significant shift coming with the status of the dollar, and they need to protect themselves against that risk.

This leads to a fundamental truth: Gold is not overpriced, in spite of its over 500% increase since 2001. Indeed, with the recent correction, central banks are likely buying more, precisely because it's **undervalued**.

Now, before you run out and buy as much gold as possible – wait. It's not as easy as it sounds...

"We've Never Seen Anything Like This."

With long lines and lengthy delays, it's easy to see the soaring demand for gold on a retail level. But what about wholesale?

One of our esteemed editors, Jeff Clark, decided to talk to the wholesalers directly, including the bullion banks, traders, and refiners. These entities typically deal in wholesale trades only, exclusively in large amounts, and solely with major entities that include dealers and investment funds.

Here's a summary of what they told Jeff occurred during the week of April 15-19 (the fifteenth was gold's 9.3% selloff)...

Bullion Banks: As a group, there were roughly four times as many buy orders as normal.

Bullion Traders: There were twice as many trades placed as usual – and the buy/sell ratio was a whopping 95:1. Plus, volumes were significantly higher, showing this was not a fluke.

Precious-Metals Refiners: These entities deal in large trades only. None would reveal the quantities of their orders, but two stated they had no sell orders. A third told Jeff they had one sell order out of 100 transactions.

Overall, there was across-the-board purchasing, and on significantly increased volumes. Jeff and his team heard more than once that, "We've never seen anything like this." And that includes the 2008-2009 period.

If All This Is True, Why Isn't the Price of Gold Skyrocketing?

Seeing all this, it's natural to wonder why the price of gold isn't through the roof right now...

Well, if enough consumers and investors believe the reports of a recovering, albeit anemic US economy, that's what counts in the short term for gold's price.

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Those who sold their gold have moved into the broader stock market because that's where the action is.

Much of what the Wall Street crowd buys is based on momentum, and it's no secret that stocks have been going up.

The fact that they believe in the recovery and act accordingly has positively affected the market, while adversely affecting the price of gold.

But that's only temporary – no free lunch lasts forever. As we're forced to face the consequences of our government's money printing, debt, and corresponding inflation, gold will inevitably rebound.

It could – in the face of the right catalyst – soar to new highs beyond anything we've ever seen... and as soon as this year, or 2014. Here's why:

Three Fundamentals That Support a Bullish Long-Term Forecast for Gold

More Spending Rather Than Austerity

Earlier this year, it was announced that the EU unemployment had risen into record territory, up to 12.2%.

Of course, it won't adopt widespread austerity (pulling back of government spending), any more than the US will. In fact, the Fed is spending \$85 billion a month to lower long-term interest rates and artificially stimulate the economy.

Yet, what happens when the Fed stops spending \$85 billion per month?

The answer: Massive currency devaluation and a corresponding surge in gold prices.

Declining Gold Production

Despite the fact that gold prices have more than quadrupled over the past decade, gold mine production has peaked and is actually trending down.

Indeed, even countries like Chile are showing strong opposition to mining projects.

Prospective gold miners are often treated no differently than those wanting to start a nuclear power plant. And with less and less fertile territory for mining, it will clearly be difficult for gold production to grow far beyond where it is now.

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Record Physical Demand

As you've seen throughout this page, there is undeniable, record physical demand for gold right now from central banks, wholesalers, and consumers – and it shows little sign of slowing. All that demand will inevitably drive the price higher.

More Fiscal Chaos Will Only Compound These Effects

Sadly, the US and the rest of the world are about to become even more financially shaky. Just look at these facts:

- Since mid-2007, we've seen 511 interest rate cuts around the world
- 36 countries now have negative real interest rates
- Globally, over the past 20 months, 385 stimulus policy initiatives were announced
- Last month, not one G20 country had a balanced budget
- Moody's warned of another credit downgrade unless Washington confronts the country's high and rising debt load

Eventually, the party must end. We must face reality. And those with carefully calculated positions will be ready – just as they have always been throughout history.

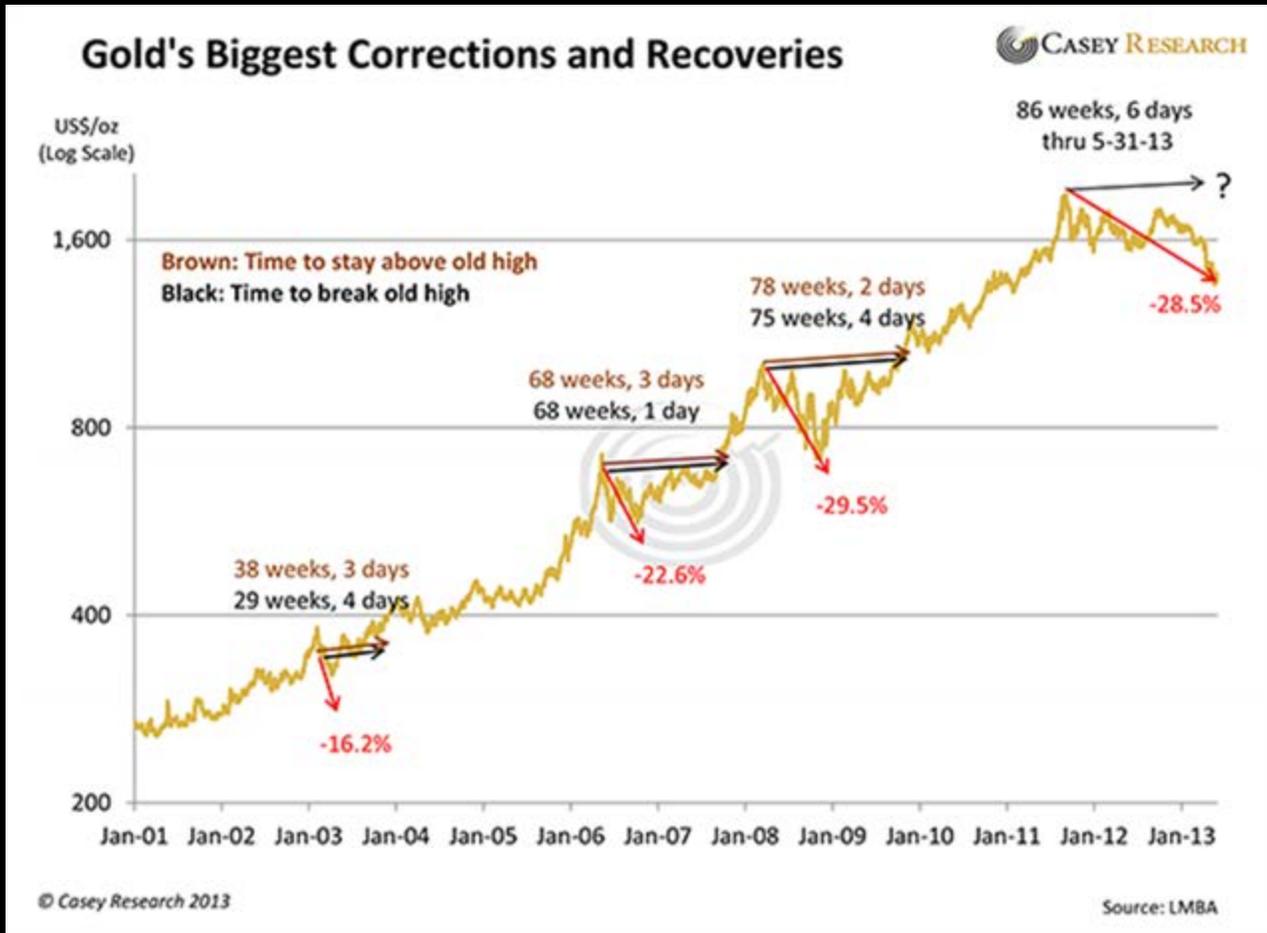
Profiting from the Great Gold Turnaround

How do we know gold will turn around? How high can it go? *How long will it take?*

One way to estimate is by looking at how it typically behaves after prior big corrections.

The following chart shows gold's three largest corrections since 2001, and calculates the time it took the price to return to the old high and stay above that level:

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It took significant time for gold to return to old highs after big selloffs. And the bigger the correction, the longer it took.

How the Right Gold Strategies Blend Insurance and Potential Profit

Given the economic and geopolitical storm clouds on the horizon and the potential upswing we just outlined, doesn't it make sense to create or add to a core gold position in your portfolio?

There's simply too much money to be made going forward. It's possible gold could soar to well over \$2,000.... \$3,000... even \$5,000 in the years ahead. Yes, it could take years – particularly as the sovereign debt crisis edges closer and closer to Washington.

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It should be clear that this pullback in gold is setting up what may be the greatest buying opportunity any of us has seen in years – especially now, with the Fed doubling up on its QE-infinity money-printing schemes.

Do not be fooled by the "recovery." Nothing has changed: Over \$3 trillion unbacked paper dollars will have to meet their day of reckoning – and when they do, gold investors are likely to reap incredible rewards.

Seeing all this, you'd think more investors would be stockpiling this precious metal... but they often don't.