By Julian D.W. Phillips 1st September 2016

Article – This article takes from previous articles featured in the *Gold Forecaster* but emphasizes one aspect of developments in China, the dangers of owning and storing gold in China and, by extension, Hong Kong.

China can and will confiscate gold from the SGE, banks and Chinese citizens, when it suits them

By far the greater bulk of gold owned in China is under the control of the Shanghai Gold Exchange and they are controlled by the Chinese Central Bank, the People's Bank of China. Should they wish to confiscate their citizen's and institution's gold, it can be done overnight. This includes gold held in Hong Kong. We see Singapore bowing to the will of China in such an event too.

The Structure of the Chinese gold market

What is not appreciated by most analysts when commenting on China is the power of the Chinese government over its people! This country is not a Democracy, does not have a fragmented system of government where the banking system is separate from government, or where every four years the government is vulnerable to removal at election time. We at Gold Forecaster are a-political and will not comment on the system. What we focus on is the impact such a government has on the gold price and on gold holdings.

China's government structure is entirely different from western democracies. It remains communist and totalitarian. In other words, what the government says happens. Every person in an executive position will, if he has to, 'cow tow' to the government. A bank executive that acts like the corrupt dealers or bank executives in the U.S. or U.K., that are caught, would have been put in prison for a very long time or worse, in China, rather than the shareholders of the banks paying their fines. As a result, the government can impose monetary policy directly on institution's executives as well as on the institution. Control over all aspects of policy in the financial world is absolute. There is no independent institution that can act free from government dominance.

The Chinese gold market is no exception:

- The government directly controls the central bank, the People's Bank of China.

- The People's Bank of China owns the Shanghai Gold Exchange.

- All gold imported into the country, with the exception of gold jewelry, passes through or is held in the Shanghai Gold Exchange.

- The bulk of the gold traded in the SGE remains in their vaults.

- Gold withdrawn from the SGE goes to the banks, primarily. There is now an interbank market within the SGE, allowing the banks to hold their gold within the SGE which offers the biggest and only gold bullion market in China.

- The Chinese banks are an integral part of the Chinese gold market and lie under the control of government.

- While owners of gold jewelry are outside of the government's control, they would be more than likely to hand over their gold to the bank's [acting as government agents] should the government require they do so. The fear of and obedience to government is considerably higher than any other large nation on the planet.

The above confirms what the People's bank of China officials said when they stated that **China "owns gold through its people**".

Let's get that in perspective. At least 95% of the gold that has been imported into China this century is kept inside the country, not allowed to be exported and very quickly in the possession of the central bank should they want it. Now, that total should be factored in as Chinese gold reserves.

The Chinese government has not only embarked on the quest for gold, it has encouraged its citizens to do so as well. Fortunately, China's monetary history includes hyperinflation. Consequently, they have an inherited appreciation of gold and its value in difficult days.

The Chinese stock exchange has behaved more like a casino in the last year and, more so, has not portrayed itself as able to give long term value retention. Gold remains a trusted, wanted, long-term, wealth retainer, providing financial security to its possessor. We believe this attitude to gold will continue for decades to come.

Currently, the SGE has almost 10,000 institutional and over 8.3 million individual clients. Up until November 2015, the Gold Exchange counted 246 members globally, 183 domestic members and 63 international members.

In 2015 2,596 tonnes of gold were withdrawn from the SGE vaults. Earlier years saw lower but similar amounts being withdrawn from there as well. The net total of gold held by the SGE that is not withdrawn is not published. It may well be that this amount is growing substantially remaining under direct government control. So we have to add this unknown annual growth figure to the withdrawals from the SGE to measure total imports. This figure also may well be outside that held by government agencies like S.A.F.E.

Add previous years totals to this figure and include the agencies that buy gold in London and elsewhere directly for the PBoC, without handing it, to it for declaration, as an increase in reserves and you see a figure that likely equals or exceeds the declared holdings of the U.S.' total gold reserves.

The rise of the Yuan brings gold with it.

As the Yuan grows its international presence, so the pressures that will come with a changing world monetary order will grow. The next milestone on the Yuan's road is on October 1st this year as it becomes one of the currencies that make up the S.D.R. of the I.M.F.

Demand for gold from central banks will grow. With so little gold in the market place or in their citizens and institutions hands, the upside potential for gold's price and its role in the monetary system has become huge. This has been foreseen by China. This is why they have embarked on the course of acquiring gold through the retail, institutional and central bank avenues.

It's not simply to increase their reserves to levels similar to the U.S. as a proportion of foreign exchange reserves. We believe is a twofold reason:

1) It is to diversify their reserves away from a preponderance of dollars.

2) It is because they are fully aware that the change from 'dollar hegemony' to a 'multi-currency' system will inevitably lead to at least one, if not several currency market crises. As the global economy slows and debt percentages rise, crises such as those Japanese Prime Minister Abe warned of at the G-7 meeting this year will arrive. It is in such crises that gold reserves will give support and credibility to national currencies and be mobilized! The number of ounces of gold under the hand of central banks will matter to each country from then onwards [not just those held directly in vaults in their name]!

Why is gold *really* important to the monetary system in the future

What has not been understood is the importance of gold as money. In 1933 President F.D. Roosevelt issued an order to rescue the U.S. Banking system, in conjunction with the confiscation of gold.

The banking system was collapsing then, as U.S. citizens were hoarding cash and gold at home, thereby reducing the money supply and its velocity to the point of the collapse of the banking system. Then cash, in the form of bills <u>issued against gold</u>, was used to buy gold itself.

Gold was, in reality, <u>competition</u> to dollar bills. The same, we believe, is true today!

Until then gold and bills had existed side by side. As the banking crisis demonstrated, the abuse of the money system by failing banks, left gold as the only money with sufficient credibility to be respected, as money.

To eliminate the competition between gold and 'money', gold was confiscated, leaving dollars as the only money. The government then took the gold and placed it in 'back-up' behind the dollar bills, without it being accessible to the public. Then, when this had been absorbed by the public, the surviving banks could open their doors and have President Roosevelt state that they were sound, **'lending money against 'good assets'**.

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President Roosevelt stressed that the currency [the dollar] was not 'fiat'. He stated that the government would also subscribe to the new capital demands. The government had to ensure that the dollar would be accepted as the only money. U.S. citizens were prevented from owning gold for the next 41 years at which time the new generation did not know or believe that gold was money.

This confirmed that the banking system and the dollar needed gold to shore up confidence in the dollar, when push came to shove.

Gold internationally, in a multi-currency system

The difference between today and those days is that we have a global money system with each nation issuing its own currency, but subjugated to the dollar [That is until the Yuan appeared independent of the dollar and is planning to remain so]. While no nation, under their agreement with the IMF, could exchange their gold for currencies nor use it as money internationally, each nation held gold reserves and continues to do so today, as a hedge against the failure of their currency internationally!

Today, we are seeing the start of the multi-currency monetary system. In such a system a global order to confiscate gold could not happen because each bloc of nations would act in its own interests, particularly the U.S. and China. But in the crises of the exchangeability of national currencies, as we are seeing right now in Venezuela, gold held by Venezuela is readily saleable, whereas the Venezuelan currency, the Peso, has zero credibility, internationally.

As the global economy ails and national debt levels cast shadows over many 'soft' currencies, nationally held gold will be pledged between governments to cover debts incurred internationally, in the future. As the shadows extend, so they may cover some 'hard' currencies.

Gold's mobilization

Eventually, the global monetary system will demand that gold be mobilized to give liquidity and facilitate difficult international trades.

But we do not believe the world will see a 'Gold Standard' ever again. Contrary to popular opinion, the Gold standard did work well from 1870 to the First World War. The problem was always the inflexibility of the dollar price of gold.

The financial system will continue to use currencies and, as in 1933, gold will be taken from citizens to act 'in back-up' of national currencies. Gold will have to be in support of the monetary system, <u>not in opposition to it</u>.

Only then will governments embrace it. It must not be seen as a failure of a currency [as now in Venezuela] but as an enhancement of a currency and used in gold/currency swaps, etc.

Gold, the sole domain of governments

For gold in the monetary system to work effectively, gold will have to be the sole domain of governments. It will not work well if the public or non-government institutions can trade gold and move prices around freely. Public gold markets inside countries will then act against national interests taking the power over pricing, away from governments, jeopardizing government's ability to relate local currencies prices to gold.

As such, each government that confiscates gold will have to outlaw gold dealing, inside their Jurisdiction, to ensure complete government control over gold, in their Jurisdiction. As such there is a growing likelihood that gold dealers and custodians and gold markets will be closed, with gold dealing above certain levels being banned, in jurisdictions where gold is confiscated, the same as in the U.S. in 1933.

Goldcore - 4th September 2015

It is likely that in the event of another economic crisis – large pools of gold in indebted nations will be vulnerable. Pool accounts, digital gold bullion vaulting providers and depositories in the UK and the US might have their companies and assets nationalized and have their clients' gold and silver bullion confiscated.

In the light of these risks, you should take possession of some of your bullion. But for security reasons, generally larger amounts would be safer stored in the safest vaults in the world and in the safest jurisdictions in the world. [Gold Forecaster would add, "In storage companies properly structured to avoid confiscation"]

Bill Holter - Confiscation fears coming to life

I ask this because I think not listening to Jamie Dimon [JP Morgan head] may be a mistake. He has clearly told us a panic is coming, he has told us to take our GOLD out of safety deposit boxes ...and he is buying silver. Could the plan be to mark up silver to unbelievable (today) levels that rival gold? ...... One last question, could a "confiscation" of gold be in the offing ...but not silver? Do you see the connection?

Would it not make sense to devalue your currency and even make it undervalued for the start of a new system for competitive reasons? Yes I know, they do not have enough gold to back the Yuan currently ...at current price.

Will they pull a page out of FDR's playbook and revalue gold higher since they are the largest hoarder in the world a devaluing Yuan would do that. Could they confiscate from their loyal citizens to leapfrog their holdings even further? Remember, the tried and true

way(s) out of deflation are to print, devalue (versus neighbors AND gold) and of course go to war.
Whether you want to believe it or not, the financial world is now at war both financially and technologically.
There are an increasing number of experts that are expecting the confiscation of gold from the companies through which you hold your gold.

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