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Return Australia's Gold

Precious metal prices this week are tracing out a fairly similar pattern to last week, with a pull back followed by a rally.

This week, gold again broke down to below USD \$1220 per ounce but overnight rallied back towards USD \$1245 as a slew of economic data, and the release of the Fed's beige book hit the wires.

Last week gold closed (London PM Fix) at USD \$1253, and is now down roughly \$10 per ounce for the week (-0.7%), whilst silver is essentially flat for the week, still trading just below the USD \$20 mark.

Whilst gold obviously hasn't quite re-tested the USD \$1200 mark which everyone sees as key support just yet, sentiment towards precious metals continues to deteriorate, which I'll touch on below.

Not only that, but speculators, futures traders and the like are increasingly negative on precious metals, with a report from Alex Thorndike of MKS Capital stating that:

"Last week we saw net long spec positioning on COMEX fall sharply by 2.3 mio ounces and net shorts rose sharply too. TOCOM positioning reflected much the same. ETF holdings continue to waver at a moderate but consistent pace, the SPDR fund down 58,000 oz on Tuesday and net outflows in the previous week totalling around 435,000 oz"

Clearly, most short-term market participants are expecting weakness ahead.

Capitulation Phase

With sentiment increasingly negative, and the price action deteriorating since August, it's not surprising that [the 'headlines' for precious metals](#) have also continued to take on a bearish tone.

Last week we had Business Insider's 'Gold is Ccumbing', and this week we saw a [report stating that gold was falling out of bed again](#).

In the meantime, Credit Suisse have come out with a report stating that gold is confronting a 'capitulation phase' in its bear market, analysis 'backed up' by the likes of Societe Generale and UBS, who are [all bearish on precious metals](#) as we enter 2014, and unanimous in their agreement that the bull market in gold is definitely over.

"We have no doubt that gold is in a bear market" the team at Credit Suisse have stated, with an expectation that if gold prices continue on their current path, they could head as low as \$900 by the end of 2014.

They also state that *"bubbles tend to unwind faster than they inflate."* I would agree with that statement wholeheartedly, as ultimately, fear is a more powerful emotion than greed.

However, what's interesting in Credit Suisse's analysis is that they overlook the fact that gold, at no stage in the last 12 years, has displayed bubble-like qualities, despite it being technically overbought at times.

As they themselves say *"what is striking about a longer-term chart of the gold price is just how **consistent** the 2002-2012 bull market was in terms of the rate of increase."*

By definition, a bubble in a particular asset class is not 'consistent'. They require a euphoric level of buying and speculative activity, drawing in capital from a variety of sources as everyone thinks they can't go wrong and dreams of untold riches to be made.

Look at any bubble in history – the Nasdaq, Japanese stocks, tulips, Bitcoin (?) and you'll see the same thing, a blow-off speculative phase where prices go parabolic. No market quietly and consistently builds towards a bubble-like top before popping.

Gold displayed those qualities in 1980. It did not look like that in 2011, as even Credit Suisse acknowledges, and it certainly doesn't look it today.

My position is unchanged in that I believe we are in a cyclical correction within a secular bull market.

British savings plunge

One of the more interesting news stories of the week came from the UK, where we learned that [the savings rate in Britain dropped to its lowest level in 40 years](#).

Over 23 billion pound sterling (or 900 pounds per family) has been withdrawn from long-term savings accounts. Whilst no doubt a portion of this has been spent on retail etc, helping the UK economy pick up a bit of steam this year, it's a tell-tale sign of the negative consequences of QE.

Higher inflation for essentials and lower interest rates on savings are a pincer movement crushing the middle class and poorer people, who don't have the money to speculate in the stock market, meaning they're not participating at all in the 'wealth' that's being generated in asset markets right now.

Furthermore, depleting savings is probably the worst thing an economy can do in the medium- to long-term, as without savings there can be no investment, with Ros Altman, a former policy adviser to Downing Street stating that:

“the problem is no economy can thrive in the long run without people saving. You can’t run it on borrowing and debt, you need to save and invest for the future. If you just withdraw money and spend you are talking about a recipe for long-term economic decline.”

The decline in the UK savings rate brought to mind a comment that an ABC Bullion client made to me late last week regarding what is really happening in Europe and what people are needing to do over there:

“You have to keep in mind that many Western nations have been in negative for many years now. Those who suffer are selling their gold to keep their living standards.”

This is a great comment. Only yesterday there was a news report out about Europeans renting clothes to each other, something you wouldn’t have seen 10 years ago.

With that in mind, it’s not surprising at all to think of people selling their gold (i.e. drawing down on their savings) to maintain standards of living in the short run.

The economic week so far

Whilst the markets wait with baited breath for the US non-farm payroll report which will be out on Friday, and which will set the tone for markets for the rest of the year, there has been a slew of data released this week, both domestically and overseas.

In Australia, we saw manufacturing slip back into recessionary conditions, continued weakness in services, and a GDP print for the year to end Q3 of only 2.3%, well below expectations. On the positive side, building permits held up better than expected, whilst company gross operating profits were up nearly 4% quarter on quarter, although sadly, this is not translating into more jobs.

In Europe, we’ve seen both manufacturing and services data continue to improve (modestly), and Q3 GDP growth was confirmed at 0.1%.

Despite this marginally positive number for the last quarter, on an annual basis the continent is still in recession, with total output down 0.4%.

In America, overnight we saw private employment figures which were much stronger than expected (over 200k jobs created in the last month), and we also saw a surge in new home sales, whilst earlier in the week manufacturing and construction spending data was also stronger than expected.

On the downside, mortgage applications plummeted again in the USA, down by over 10% in the past week, led by a huge decline in refinancing activity.

Futhermore, US service sector activity disappointed, falling below expectations and also below numbers recorded in October.

The Fed also released their Beige Book on current economic conditions, where they stated the economy was expanding at a 'modest to moderate' pace, whilst hiring 'showed a modest increase or was unchanged'.

All in all, a cloudy picture, confirming that whilst the global economy 'looks OK' in terms of headline numbers and growth, we are nowhere near a sustainable economic recovery that could function healthily without trillions of dollars of deficit spending by governments, and printed money from central banks.

Return Aussie Gold

One of the interesting developments we've witnessed in the last few years has been the increase in publicity and public attention surrounding the physical location of international gold reserves, with much consternation about the fact that such a large portion of central bank gold (i.e. national reserves) are located in London and New York.

With Germany famously requesting the repatriation of a large portion of its gold from both France and the United States, this is a story that has spread to many other countries, including, I'm now glad to say, Australia.

A new website has been launched, dedicated to petitioning the government and the Reserve Bank of Australia to re-locate Australia's bullion reserves to our own shores.

Personally, I think this is fantastic initiative, and not just because of the risks of fiat money and global QE, nor just as a 'hedge' against the breakdown of the international financial system, which is one of the reasons the RBA has stated Australia maintains a modest gold reserve.

My reasons for supporting the initiative are as follows:

According to Standard and Poors, Fitch and Moodys, Australia is an AAA rated sovereign, one of the few countries left in the developed Western world who can lay claim to that title.

As you'll see from the table below, not only are we rated AAA with the 3 major rating houses, but we also have a 'stable' outlook, and we are in much better shape than both the UK (where our gold is now) and the US (the other 'natural' location for storage of gold reserves).

Without wanting to go into the debt problems that Australia faces, or the less than stellar record these ratings agencies had in the lead up to the GFC, it's clear that our financial house is in relatively strong order in this country.

Holding the nation's bullion reserves in an AAA rated sovereign would seem to me to be prudent risk management.

Ratings Agency	Australia	United Kingdom	United States
Standard & Poors	AAA (stable)	AAA (negative)	AA+ (stable)
Fitch	AAA (stable)	AA+ (stable)	AAA (negative)
Moodys	AAA (stable)	AA1 (stable)	AAA (negative)

Not only that, but despite the political shenanigans in this nation over the past few years, we are a geopolitically stable nation that is, on balance, well respected in the international community.

Furthermore, as the second largest gold miner in the world, it makes sense for us to hold onto our bullion reserves as a way of promoting an industry that is critically important to the nation, and is an important part of our history and cultural identity.

Lastly, the reason we should repatriate our gold is to strengthen our asset management, financial services and banking sector, areas of our economy where we have significant strengths, and which the nation could potentially leverage into Asia (ANZ is trying, that's for sure) in the decades to come.

To give you a sense of scale, at the end of 2009, Australia had a \$1.7 trillion investment management industry, the largest by far in the region, and the 4th largest in the world.

For reference, at the same time, China, with over 1.25 billion people, had an investment management industry of less than \$400 billion, one-third the size of Australia's, despite having 60 times more people.

Talk about room for growth.

As a report put together by the Australian Trade Commission into the investment management industry in this country stated that:

"Given the size and sophistication of Australia's funds management sector and related ancillary services and platforms, there is considerable scope for further development, particularly via export markets and entry or expansion of international market participants."

It is not a coincidence that as the UK and the USA dominated the global economy

over the last 100 years or so, both London and New York became the hubs for both gold trading specifically, and international finance in general.

The two (gold and finance) have always gone hand in hand as gold has been the backbone of the financial system for the majority of the time we've had industrialised, market-based economies.

With the incredible flow of bullion into China, there is no doubt that Shanghai or Beijing will soon join this club. Australia can be a part of this

Due to the fact we are in the same time zone, and the fact that we have an abundance of natural resources, which they are only too keen to consume, we are in an envious position as regards doing business with China specifically, and emerging Asia in general.

By repatriating our bullion reserves, and promoting a stronger bullion industry in Australia, we would be helping to promote our financial services and asset management industries as well.

I would encourage everyone who agrees with the idea that it is in our national interest to physically relocate our bullion reserves to Australia to sign the petition here: <http://www.returnaussiegold.net.au/>

Until next week,



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ABC Bullion

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