

Avery Goodman – How China can use Gold to gain power

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“The Matterhorn Interview – Dec 2015: Avery Goodman”

In this timely interview Goodman gives a must listen/read and easy to follow account of how US and International politics (China) will eventually determine the historic role of Gold as the only reserve currency alternative

Podcast interview: (25 mins)

“Behold the covertly given supply of gold in the market”

On behalf of Matterhorn asset Management, Lars Schall talked with U.S. Securities lawyer and financial researcher Avery Goodman. On their agenda: China’s gold buying and inclusion into the SDR’s of the IMF; the importance of gold in international relations; and the suspicion that there must be “a physical gold supplier of last resort” intervening in the market.

Avery B. Goodman has been a licensed attorney for 29 years, and has concentrated in securities law related cases. He holds a B.A. from Emory University, where he concentrated on history and economics. He also holds a Juris Doctorate degree from the University of California at Los Angeles Law School and is a member of the Bar, licensed to practice law in several jurisdictions.

An independent investor for decades, Mr. Goodman has observed that markets are being subjected to frighteningly high, and still rising, levels of disinformation. Investors desperately need an impartial voice of logic, reason and common sense to guide them. For that reason, he is now sharing thoughts with the community.

Transcript Avery Goodman Interview

Intro’s:

Lars Schall: Mr. Goodman, the Chinese central bank buys lots of gold. Why does it so and why do you pay attention to it? I mean, this isn’t really a usual focus of a securities lawyer, is it?

Avery Goodman: No, it’s not. I began looking at gold some time ago when I began to suspect that the US government was intervening in the gold market and it became an interest of mine, and I think that my skills at research, which I’ve developed as a securities lawyer, have done me well in this quest to figure out how this market works and what’s motivating the various parties involved including the US and China. Now, with respect to China, I think that

they are buying a lot of gold for the very simple reason that they recognize the importance of gold as a reserve asset and the fact that the United States is interested of course in keeping the Dollar as the reserve currency but if they allow the United States to do that forever, it frustrates their plans to become one of the major poles of political power. China, I don't think, has the ability, because of its political system, to create a currency which has as much universal appeal as the US Dollar and so I think they've turned to gold as a way of reducing US dominance. Gold is the only currency that can compete with the Dollar. I think the US knows it and so does China so that's one benefit. The United States also gains a great deal from having the Dollar as the reserve currency of the world, which China doesn't like. Mainly it gains seigniorage benefits which means the amount of value that is created every time a Dollar is created is far beyond the cost of creating the Dollar. For example, in the last few years, the United States probably has gained hundreds of billions of Dollars' worth of buying power by creating Dollars and distributing them all over the world, and that allows us to be much stronger politically and militarily than we otherwise would be. The Chinese know this, so if they allow things to remain Dollar centric, they know that this strengthens the United States and so the only alternative they have is to go towards gold, and I think that they're doing that and that is the motivating factor that's behind their accumulation of gold reserves.

LS: But do you believe the official reserve numbers given by the Chinese?

AG: Not particularly. I don't believe anything the Chinese government says quite frankly. I don't think there's any reason to believe what they say. It could be a lot more, it could be ten thousand tons of gold, it could be four or five thousand, or it could be what they say, but there's no reason to believe or not believe. They haven't had a very good track record of telling the truth in the past so I don't think that what they say can be taken with anything more than a grain of salt. The fact is they are buying gold. That's obvious from everyone who is in the industry who has any knowledge of what they're doing, and how much they're buying, I don't think anyone's really going to know until they're ready to tell the world, which I don't think they are yet. Imagine what would happen if they told the world that they bought... let's say that instead of having 1600 which is, I think, what they admit to, 1600 tons of gold. Let's say they said, "We have 4500 tons of gold" and here they are on the cusp of trying to get into the IMF. Now, the IMF is basically an anti-gold organisation nowadays ever since the US left the gold standard and so this would be basically a direct attack on the structure and function of the IMF, which is dominated by the US and Western Europe, and it would threaten the existing membership, mainly the US and secondly the Western Europeans with the prospect of China being much stronger than they would like it to be and therefore I think that they held off partly because they wanted to get the Yuan into the list of reserve currencies of the IMF, the SDR.

LS: Are there different avenues that the Chinese can use so they can basically hide their gold?

AG: I think it's pretty easy to hide the gold. They have plenty of sub-divisions of their government. First of all, they can just not tell the truth, and nobody is going to know how much gold they have because nobody

goes into their vault to count it physically.

LS: There hasn't been an official audit, right?

AG: I don't think there's ever been an official audit of the Chinese gold.

LS: Yeah.

AG: There hasn't been an official audit of the US gold since the 1950's. We don't know how much is there either and I don't think there's ever been an audit in history of the Chinese gold.

LS: The yuan was recently admitted to be part of the special drawing rights of the international monetary fund. What are your thoughts on this?

AG: Yes, they have. I think that they were very interested in getting into that organisation because it's part of their play for power. This is all a matter of power politics and gold in the context of national hoards is all a matter of national politics. So, this is just one more aspect of their attempt to gain power in the world. When they become part of the special drawing rights, they gain prestige, they gain a bigger say in how things work at the IMF and I think they want that. I think it's clear that they want that. I don't think that they believe, in all honesty, from a realistic standpoint, that the SDR is going to become the reserve currency of the world. I don't think anybody should believe that at this point, especially in light of what's happening with the Euro because essentially that'll just be a super-Euro and the same result will no doubt happen if they do that.

LS: Yeah. Is it of interest to you that the Europeans lost some percentages in the SDR's whereas the US lost a very little percentage?

AG: Well, I think that the decision was something that we will never know why exactly these things happen, the truth of it all, so I'm not sure that it really matters very much to be honest, except from the standpoint of prestige. I think it's very prestigious for the Chinese to feel like they've now arrived and they're now part of the system, whereas the Europeans, I don't think they care that much because they know that this SDR is really, from a practical point of view, not very important.

LS: Okay, but it could be used practically because the Chinese seem to intend to use their leadership role in the G20 to discuss the use of the SDR's as a price mechanism for commodities. Is this an interesting move?

AG: It's an interesting move only in that it sets the focus of the world on using something other than the US Dollar. I don't think the Chinese seriously believe that the SDR can ever be used as the pricing for commodities because first of all, it's a currency that's used between nations and not by private traders, and secondly because, again, it would just be a super-Euro. What I think the Chinese really want to do is start talking about replacing the US Dollar to the extent that they are able to because of the desire to be more powerful in the world and the fact that the US has the dominant currency gives the US a tremendous amount of power vis a vis the Chinese. It helps fund the US military which they consider at threat, and I think that the talk

about the SDR is simply a fantasy and they know it, but they're doing it because it sounds good and it starts the discussion about alternative means of pricing commodities. I think what the Chinese really want is to price commodities in Yuan, and I think that they're going to use their dominance, their eventual dominance in the gold market to help determine the value of their currency visa vie the Dollar under the claim that they're doing it in the free market. If they control the gold market, for example, and they have the commodity market denominated in Yuan as well as Dollars, they can, through gold, reprice the Yuan to whatever they want it to be, visa vie the Dollar, without actually setting a fix. I think that's their ultimate goal.

LS: Could you elaborate on this mechanism please?

AG: Well, if they have control over the gold market and if gold, for example, is denominated in both Dollars and Yuan and if it's an internationally traded market, which the Shanghai Exchange is not quite yet but will be according to their plans not too far in the future then the price of gold is set to the Yuan allegedly by free market forces and the price of the Dollar is set to gold also allegedly based upon free market forces. So, if the Chinese have a great deal of pricing power in the gold market and they choose through their state owned banks to change the value of the Yuan against gold then the value of the Yuan against the Dollar immediately changes as well. I think, ultimately, this is what they really want.

LS: Is it of interest to you that the China gold exchange trade physical gold whereas at Comex in New York, we have paper claims?

AG: Yes, that is significant. I'm not sure the Chinese government is going to allow that to continue forever because I think they would like to have control over the gold market in the same paper way that the US government has, but for the time being that's very important because it is creating a tremendous movement of gold into China, and where is it coming from? I mean, I estimated in I think one of my articles ([click here](#)) in Seeking Alpha (and I can't remember what the name of it was but I went into a deep discussion about that). The gold in China if you look at the Shanghai Exchange, the amount that's being delivered is so high. If you add that along with the gold that's being delivered in India plus the gold in other places in the world, there's a tremendous deficit of gold supply as against demand. This year alone, there's got to be a minimum deficit of about 600 tons and where is that gold coming from? The price has not gone up so it must be coming from somewhere. I would suggest that there's a mystery, or maybe not so mysterious, supplier of last resort which I believe to be the federal government of the United States.

LS: The exchange stabilization fund?

LS: I believe it's probably the exchange stabilization fund. I don't want to get into the details of who controls US gold because I think that the differentiation between the federal reserve, the treasury, and the sub-division of the treasury which is the exchange stabilization fund, are to a large extent illusory and I think that people concentrate on those alleged differences to pick apart the argument, but I don't think it matters who's

doing it or who controls the gold. I think it is a decision that has been made by the US to control the gold price at this point in time, and why they've made this decision. I don't know why the decision was apparently different prior to 2011 and certainly prior to 2013, I do not know. I don't know what changed but I do know that this gold that's coming in has got to be coming in from somewhere and that's the only place that I can think of where it's coming from.

LS: Now, you've mentioned that physical gold demand exceeds physical supply, however this isn't reflected by the price at all. Why isn't this a topic in the mainstream media? Why do I not read about this?

AG: You know, the mainstream media is very interesting. I remember it was a year, a year and a half ago, there were demonstrations in New York involving thousands of people. I read about this in the French media, the German media, in the Russian media and in the English speaking media, there was not a word about it except an isolated article that I could find in the Seattle Post which mentioned that there was large demonstration in New York, interestingly enough, against the media. How could every mainstream media outlet not only in the United States but in Britain, Australia and every part of the English speaking world not cover this whereas it was covered in Europe, in the Middle East and in China. I can't understand that and yet that's exactly what happened. When I saw that, I was shocked and I began to rethink my view of what's going on. I looked into the media and I found out that the entire English speaking media is controlled by five large companies, pretty much controlled. There's exceptions to that but mostly it's controlled by five companies. It seems that those five companies work together on a lot of things. I don't think they work together on minor issues and they probably have some competition between them on things that are of no importance but it seems to me that they do not want a real serious enquiry into this issue, the issue that you've often enquired into, for example.

LS: Yeah, but why do you think this isn't reflected at all, the fact that physical gold amount exceeds physical supply?

AG: Because it doesn't actually exceed physical supply because the supply is being given to the market by someone. If it did exceed physical supply, then you would see panic and you would see a huge backwardation far beyond what we're seeing in London now.

LS: But could we say then this is a covertly given supply?

AG: Yes, I think that's a good way of putting it. It's a covertly given supply and my personal guess although I have no proof of the exact method by which it's done but I think that it's being done by the signing over of swap lines to the Bank of England by the US government and that actually the physical gold is coming out of the stockpile of the Bank of England, where most of that gold is stored under non-allocated storage agreements, so they can do whatever they want with it. I think the US government guarantees that if they use it in the market as required by the US government, they will be reimbursed for that if they ever had the need to give that gold back to their customers. So, I think the physical gold, most of it at least, comes from the

Bank of England but it's being backed up by swap lines and I do believe some of the gold directly comes from the US stockpile when it's funneled through Comex however.

LS: But you have no idea how this can be done?

AG: Oh, I think I know how it's done at the Comex stockpile. I think it comes directly from the Fed's basement, but this is all speculation of where it comes from. I notice that JP Morgan is always the one who seems to be delivering the gold in Comex even though it's virtually impossible for them to be the ones that actually have the short contracts based upon the positions of traders and the bank involvement statistics.

LS: Is it a conflict of interest that JP Morgan is the supplier? I mean, they are a member of the Federal Reserve Bank of New York, right?

AG: Well, I don't think it's a conflict of interest at all because I think the US government is their main client. They in fact have a written contract that you can actually find because it's filed at the fed. They have a written contract to manage the entire portfolio of federal reserve mortgage bonds, for example. They, I believe, are the agents for both the federal reserve and the treasury, or both, in the gold market.

LS: Yeah, and they're primary dealers.

AG: They are primary dealers and I believe they have the contract. Based upon what I see at Comex and who's delivering all the time, I believe they have the contract which is not going to be disclosed but their bond contract is disclosed. This contract is covert but I think they are the holders of the contract as the agents of the US government in the gold market.

LS: Okay. We are at the end of 2015, what are your expectations for 2016?

AG: I told you earlier about the gap for 2015 between the supply and the demand of gold and based upon solid statistical evidence which I have cited in one of my articles, a recent article in Seeking Alpha, that gap is going to be much bigger in 2016 because the amount of gold being mined and being scrapped is going to be lower and the demand is going to be a little bit higher, and so next year, this mysterious, or not so mysterious, supplier of gold of last resort is going to have to throw about 1300-1400 tons into the market. Now, I don't know if the US government is willing to do that. I know that there is backwardation in London, even now, which indicates that they're not just willing to throw away all the gold at once. They're parceling it out very carefully and allowing this to happen. My guess is that they are going to back off from this supplying situation and they are going to allow the gold price to rise somewhat in 2016, and then of course 2016 is also the major election. If a new president gets elected who does not have the kind of willingness to cooperate in this venture against gold prices, as I think happened when the Bush Administration came into office, I think they slowed it down then and I think if the new president is a republican will probably close the US gold reserve to the banks at this time also. So, when that happens, if that happens, gold prices are going to soar very quickly back to

where we saw them before, or higher. If it doesn't happen, if for example Hilary Clinton were elected president or another democrat who's willing to cooperate with this scheme then I think that we will see perhaps some more suppression of the price but you've got to remember that 1300-1400 tons a year, even 8000 tons of gold which allegedly the US has will not last, and it's not going to be 1400 tons a year every year. It's going to keep growing. So, I don't think this is going to go on forever. It's going to stop and it has a lot to do with the political situation.

LS: Yeah, but thus this rigging game has to intensify because the central banks in the west, especially the federal reserve in the US, they are not really as successful with the policy that they've now undertaken for years.

AG: Well, look, they're not successful but I don't think that they're ready to collapse yet. They're going to keep fighting for quite a while to come, before congress or the other national bodies that authorize them to exist decide to close them down. So, what they're going to do is continue more of what they've done which is they're going to print money or they're going to go to highly negative interest rates and all of this is going to devalue the Dollar, the Euro if it still exists, the Swiss Franc, all of these national banks that are following these Keynesian or semi, quasi-Keynesian monetary policies are going to keep devaluing their currency which means that gold is going to be the only currency that's still going to be in short supply. What's going to happen is that there'll be more and more demand and there's just a limit to how much gold in the world there is. Unless someone invents an anti-gravity device that brings us to cheap gold from the asteroid belt, I cannot see them fulfilling this demand even if they deploy the entire US gold reserve.

LS: Yes. Thank you very much for this conversation!

AG: You're very welcome, it's a pleasure.