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# The Paper Currency Mirage Dissipates

Further to my previous commentary, 'Gold and Economic Freedom in the New World Order', I was intrigued to come across the following Quote on Bloomberg:

Q Alan Greenspan Sept 9th 2009:

*"The rise in Gold and Silver is strictly a monetary phenomenon and is an indication of the very early stage of an endeavour to move away from paper currencies."*

That the previous figurehead of the world's primary paper-money spigot, the Federal Reserve, would say such a thing in public is a surprising shot in the arm for Gold and Silver 'Bugs', who make much of the 5000 year historic use of Gold and Silver as money - the medium of exchange or 'specie'. The quote reflects that, as suggested in my previous article, we are entering an systemic fiat currency crisis. The USDollar is weakening against most other paper currencies (see enclosed USDX chart) and Gold and Silver have broken out of their consolidation phases. The unbacked paper merry-go-round is running out of gas and the implications are enormous for Gold, Silver and all tangibles (all denominated in the unbacked and depreciating global reserve currency). Few challenge the nature of money when macroeconomic conditions provide support to speculation and leverage. Now, however, we find ourselves in a situation where fiscal policy, a car which has relied on a gentle downhill gradient to maintain forward movement, is hitting a considerable upslope with no petrol in the tank.

There are many reasons for the recent change in sentiment in Gold and Silver, but the most important one centres on a fundamental change in Asian thinking about Gold. It used to be difficult for Chinese citizens to buy Gold or Silver bullion; now there are myriad Bullion Dealers in China with the Government recommending bullion-ownership on State TV. This shift in cultural behaviour in China has profound implications for investors in our sector. The Chinese authorities appear to be trying to stimulate a shift in thinking domestically, and with Precious Metals production globally struggling to match demand, this is starting to look like a potent brew for a substantial move higher. Adding to the mix is the recent revelation that the Hong Kong authorities have built a large bullion storage facility at Hong Kong airport, designed to attract custodial business from other Asian nations. The Hong Kong Government has also 'called' its gold reserves from London. Little understood is the fact that many nations have allowed London and New York to custody their bullion reserves for decades. Once the issue of ownership of Gold and Silver that has been swapped, leased or loaned, really starts to become visible and newsworthy, the irredeemable currency crisis will be fully exposed. Anyone who believes that each bar of gold held in Central Bank custodial vaults belongs, unrestrictedly, to just one careful owner, is naïve in the extreme. An ownership spiders-web has been weaved through metals markets over the decades. Exactly how much Gold has been encumbered, leased, loaned or swapped is impossible to say, as this information is not in the public domain, however the unravelling process will be highly complicated and is likely focus attention on underlying ownership issues so far swept under the carpet.

Expect other nations, including those in the Middle East, to follow the lead of Hong Kong in bullion repatriation. This is a slow-release earthquake in both bullion and currency market terms and what is happening in China and Hong Kong are just the first tremors. The US Commodity exchange COMEX is the pressure point likely in due course to catalyse the quake-proper, the Emperor's magic Gold and Silver price-setting machine. Taking delivery is just not the done thing in bullion ownership. If it were to become a trend, then life in the COMEX warehouse coordination office and at various custodial Banks in London is likely to become quite interesting.

Ned Naylor-Leyland - October 2009

USDX (Dollar Index)



GOLD in GBP

