China’s Currency changes, are they bringing gold confiscation closer?

By Julian D.W. Phillips 1st September 2015

During the last three years as the gold and silver prices have fallen, the fear of confiscation has subsided alongside these prices. Only the faithful have kept hold of their gold during these days. Nevertheless, fears of confiscation are alive and well, particularly after the recent actions of China.

Its recent moves are part of a long-term plan the government have had in place for decades. These plans are now accelerating as they seek to give the Yuan a place alongside the dollar, Yen, Pound Sterling and euro as the world’s leading global currencies that make up the I.M.F.’s token currency the Special Drawing Right. To achieve that, the Yuan must be a ‘well-used-currency’, one that is used all over the world in trade and in central bank reserves to back up that trade.

The change in a ‘pegged’ currency [against the dollar] is now towards a ‘floating’ currency. This has pleased the IMF as it signifies a more market related exchange rate will be the price, going forward.

We expect that we will shortly see an increase in the convertibility of the Yuan and a lowering of capital controls to achieve that convertibility. We expect this will happen after much more depreciation of the Yuan than the 3.6% of the days in August just after the ‘peg’ was removed. Such a fall in the exchange rate would discourage an exit of capital from China.

These moves followed the publication of a new level of reserves of gold by the People’s Bank of China, its central bank. Please note that gold is not simply held by the central bank in their reserves, it is woven into their banking system as part of its fabric. The government has encouraged this for many years now as the gold distribution networks have spread to the four corners of the country. The per capita holdings of gold in China are still among the lowest in the world, but are rising alongside the growth of the Chinese middle classes said to eventually number 500 million people.

The publication of these reserves contained wording that is of deep significance to the prospect of the confiscation of gold. Here’s what was said:

Gold Reserves

The People’s bank of China issued the following statement, "**On the basis of our assessment of the value of gold assets and our analysis of price changes, and on the premise of not creating disturbances in the market, we steadily accumulated gold reserves through a number of international and domestic channels**," it said.

The PBoC uses CIC and SAFE to buy gold for it and has done so since the beginning of the century. But until the PBoC actually takes possession of the gold, it does not become part of official reserves. In 2009 400 tonnes of gold was added, representing the previous five years of production. In the six years since then China’s gold production has risen to close to 500 tonnes a year [we expect 480 tonnes in 2015] from around >230 tonnes in 2009. This implied that close to 2,000 tonnes of gold was produced locally. So the 600 tonne announcement seemed to be only part of the amounts taken from SAFE & CIC, but nowhere near all they have acquired over the last six years.

Global Gold buying by China

But this statement not only confirmed that it has been buying from local production but <u>from international sources</u>. We believe this comes primarily from the mines China has bought outside of China, but may also include buying on the open market via London or New York. That tells us that China is acquiring far more gold than it can source locally. Indeed with exports of gold not permitted the volumes of gold being bought are huge. If the Shanghai Gold Exchange officials are to be believed, the withdrawals of gold from that Exchange represent total imports into China. This year they are likely to be close to 2,300 tonnes.

A look at Chinese activity in Africa and in other parts of the world shows that they have been rapacious in acquiring gold mines.
The presence of two and in the future more members of the LBMA price setting panel shows that they are deeply involved in the London gold market, reportedly responsible for 90% of the open market's physical gold turnover.
We saw this in action of late when U.S. sellers form the SPDR gold ETF sold around 40 tonnes of gold in a 'bear raid'. The sales happened at the close of business in New York forcing it Custodian HSBC to offload the physical gold into the 40-tonne a day Shanghai market on its Monday morning. At first the price tumbled to $1,180 but then buyers appeared in Shanghai and took subsequent amounts straight of the market, before prices could tumble further.

Confiscation in the Future Implied!

This gave a profound meaning to the People's Bank of China's statement that repeated its position that, in addition to its direct holdings, **China *'holds gold through its people'.***

What does this mean? Although the Chinese are by nature opaque in such matters, it is clear that gold held in China is seen as one of the nation's assets and not finally, those of its citizens. Translated, when push comes to shove, this gold may well be confiscated!

Turbulence in the Monetary System

In the last few days we saw the Yuan move towards a 'floating' exchange rate on the Yuan. This shook foreign exchanges globally and gave evidence of the turbulence we can expect in the future.
An independent Yuan from the developed world and whose interests are usually in competition to China's will loosen the control U.S. dollar hegemony has had over the monetary system since before the last war. It is a massive change.
On the surface it appears that China is complying with the requests of the IMF to become a global reserve currency, but we are reminded of the control the U.S. has over the IMF with is 16.83% voting power, when it takes an 85% vote to pass a resolution at the IMF.
But what is also apparent is that the IMF cannot be seen to be blocking China's progress. This will lead to China acting independently of the IMF/U.S. in becoming a reserve currency. This would guarantee exchange rate turmoil for the foreseeable future and gold taking an even more dynamic role in the monetary system than it is headed for now.

No matter what happens the change from dollar hegemony to a multi-currency system cannot be an event without turmoil. The changes are too structural. Economically China and the U.S. have conflicts of interest which we feel, cannot be reconciled.

Consequently, the relative foreign exchange 'peace' we have had [including the competitive devaluations of the Yen and the euro] will come to an end as the Yuan moves to center stage.

Such turbulence will have an abrasive impact on confidence in national currencies over time as they compete for trade advantage at the expense of effective value measurement. This will not be seen inside nations where we all are conditioned to measure value in our local currencies, but internationally nations will become more and more cautious about other's currencies. This is where gold comes in!

Currencies & Gold in the future

Let's emphasize what we meant above by stating that the arrival of the Yuan in the monetary system will have a fragmentary influence.

- Dollar hegemony meant that if you had international dealings you used the dollar, even where your trading had absolutely nothing to do with the U.S.

- Now imagine you wanted to sell your product to China and were asked to accept Yuan payments, and not go through your currency to the dollar then from there to the Yuan. You would cut out two sets of costs and have one. Where the Yuan easily exchanged by your bank your cost would be lowered as would your exchange rate risks.

- If you were a U.S. Dollar based international businessman used to only dealing in dollars and you were also told you would be paid or pay in Yuan for the deal to be acceptable, would you drop the deal because you wanted to deal in only dollars?

- U.S. banks will find that they have to open foreign exchanges at branches and U.S. reserves expanded from simply Gold [75% of them] to include Yuan. Will there be different types of currency wars then?

Such currency trading is currently being handled by the issue of "swap" arrangements between China and other nations. The U.S. has not joined this trend nor has Japan. Most other leading nations have.

This is where gold will remove any distrust between nations. We see the Bank of International Settlements taking a far greater role in this as they did at the height of the E.U. sovereign debt crisis when the facilitated the use of 'suspect' currencies by gold/currency swaps. And we do foresee a time when these total will be much higher than the 600+ tonnes involved at that time.

What about nations with insufficient gold to do these swaps? That's where they will have to do all they can to acquire gold, including access their own citizen's gold where it is available. Most global citizens don't have such gold. Governments will then target those who do such a dealers, custodians, storage companies and the like who hold decent quantities of gold.

1933 and 1935 & today

So that one's perspective on this issue is clear, we would like to point out that gold was confiscated in 1933 not to increase the money supply, but because of the awful state of U.S. banking and the distrust of the dollar that had arisen. Gold was infinitely preferable then.

Roosevelt then took the steps to prevent gold from competing with the dollar by taking it away from citizens and by banning dealings in it. Gold was then eliminated as an alternative money in one stroke.
It wasn't until 1935 that the dollar was devalued against gold to increase the money supply [the then equivalent to QE]. Gold was two year out of the picture as money by then.

Today, gold will return to the global monetary system because it has become a global asset and issue. Dealings between nations need to continue to be easily done with currencies being acceptable despite volatility and distrust. Gold will supply that confidence and facilitate such dealings in the future.

It will take on a pivotal role in the multi-currency system in the relatively near future. To this end let's be clear, if the Chinese want so much gold in their reserves and country and feel they can access citizen's gold for national purposes, the same will happen in other countries as confidence in their currencies and foreign exchange market volatility affects global financial markets. Confiscation of your gold is certainly back on the list of future global financial probabilities!

What about you and your gold?

With FATCA regulations not yet requiring the reporting of gold, many feel their gold and they themselves are untouchable by their own authorities. But what about you? Do you feel it is sufficient to hold your gold in a local vault or custodian in your Jurisdiction? Or do you feel that to hold your gold overseas in your name, with a reputable company in a reputable vault is enough of a precaution? But what will be the process should the authorities in the Jurisdiction in which you live, want your gold? This is the likely way forward:

- If we look forward to the times described above, it is clear that at some point the FATCA regulations will be changed and gold holdings will have to be reported to your authorities.

- At which point investors in physical gold will have to decide whether they are going to obey the law or not? Most will, at which point their gold holdings will be on record and no doubt, where they are held.

- We do not believe that the authorities will differentiate between gold held in the U.S. and gold held by U.S. citizens outside the U.S. Both will be subject to U.S. law.

- We expect other nations to follow, the U.K. [the Channel Islands do fall under the British financial authorities, too, in such circumstances]

- All members of the E.U. [including Ireland].

- Hong Kong falls under China.

- Singapore will not hold out against the big trading blocs of the world, we believe.

- Switzerland will hold out on this subject, because it is not a matter of tax evasion with which they have demonstrated they will cooperate with other nations, but national exchange controls. As an example of their independence we look back in history to when they protected the assets of all sides in the last war. Will they do so today? Look at how they have already lifted sanctions against Iran, despite the U.S. not yet doing so. For them to abandon the protection of foreigner's assets would be to endanger somewhere north of 10% of their GDP. No, we believe that Switzerland will not cooperate with any nation in claiming assets held in Swiss Jurisdictions.

- In keeping with past practice, authorities will simply order you to repatriate your gold back to them. Where the ownership is transferable, they will likely take possession of it directly from you.

- So as not to get involved with lots of small amounts of gold they will no doubt go directly to the larger gold holders, such as the Vaults, Custodians gold dealers and other institutions holding gold and simply order its handover. This would happen in the U.S., E.U. and likely in China as we stated above. These entities main offices will lie in the Jurisdictions affected so they too will be just a vulnerable as the individual owners of the gold they hold, including their Directors. So where those companies hold gold will also be irrelevant and remain just as vulnerable.

Perhaps you are doubtful about what we are saying here. If so we suggest you ask the people who hold your gold for you at home or overseas the following questions:

- If you were required to report our gold holdings under a new FATCA regulation, would you?
- If you were ordered to hand over our gold to the Fed, B. Of E. Or the E.C.B. would you?
- If you knew that we were being ordered to repatriate our gold by our authorities would you act to prevent that?

Their answers would confirm what you may fear already?

We know of only one system that is structured to defend your gold so you can continue to hold it and sell it when you want under such conditions. We suggest you act to defend your position before it is too late.
As you can see we have stepped into another phase of a restructuring of the monetary world so such probabilities are not too far away! Visit the Ultimate Gold Trust and Stockbridge Management Alliance Ltd [the admin arm of the Ultimate gold Trust at:
www.Stockbridgemgmt.com
The thought of other professionals on the dangers to gold:

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?

I know, a lot of speculation but remember this, there are FAR more uses for silver than gold. Wouldn't COMEX be forced to "force majeure" gold contracts in the event of a re-signing of the 1933 executive gold confiscation order? If Morgan has wording in their OTC contracts similar, wouldn't that close out their gold side ...and leave them holding physical silver? Please also remember, it was the big banks which made the huge money from $200 to $875 in the late 1970's,

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? 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, we are now at war both financially and technologically.

Jim Rickards

Author and monetary expert Jim Rickards says that gold, apart from its qualities as a form of insurance against conventional economic crises, is an essential hedge against cyber warfare.

"Physical gold is a non-digital asset. You can't attack it with cyber warfare, so I think it has another insurance function for investors there. I think it's always very important to own gold. I've recommended that investors have about 10% of their portfolio in the yellow metal. If I'm right and some catastrophic event is on the horizon, then that 10% would be your portfolio insurance."

"These products allow the counterparties to terminate the agreement by giving the investor a dollar value of their gains. But that would deprive you of any future gains. You might get cashed out just as the crisis was beginning and not be able to participate in the upside as the crises worsened."

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