

THE CHINESE AND MAGINOT GOLD LINES

written by Egon von Greyerz | February 14, 2019

There are critical moments in time that can change history. This week I will talk about two lines which are extremely important, as these two lines will change the world for years to come. The first is a **Chinese Gold Line** which is linked strongly to China's history. That line has an important connection with what will happen in the world in coming years. The second line is a **Maginot Gold Line** which will also shape the world for many years or even decades.

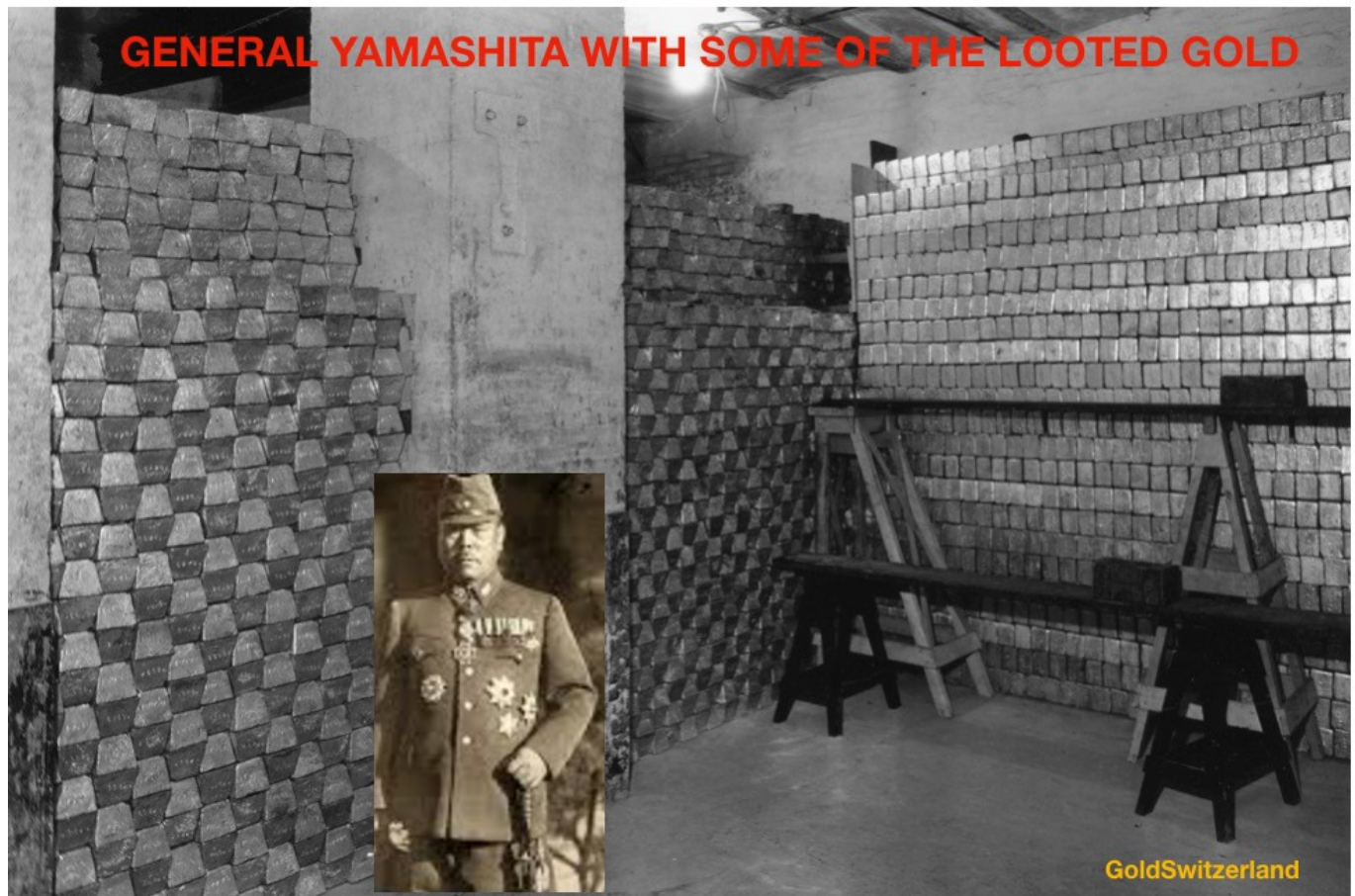
The history of China and gold is fascinating and even more so when Japan's looting of Chinese gold is added to the story. Japan was interested in the Chinese gold since the Sino-Japanese war in 1894. Japan spent time and resources on the Manchurian gold exploration from that time to the end of WWII. Japan is said to have looted considerable amounts of gold from mines in Northeastern China. Not only that, but in 1937 as the Civil War in China was raging and Mao and the communists pushed Chiang Kai Shek out, the **Japanese invaders stole 6,600 tonnes of gold from the Chinese capital Nanking**. This is a lot of gold! The value today would be \$280 billion.

THE US GOLD IS IN CHINA

The US is allegedly the biggest gold holder in the world with 8,000 tonnes. But as I wrote in a recent article, most of that gold is probably in China and in the rest of Asia as the US has disposed of or leased most of its gold. **The US will of course never get back the sold gold and whatever they have leased is also gone forever.** The Fed and most central banks lease gold to the market to earn a return. This gold used to stay in London or New York with the LBMA bullion banks. But today Silk Road countries, including Russia, buy all the gold they can get hold of. Thus the LBMA banks give the central banks an IOU and then sell the physical gold to the East. For the central banks, that gold is gone forever. The LBMA will never find sufficient gold to hand the gold back to them and thus that paper gold IOU is totally worthless. **This means that the LBMA banks will fail as they can't make good their physical gold commitments. And the central banks' vaults will remain empty, leading to a collapse of the country's currency and a surge in the gold price.**

THE YAMASHITA GOLD

The 6,600 tonnes that Japan stole from China became part of the Yamashita gold. This was gold and treasures that Japan looted all over Asia from China, Korea, Indonesia and Malaysia.



The gold was hidden mainly in the Philippines and also in Japan. Yamashita was the Japanese general in charge of constructing massive and very intricate tunnels to hide the stolen gold and the other treasures. The looting and hiding of the gold involved massive atrocities committed by the Japanese army. Major parts of this gold has been found by the US and reportedly used for black operations all around the world.

CHINESE FIAT MONEY IN 740 BC

The Chinese people have learnt the hard way the importance of gold. China was the first country to introduce fiat money during the Tang Dynasty 740 BC. The value of the Chinese fiat money remained stable until the Yuan Dynasty in the 13th – 14th centuries. This was the first period of Chinese hyperinflation as they printed vast amounts of money to fund their wars.

Later, in the 1930s and 40s, Chinese money lost its value totally as the Chiang Kai Shek rule was coming to an end. He was the President of Mainland China from 1928 to 1949. Chiang started in grand style. Already in 1929 loans made up 49% of the government revenue. The finances deteriorated further after the Japanese invasion in 1932. **In the final years of Chiang's rule, the Chinese economy was collapsing and money printing was rampant. One US dollar was worth Yuan 3.4 in 1937 and went to Yuan 23 million in 1949.**

CHINESE GOLD LINE

The Chinese understanding of the importance of gold started during this hyperinflationary period as economic conditions deteriorated severely. The

photographer Henri Cartier-Bresson captured, in the famous picture below, a proper Chinese gold run. In December 1948, as the currency became worthless, the Nationalist government decided to issue 40 grams of gold per person. As the photo shows, there was total panic to get hold of the life saving gold and many got crushed to death.

PANIC IN A CHINESE LINE FOR 40 GRAM GOLD



THE CHINESE LEARNT A VALUABLE LESSON FROM THE 1930s HYPERINFLATION

The picture was taken 70 years ago and many of the people desperately lining up to get 40 grams, just over one ounce of gold, are today dead. But they and all the other Chinese in a similar situation will have told their children the consequences of hyperinflation as they all experienced poverty, famine, disease and misery. This clearly has had a major influence on China buying more gold than any country in the world.

Since the period of wars and economic mismanagement, China has in the last few decades become an economic super power. Opposite to their counterparts in the West, **the Chinese learnt the hard way that money earned shouldn't just be spent on consumer items but also saved for a rainy day. And this is why a great number of Chinese buy gold regularly with the intent to hold it long term.**

THE WEST DOESN'T UNDERSTAND GOLD

Saving in gold would be an anathema to anyone in the West. Virtually no individual saves any of his money in gold. Instead the average American or European spends all of his income and then borrows a lot more for consumption, studies, cars or a house/apartment.

So the **Chinese Gold Line** is the first line which I mentioned at the beginning of the article. Virtually nobody in the West understands the significance of this line. **The line signifies the desperation of people after a period of severe mismanagement of a country's finances.** The whole world is today in a similar situation. After over 100 years of destruction of paper money by way of massive credit build up and money printing, we will soon get to the point when people around the world will be desperate to get hold of real money or gold. But at that point it will be too late.

NO GOLD SHOPS IN THE WEST

Interestingly, there are virtually no gold shops to be found in the West. London today has two specialised shops where gold bars and coins can be bought. In Zurich there is one in the centre and one outside. The same goes for most cities. A few decades ago, virtually every Swiss bank sold gold and had gold in the windows. That is all gone. And UBS used to have specialist gold counters in many places but they are also gone. Admittedly there are a number of online gold sellers.

Within the next few years, we will see similar panic lines in front of the few gold shops that still exist today. The panic will be worse because these shops will have no stock to sell. Most probably not even the 40 grams (\$1,800 today) that the Chinese got in 1938. Because when the masses wake up to the fact that gold is the only way to survive the coming crisis, there will be no gold available at any price. The paper gold dealers like Comex or the LBMA banks will have defaulted on their commitments since they have no gold to deliver against the paper claims which are many 100s of times bigger than the available stock.

SOON THERE WILL BE NO GOLD TO BUY

For anyone who wants to own some gold, now is the time to buy it and not when the papers start writing about gold or the television broadcasts the panic in the gold market. Then it is too late and you will not get any gold at any price.

So today is the time to get your gold. Tomorrow will be too late. And if I am slightly out on my timing, all you have done is to buy life saving insurance a few days too early.

MAGINOT GOLD LINE

The second line is what I call the **Maginot Gold Line**. Maginot was the French minister of war before WWII started. He built a very intricate line of fortifications to protect France from attack by Germany. The line was

impervious to most forms of attacks and had underground garrisons, railways etc. Still, the Germans attacked first North of the line through Holland and Belgium and eventually managed to break through in the Ardennes forest.



The modern use of the Maginot line expression is: *“A strategy which inspires a false sense of security”*.

The Maginot line, or **Gold Maginot Line**, I refer to is the line of resistance in the gold price since August 2013. As the chart below shows, the gold price has been held below the \$1,350 level for the last 5 1/2 years. The line was attacked in 2016 and 2018 but without success. Whether the line just represents 5 years of consolidation or whether it has been actively defended by the BIS and bullion banks doesn't really matter. No one must believe that the line will hold. It is extremely likely to be penetrated conclusively in 2019 and most probably within maximum the next three months. And once it is broken, the correction of gold is finally over and we are on our ways to new highs and much beyond.

A BREAK OF THE MAGINOT GOLD LINE WILL LEAD TO SEVERE GOLD SHORTAGES

Once the Maginot Gold Line is broken, that creates the conditions for the Chinese Gold Line which means a panic to get hold of gold and permanent shortages. So the current complacency in the West that gold has lost its lustre and serves no purpose is extremely dangerous.

But as I said above, don't wait for either of these lines to be activated. Because when that happens, it will soon thereafter become extremely difficult to get hold of gold at any price.

And remember you are not buying gold for investment. You are buying gold for wealth preservation or insurance purposes which means for financial and

physical survival. Without that you could end up like the Venezuelans or any other historic victims of economic mismanagement and hyperinflation.