

GOLD IS NOW UNDERWRITTEN BY CHINA

written by Egon von Greyerz | September 11, 2009

There is really only one government in the world that understands the virtues of gold – China. Not only is the country buying all the gold that they can without pushing the price up but they are also encouraging the Chinese people via the media to buy gold and silver.

Power corrupts

Let us first look at the US and ex Fed Chairman Greenspan to demonstrate how sound individuals become totally corrupt and dishonest once they become politicians. (Yes, the chairman of the Fed is political position which permits no integrity).

In 1966 Greenspan wrote an essay – “Gold and Economic Freedom”- in which he spells out the importance of gold. Here is a quote from the essay:

“In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value.”

Then 21 years later Greenspan started his 19 year reign as chairman of the Fed. During that period he was instrumental in creating or exacerbating one financial crisis after the other. First the stockmarket and Nasdaq bubble, then the housing bubble, the credit bubble, the derivatives bubble and finally the banking and financial system bubble. Greenspan fuelled one bubble after the next by printing more money and lowering interest rates each time there was pressure in the economy.

Every time there was a hearing in front of congressmen or senators Greenspan spoke his gobbledegook that no one understood. But they all (except for Ron Paul) licked his boots and loved him since his money printing and unsound monetary policies created a false prosperity which all their voters believed was real.

Now, 43 years after his essay praising the virtues of gold, Greenspan just said in a speech that **“Gold is the ultimate currency”**. But during his 19 years as chairman of the Fed he acted like printed paper was the ultimate currency. This is why you can never, ever trust a politician. Political power totally corrupts human beings and whatever integrity, honesty or soundness they had before totally disappears as soon as they take on the political mantle. Bernanke who was once an honest academic is continuing in exactly the same tracks and is doing all he can to make the financial crisis bigger by printing trillions of dollars.

China understands gold

China has recently announced that they have increased their gold reserves by 76% to 1054 tons. But that is just the beginning. China is likely to be a major buyer of gold for the foreseeable future. Chinese government officials

who normally keep a low profile have recently become more vociferous about the total mismanagement of the US economy and the US dollar. China is now openly criticising US monetary policy. The former vice-chairman of the Standing Committee, Mr Cheng Siwei, that China is dismayed by the Fed's credit easing (as reported by Ambrose Evans-Pritchard in the Telegraph). Mr Cheng said: "If they keep printing money to buy bonds it will lead to inflation and after a year or two the dollar will fall hard". He went on to say: " We will diversify incremental reserves into Euros, Yen and other currencies. Gold is definitively an alternative but when we buy the price goes up. We have to do it carefully so as not to stimulate markets".

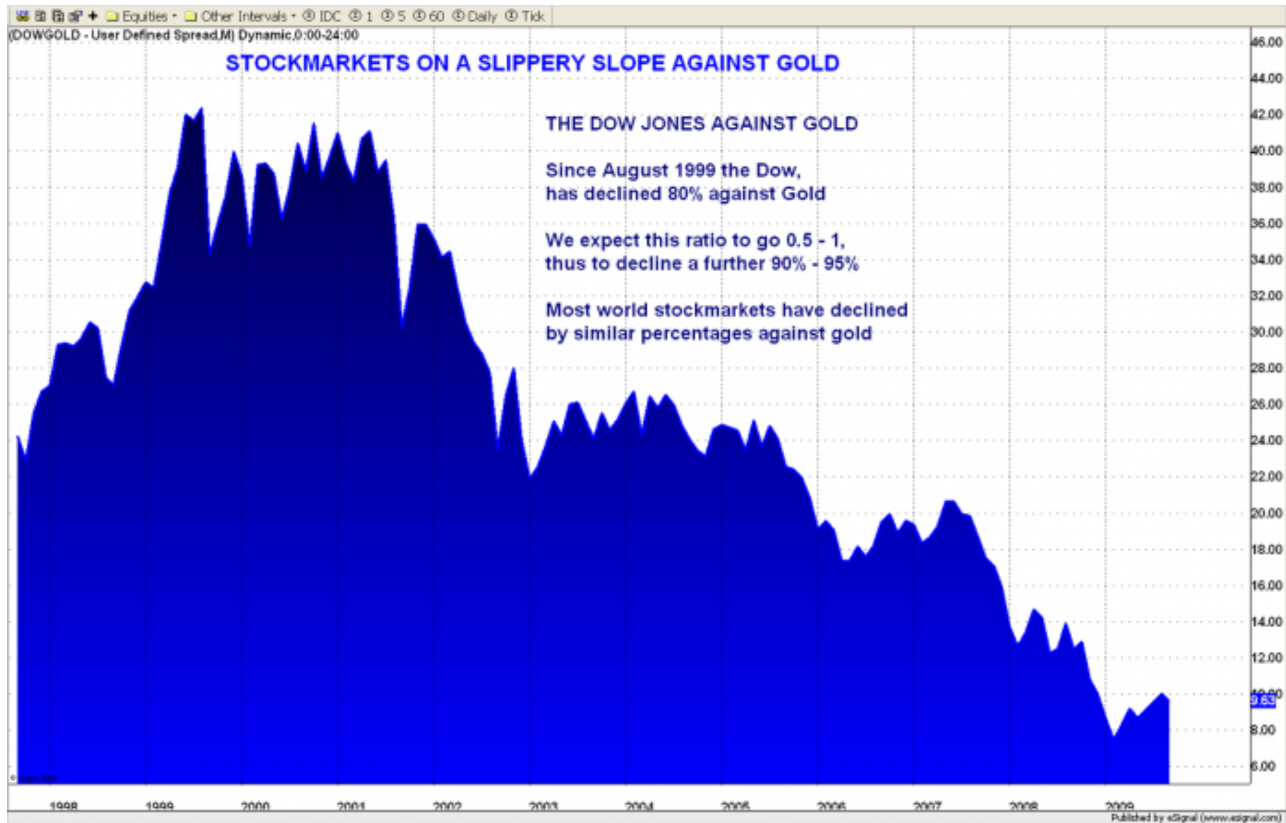
So China buys other currencies, they use their reserves to buy real assets, especially in the ground, in Africa, South America and other continents and they buy gold. The Chinese government understands what is happening in the world and they have a long term plan to apply their reserves to areas which have real value and which will benefit their economy for years to come. Of course, they have the advantage of not having to worry about short term pressures such as being re-elected.

China is promoting gold and silver on state television. They are urging their people to buy gold and especially silver which they consider very cheap currently (we agree). They are also buying gold with their reserves and they are getting out of the dollar as quickly as they can.

The message can't be more clear. China with its \$2 trillion of reserves and with a population of 1.3 billion are major buyers of gold and silver. The effect of this is that the gold price is underwritten for some time to come.

Stockmarket in real money

Most world stockmarkets have been on a slippery slope against real money for the last 10 years. The chart below shows the Dow Jones against gold since the peak of this ratio in 1999. Since then the Dow has lost almost 80% against gold. Other world markets have had similar percentage falls against gold. We project that the Dow/Gold ratio will fall to 0.5 – 1 which entails another 90 – 95% fall of the Dow against gold.



Asia versus the USA

China is a major buyer of gold as we have just outlined. So is India where the tradition to buy gold makes the country the biggest jewellery buyer in the world by a big margin. In 2008 India bought circa 700 tons of gold or 25% of total supplies.

China and India together have a population of almost 2.5 billion people who buy gold and put their savings in gold and jewellery. In addition the Chinese government is a major buyer of gold. Against that, there are 300 million Americans and most of them don't understand gold or the value of it. Add to that the US government which hasn't got a clue about real money. Instead they believe that all their financial problems, all their deficits and all their bubbles can be solved by pressing a button and creating a few more \$ trillions of paper that they call money.

So who should we back, the 2.5 billion responsible and thrifty Chinese and Indians or the irresponsible US government? Not a very difficult choice!

"Paper money eventually returns to its intrinsic value - ZERO"

Voltaire 1729

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