The Mother of all Bank Runs!

By Bill Holter
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Do you remember seeing old pictures of the Great Depression which depicted "lines"? There were two types, bread lines and also lines to the front doors of banks. While we don't see any bread lines today, trust me, there are bread lines in every single state, and long ones at that. Nearly 50 million people in the U.S. survive on SNAP, EBT cards or whatever they are called in your state. Can you imagine the "confidence" it would instill if each day on your way to work you saw massive lines of people waiting for breakfast? Or, when you came home from work you turn on your television only to see long lines again, this time for supper? I can see it now, some reporter out on the street giving us the "good" unemployment, inflation or GDP news with a line of people in the background waiting for food. My point? False economic news would be harder to "sell" and even harder to "stomach" (pun intended).

Back during the Great Depression there were also the other type of lines, these formed in front of banks. Many banks either "ran out of money" or had poor investments which led to their demise. We also had this type of activity in the U.S. in 2008-09 …but again, we just didn't see them. There were "electronic runs" of all sorts which we either didn't hear about or never saw …but they did happen. This is why so many banks, brokers and mortgage companies were rolled up together and merged. The failures had to be hidden as best they could from the public's eye because fear would have bred more fear. This cannot be allowed in a system built and standing alone on "confidence".

I mention the above because another situation is now arising, another "line" is beginning to form. The current line formation is unfortunately the scariest imaginable, we are facing the Mother of all Bank Runs! This past week Willem Middlekoop uncovered another central bank asking for their gold back, Belgium. We already know Germany had publicly requested their gold back beginning in early 2013 and gotten very little so far. Just a couple of weeks back, The Netherlands announced the repatriation of 122.5 tons of gold …after the fact. When the announcement came, it said the transfer and transaction had already been done. Several days afterwards, a leading candidate for France's next election also brought up the possibility of French gold being repatriated …and now it's Belgium!!!

Notice I used three exclamation points, I did so because of all the central banks to request their gold back Belgium in my opinion would be the very last to do so with one "caveat". The caveat being "unless something REALLY big has changed", let me explain. First, Belgium is the "seat" of the European Union, this is where all European decisions are made and announced (with Germany's approval of course). The decision to repatriate gold from the "safe haven" of New York and to do it publicly raises eyebrows on its own, but this is Belgium, not "just some country" in Europe. Brussels is where the EU itself is headquartered. We are talking about a dealing between the #1 and #2 Western central banks in the world. Did the EU or ECB in Frankfurt give the OK to ask for repatriation? Yes I understand, Belgium's central bank is not the ECB but would they or any other central bank request repatriation without ECB approval? The same could be asked of both Germany and The Netherlands, they must have had prior approval before asking for their gold back?

Looking at this a little further, I remind you of earlier in the year when it was discovered “Belgium” was holding some $400 billion worth of Treasury securities. This was termed the “Belgian bulge” and not really explainable because Belgium as a country did not have the wherewithal to have purchased this amount. Either this was done via proxies or with ECB help or some other manner, it has never been explained to my knowledge. I mention this because of the important “tie” apparently between the U.S. and Belgium. If “Belgium” trusted us so much to have purchased $400 billion worth of Treasuries, then why repatriate their gold? Belgium has 227 tons of gold, we found out in 2011 that 86 tons of this amount were on lease, leaving approximately141 tons at the FRBNY. This is only worth in current dollars somewhere close to $5 billion. The “ratio” if you will is better than 80 to one, Treasuries to actual gold “held” but not leased (hopefully?).

Why does it even matter what the ratio is? Let’s walk this through, because we are talking about the issue of “trust”. The only reason one would repatriate gold is because they want it in hand. If you believed your gold was safe and sound, protected and “actually there”, no one would ask for their gold back. Belgium has displayed their confidence by holding $400 billion worth of U.S. Treasuries …but apparently not with the U.S. holding less than $5 billion worth of gold? Why the dichotomy of trust? Actually, I will use a better word, “bifurcation” of trust, and yes there is a pun within this one too.

Another piece of news out of the ECB (Belgium) this week was the classification of member’s gold reserves.

https://www.bullionstar.com/blog/koos-jansen/eurosystem-is-increasing-its-allocated--official-gold-reserves/

Koos Jansen brought this to our attention which on its own is very big news but has now been overshadowed by the repatriation news though most definitely connected. The member states it seems are being told to differentiate between allocated and unallocated gold, and to also break down swap positions and receivables. Theoretically this should make gold holdings less opaque and more clear to view, but why? Why change the reporting and why now during the repatriations …?

I of course do not have the answer but we can speculate something has and is definitely changing, and this “something” is HUGE! I say huge because these events are a change to policy which has stood the test of 70 years time. For the last 70 years, the world has stored their gold at the New York Fed and never asked for it back. Other than Germany withdrawing 1,000 tons from the Bank of England in 2001, Venezuela is the only country to ask for their gold back…until now. The only way to describe what is beginning to happen is to call it a bank run, The Mother of all Bank Runs and an “old fashioned one” at that!

This will be very interesting to watch exactly because of the “old fashionedness” and the scramble for what we have been told and taught for so long to be a worthless barbarous relic, gold. Current day bank runs as you know have been papered over time and again, just look at Fed, ECB, and BOJ balance sheets to understand this fact. They continually printed new monies and bought failing paper from dying banks to keep them alive. The creation of new money was the key, the fact that gold cannot be created out of thin air is the sticking point.

As this bank run progresses, please keep in mind the central banks will be telling anyone willing to listen, what the true definition of money is …by their actions…without actually saying it. As central banks fight over gold, they will be standing publicly and buck assed naked telling the world exactly what money is and what it isn't. Watch as the central banks fight over what today are meaningless dollar amounts of gold. Do you understand what I am trying to say here? For central banks to even care about a few billion dollars is a ridiculous thought, but maybe its not "just a few billion dollars"? Maybe they are beginning a fight over "all the money in the world"? Please understand, this is for all the marbles!

One last note, if it turns out Belgium does decide to repatriate their gold, this would mean Germany, Holland and Belgium have all done the same exercise. I would add that Austria would probably be next …which would mean what? The stage would then be set for a likely breakup of the formal EU into "north and south" regions. These nations while holding gold in hand would benefit from a markup in gold prices and allow for a "northern euro", backed partially or on a ratio basis to gold. The line is forming and the back of the line is no place to be!

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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.