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**Below is the latest Market Comment from Ian Williams: (03/11/2014)**

### **WHY IS GOLD FALLING WHEN THE MARKET IS DOMINATED BY BUYERS?**

Last week Gold fell to a 4 year low despite anecdotal reports of large scale buying across the World, namely:

1. China is buying enormous amounts of Gold; recent reports point to annual demand of over 2000 Tonnes pa - this level of Gold demand by one country alone is unprecedented and virtually takes out the entire global mine output.
2. India is also buying back large quantities. Import duties levied in 2013 cut back the established routes of Indian demand (although much was smuggled in) to a point when the Indian Jewellery Industry desperately needed to restock inventory. This is now occurring with annual demand back to the 800 Tonne level.
3. Central Banks are net buyers; Russia keeps buying Gold despite problems with the Rouble and low Oil price - Russia is thought to have added 40 Tonnes in recent weeks. No major Central Bank is on record as having sold any Gold in recent weeks however.
4. Sales of Gold and Silver coins are booming all over the world.
5. Is Gold that weak anyway? The predominant cycle is the 10-10.5 year cycle that tends to bottom in year 2 or 3 of the decade. Gold priced in Yen, Sterling, Euros, AUD, and CAD did hit its low point in 2013. It is only the USD price that is still consistently hitting new lows due to the strength of the greenback. Gold, however, is a Global entity not a US one and it's cycles should be calculated using a basket of currencies: the current fallout look more like US Dollar strength not Gold weakness.

## **Who then is selling Gold in the face of this enormous buying?**

For every buyer there has to be a seller - so who could possibly be selling Gold of the magnitude required to feed this, particularly from Asia, voracious appetite? Some traders point to some sort of official supply source conspiracy aimed at manipulating the price and using the current regulatory probe in the London Gold fix as evidence of this. However, manipulation (if it even occurs, and even if it does it would be a half hour phenomenon) is not the same as price suppression aimed at altering the long term price of Gold. The conspiracy theorists have never been able to adequately explain why the Authorities would be interested in artificially altering the price of Gold, or why they would go to all the bother to mount an operation of this magnitude. Furthermore following a huge Central Bank Gold sales that took place between 2000 and 2008 (all declared and transparent) many of these Central Banks that took part in this exercise now have very little Gold left to sell.

We are left with only one plausible source that is capable (and stupid enough) to take on the combined buying power of China, India and Russia - namely the US Hedge Fund Industry through a combination of short Gold futures & short physical Gold borrowed from Central Banks. This explanation fits perfectly with the algorithmic type of Gold selling that has been hitting the markets as soon as New York starts trading. Surely, one might think that these short positions would be too big for even the large Hedge Funds; Let's think back to the start of the great mega Gold bull market in 1999/2000 and the collapse of LTCM (Long Term Capital Management). When LTCM went bust it was running a Gold carry trade that involved:

- 1) Borrowing Gold
- b) Selling Gold and
- c) Buying US Treasuries with the money raised from the sale of Gold

The size of the LTCM short position in Gold was 7,500 tonnes (3 years global mine output) an amount that displayed a mind boggling recklessness in terms of risk relative to the size and liquidity of the market. This position, which had to be unwound following the collapse of LTCM (in other words the Gold had to be bought back). The sheer size of the trade posed a systemic risk to the entire financial system and involved co-ordinated policy by the world's leading Central Banks to "assist" the Fed in jobbing their way out of the mess they had been dumped with. The UK's assistance in this matter was the infamous sale by the Blair Government of 300 Tonnes - half the Bank of England's holding (but a mere 5% of the short position that needed to be bought back).

It beggars belief that the US regulators have allowed history to repeat itself but it is the only explanation as to how all this mega buying has not pushed up the price as no other significant sellers have been identified. It is simply not possible that a repeat of the LTCM bailout could happen again as none of the Central Banks that "assisted" the Fed before have enough Gold left to sell. If this is the case then Gold at some stage will undergo a huge upward move (as happened post LTCM) as these short positions have to be bought back - either by the Hedge Fund(s) concerned or as with LTCM the liquidator which in that case was the Fed due to the sheer size of the short positions involved. The upward potential is truly scary as the Russian and Chinese are long term holders and will not be sellers at anything like current prices.

Chart wise - even the US Dollar price chart is not necessarily as bearish as some are making out. If the Dollar price of Gold breaks up above \$1200 area in the next few days it will point to a "falling wedge" chart pattern. For the record, a falling wedge is the most bullish of all chart patterns as it is formed by lower lows which when reversed deliver a sucker-punch ('sucker' being the operative word) to any short sellers. The opposite is a rising wedge which is the most bearish of all the chart patterns and is made up of higher highs.

Lastly; a word on the Gold Miners which have taken a pounding in recent weeks - unlike the Physical Gold market which is dominated by Asians trading in the mining shares are dominated by North American Investors who only focus on the US Dollar price. October is also the month that US Institutions traditionally undertake tax loss selling - the Miners were also weak last October for the same reason. In terms of relative cheapness to ALL other financial assets these currently show up as about the cheapest of all. The brave Investor stands to make an awful lot of money in these assets if and when this all unwinds.

Warm regards,  
Ian Williams, Charteris CEO and the team.

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