

China's Massive Holdings of Gold Bullion. Is the West Financially Bankrupt?

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Alisdair Macleod of Goldmoney.com in a recent [article](#) suggests China may already have accumulated between 20,000 and 25,000 tons of gold prior to 2002. Please read this very carefully as it makes very good sense and puts a piece into the puzzle which was missing for so long. Let me also add, if this turns out to be true then it is THE biggest financial news since August 15, 1971 when the U.S. defaulted on the gold standard.

Macleod believes that China has been playing possum regarding their gold reserves. If you recall, China announced in 2009 they had accumulated a whopping 1,054 tons of gold. The news at the time was a huge surprise and led to bullishness in the gold market as China was then a confirmed buyer. This total vaulted them into the major leagues of gold hoards. If Macleod is correct about holdings of 20-25,000 tons AS OF 2003, why would China want to "lie" about how much gold they have accumulated? It is important to understand the mindset of the Chinese and the deep rooted thought process instilled in them by General Sun Tzu. "Deception" is a core strategy to war, under this category would come the thought "help your opponent in his underestimation of you". Why would the Chinese announce true or huge holdings if it was their intent to continue hoarding? They wouldn't.

I wrote several months back regarding China's gold holdings and identified at least 8,000 tons, but my calculation was ONLY from 2009 forward and assumed the 1,054 tons to be accurate. I hypothesized that if you added the 1,054 tons announced in 2009, plus 3,000 to 4,000 tons over the last 2-3 years and then add in another 2,000 tons of domestic production you could easily see 7,000 tons without anything from 2009-2011. I postulated maybe another 1,000 tons over these three years and arrived at 8,000 tons. Keep this number in mind for a calculation later.

So, is it even possible for China to have accumulated as much as 30,000 tons over the 20 years from 1983-2002? I think it's very possible and here's why. This would mean China needed to purchase 1,700-2,000 tons per year out of a market that was producing only slightly more than 2,000 tons per year. From a monetary standpoint, this would only have been \$20 billion-\$25 billion per year as gold averaged around \$350 per year during this timeframe, a sizeable sum back then but remember, China was attracting foreign "hot" investment capital and they were running a trade surplus every year. From the standpoint of whether or not China could have afforded this, I believe yes it was possible.

The other side of the coin is whether or not this "size" of gold could have been available? Is it possible for China to have purchased 20,000 tons and at the same time have the price dropping in a 20 year bear market? I think it is for several reasons. First, we know for a fact that many Western central banks were net sellers (The Washington agreement for example). We also know about mining companies and central banks leasing gold (which

gets sold into the market) from Frank Veneroso. He estimated a total of between 10,000 and 16,000 tons leased back in 2002. Central banks for the most part were asleep to the fact that gold was money, even the Swiss sold a large portion of their gold. A couple of other anecdotes are the Germans and the Italians. It has been thought for years that LTCM's was short 300 tons or more of Italian gold they had leased. Also, why can't Germany repatriate her gold from the N.Y. Fed?

Now for the big question, "how could the price have been dropping if China was such a big buyer?". First, could China have just stood "under the market" all along and absorbed the leasing and sales? Is it possible that China (via proxies) NEVER ever "bid" up for gold? Could they have just stepped aside while the market was being capped (some of you may remember the \$6 rule, same as the 2% rule today) and waited for the daily raids to accumulate positions? Could they have even been part of the paper shorts to depress the price? Did they maybe lose money on the paper side in order to accumulate the physical product? Some of you may even remember Jim Sinclair speaking of "Hung Phat and Dr. No" ten years ago or more, ...maybe of Chinese origin?

There is one more source of either supply or demand for gold we haven't talked about yet, the Arabs and in particular the Saudis. Alisdair Macleod hypothesizes that the Arabs were big buyers of gold between 1983 and 2002, Early in the 1980's they may well have been. But what if they were actually net sellers over the entire time period? What if the U.S. somehow convinced the House of Saud with a "deal they couldn't refuse"? We have been the protector of Saudi Arabia all these years, is it possible we told them that unless they released tonnage, our "protection" might disappear? I'm just thinking out loud here because if China were to accumulate such large gold tonnage, it had to come from somewhere and that "somewhere" had to be a combination of mine supply, central bank sales and what ever other sellers that could be coaxed. I also would like to mention that throughout the 80's and 90's many Arab children were educated in Western universities, were they taught of gold's new "barbarous relic" status and helped pry some of it loose from the older generations?

Earlier I mentioned my figure of China accumulating 8,000 tons since 2009, if we assume Alisdair Macleod is on to something but cut his estimate in half to 10,000 tons ...we have a number of almost 20,000 tons or well more than double what the U.S. "claims" to have! Another little tidbit of information is that China has allowed their population to purchase gold since 2003, why would they do this? Did they as Macleod asserts have their sovereign fill and then decide it was time for the population to save in gold? Was China actually more capitalistic than we ever believed and played possum for years while accumulating gold? I believe this is very possible.

I do want to mention that if this is true, then our theory that China via proxies is the stubborn long in the silver market who refuses to go away has much more credibility. China is said to have leased 300 million ounces of silver (maybe even 600 million or more) to the U.S. back in 2003. The U.S. ran out of silver back then and China had it to lease. Did China lease this silver in order to continue their drain of Western gold? Have they had their silver returned to them or are they now angry because they were stiffed? Did they sacrifice silver for the real crown jewels, our gold? China has all new infrastructure and even ghost cities already built. Who was the fool when we were laughing at them for building these ghost cities? Was the West just plain dumb and sold off all of their gold or was it treason?

To finish I want to point out the obvious. If China has amassed 20,000, 25,000 tons of gold or even more, what does it mean? It means the West is financially bankrupt as by process of elimination much of this gold has had to come from Western vaults! It means that money and power has shifted East right before our very eyes and under our noses. It means that China can price or value gold at any price they would like ...and in any currency they'd like. It means we will be living in a China centric world where the "rules are made by those who have the gold". It means the U.S. (and much of the West) will be relegated to nearly immediate 3rd world status. The danger of course is in today's world, if this really was a miscalculation by the West, a very nasty and game ending war could break out. I don't believe we will have to wait too long to find out if China did in fact play possum as Alisdair Macleod may have now let the cat out of the bag! As I said at the beginning, this could be THE biggest financial revelation in over 40 years!

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Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.

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