

# Gold

## The State of Affairs in the Gold Market

by Ferdinand Lips

At the end of Summer 2001, gold bullion is trading around \$270 an ounce; which is close to or below the cost of production for many mines. Almost no one believes the gold market will ever rally. As legendary cycle analyst Ian Notley puts it: "Gold stocks are moribund, forlorn, forgotten and dismissed from portfolio management consideration." Gold stock indices are oversold more than any time in their 60-year history. The gold industry's market capitalization is a little over \$20 billion, which is just somewhat larger than Caterpillar's \$15 billion—Caterpillar being the company providing the heavy vehicles for most of the mining companies. By comparison, General Electric's market value is still around \$434 billion, Microsoft's \$358 billion and Cisco's \$141 billion. Meanwhile, a very strong accumulation condition has developed in the precious metals market. According to Ian Notley all is not lost as a once-in-a-lifetime opportunity is quietly and subtly unfolding.

Mines are still continuing to hedge. The banks ask them to do it. AngloGold announced that it would continue to hedge half of its production for the next five years. The company expects to mine just over seven million ounces of gold this year. The company takes a dim view on the immediate outlook for gold.



Despite all the depressing news, the situation may not be as negative as it looks. Gold slumps seem to proceed according to a master plan. Supporters are lead to believe that gold will soon become nearly worthless. This drama is only complete when the last believer in gold capitulates by throwing his holdings into the market. Precursors of a recovery are the gently climbing prices of gold mining shares. A different type of buyer is at work here. It's the one who knows very well that a mine has precious assets in the ground, assets that are not going to lose value when stock markets and currencies collapse. This pattern is expected to take place in the next gold bull market.

What will be the basis for this coming bull market? In the great gold bull market of the 1970s, it was investment demand that soared. Because of the breakdown of the fixed-exchange rate system, ailing stock markets, exploding inflation and loss of purchasing power of currencies, investors turned to gold. When real interest rates went below zero because of the Fed's attempts to stimulate the economy, investors began to have second thoughts about their fixed income investments. Therefore, large amounts of capital moved into gold.

A similar situation seems to be developing now. The money supply is exploding due to an unparalleled effort to lower interest rates to avoid further weakness in the stock market and to save the heavily indebted consumers. Consequently, real interest rates are pushing into negative territory again. Negative real interest rates (the U.S. dollar and most stocks still grossly overvalued) will create a situation where an increasing amount of frightened capital will be turning to the metal of kings, thus creating the basis for a new bull market in gold.

Years of study have convinced me that there is a strong and criminal agenda to illegally suppress the price of gold. Unfortunately, it looks as if this agenda is going

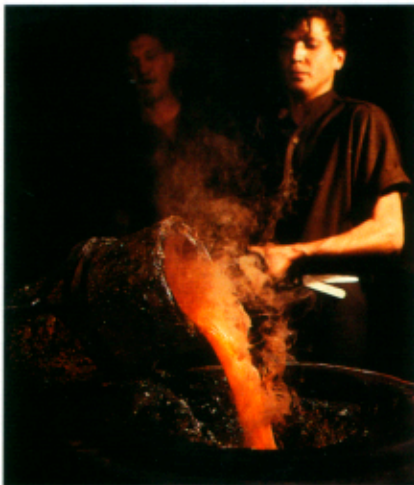
to be continued under the Bush administration. But experience has shown that gold is the ultimate custodian of value in times of collapse, especially stock market crashes. Furthermore, gold is a superb hedge against constant loss of capital in times of currency disorder. We are living in an environment of increasing currency and trade wars – a race to the bottom – where every country, even Switzerland, wants to lower the value of its currency in world markets. During such times, the best protection is gold. In recent years, there have been many examples such as the collapsing Asian markets or the economies of Russia, Brazil, Zimbabwe and many other countries where currencies have come under severe pressure.

Central bank and, in particular, Fed actions to master the economy do not inspire a high degree of confidence. The recent, desperate moves to lower interest rates and increase the money supply will probably have dire effects. The bursting of the NASDAQ bubble and its consequences on both consumer spending and investor confidence on a worldwide basis should not be underestimated. As always, the market has the last word, and those who ignore this truth do it at their own risk!

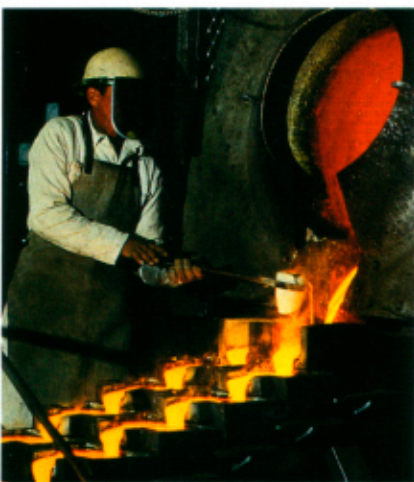
Something to keep an eye on in the future is Fehler! Textmarke nicht definiert.'s lawsuit filed in Boston against the Bank for International Settlements in Basle, Switzerland, Alan Greenspan, William J. McDonough, J. P. Morgan & Co., Inc., Chase Manhattan Corp., Citigroup, Inc., Goldman Sachs Group, Inc., Deutsche Bank AG and Lawrence H. Summers, Secretary of the Treasury. Howe's complaint about manipulative activities in the gold market since 1994 has the potential of putting some government officials and high-ranking bankers on a very embarrassing, if not criminal, spot. Already, alleged improprieties by the Fed, the Treasury and its Exchange Stabilization Fund are published on the Internet or written about in investment newsletters. Who knows, maybe a cleansing storm is building on the shores



*In hard-rock mining, which follows the path of gold vein through the earth, ore of payable grade is removed by hand-held pneumatic drill. When it is too dangerous for humans to perform the drilling, robots are increasingly being employed.*



*Concentrated gold ore is generally treated at the mine site by being melted down to achieve at least 80 per cent gold content. The crude gold is then shipped to a refinery to be rerefined.*



*Rerefining. Melted dore cascades down a series of moulds. In each mould, the purest gold sinks to the bottom and the slag is left floating on the surface. Further re-refining is then necessary to achieve 999 gold.*

of Massachusetts? Perhaps, it will put an end to government meddling and interfering in what is supposed to be a free gold market and then return the countries to a solid gold standard. I certainly hope so.

Meanwhile, the world economy continues to sail along precariously with its highly unstable monetary non-system. There can be as many G-7 or G-8 meetings as one can imagine, but nobody has the slightest idea how the monetary system can be restored. Sadly, the knowledge of what an appropriate currency system ought to be has nearly been lost. There are only a precious few left who know that only an honest monetary system with people freely choosing what they prefer as the medium of exchange—for which there are compelling reasons pointing to gold—can remedy the present disastrous currency muddle. The knowledge of those few who have taken the time and effort to study the history of money and man will be needed badly one day. When the time has come, it will serve to end the suffering of mankind and to relaunch the world economy by putting the world financial system back on a safe, golden track.

*Ferdinand Lips, born 1931, from Zurich (Switzerland). Private Banker, From 1987 until the sale of equity interests in 1998 Mr. Lips was the founder and Chief Executive of Bank Lips AG, Zurich. From 1968 to 1987 was a co-founding Managing Director of the Rothschild Bank AG, Zurich. Currently Mr. Lips is a Director of the following gold mining companies: Durban Roodeport Deep Ltd., Johannesburg and Randgold Resources Ltd., Jersey, CI. He is the author of several texts on investment management and has written two books: Das Buch der Geldanlage, 1981, and Geld, Gold und die Wahrheit, 1991.*

*His third book "Gold Wars" is expected to be published this fall.*