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What the Price of Gold Might be Telling Us

By Stephen Lendman

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Markets are often the best forecasters since their direction supposedly represents the collective wisdom of the smartest people moving them – the professionals, not the public that just goes along for the ride where they're taken. The way the dominant "players" view the future is how they decide where they want to place their financial bets. Now, however, the financial markets (stocks, bonds and other money instruments) are in a tug-of-war with the price of gold, which is typically seen as a safe haven in times of uncertainty and in the past has moved inversely with the price of equities. Since 2003, when the Iraq war began, world equity markets have soared and still are moving up strongly except in the US where since 2004 they've gone up modestly. All are stable or rising, however, seeming to be pointing to good economic times ahead. The global bond markets seem to concur as they've been surprisingly stable as well and in the face of 14 consecutive interest rate hikes by the US Federal Reserve. The equity markets love wars because they're good for business – as long as they go well. The markets always discount the future about 6 months ahead, and today's valuations represent that view – that all is well, profits will keep rising and so will stock valuations.

GOLD'S AWAKENING FROM A 25 YEAR SLUMBER

If the equity and bond markets are right and the future is rosy, why then is gold also soaring after a 25 year slumber following its decline after peaking at $850 an ounce in 1980. Since early 2001 it's more than doubled in price from around $250 an ounce to around $550, and gold forecasting pundits fearlessly predict much higher valuations ahead. Amazingly the highest number I've seen is $5,000. Wow. Now that forecaster surely must also be predicting some kind of financial or other type Armageddon or worse.

I'm not an economist, Wall Street whiz or professional fearless forecaster. And I'll admit straight up I'm not sure what gold is telling us, but I have some ideas. Read on, and I'll play a mug's game laying out what I think, right or wrong. The best and brightest in the financial world do it every day, and even when they're wrong, often enough, clients pay dearly for their advice. I'll give it to you free of charge, and I may turn out to be smarter than they are, or maybe just luckier in making a good call. But, as the saying goes, you get what you pay for.

FACTORS AFFECTING GOLD PRICES

Ask a gold expert what factors affect gold prices and you'll get some pretty standard answers, usually right. Gold is a global thermometer that reflects monetary, political and economic stability as well as marketplace demand for the metal itself as jewelry, investors' (including central bankers') desire to hold it for any reason or a as hedge against the uncertain value of fiat money, which is just paper currency from a government printing press that can be produced in any amount.

Governments, Wall Street and business around the world hate it when gold prices rise because it usually reflects an early warning of some kind of trouble ahead, nearly always financial. It may be signaling rising inflation or deflation as well as a general lack of confidence in fiat or paper currency. When the gold price rises sharply against a country's currency, as it has in the US, it points to trouble ahead for that country's economy and monetary policy. At least it's worked that way in the past. What's also worked is that when gold vies with an inflated paper currency (because too much of it has been printed), gold always wins. If investors lose faith in a paper currency or just have enough uncertainty about it, they usually turn to gold.

Just retired and now former US Federal Reserve Chairman Alan Greenspan was very fond of the printing press. He must have been since he used it liberally. He doubled the money supply since 1991 and increased it over 40% since 2001. Of course, being above all else a consummate politician, he had to do it to please his constituents (Wall Street and the big banks) and especially to help George Bush and the Congress spend like drunken politicians to fund an expensive war with no end in Iraq and lots of others on the drawing board. You need big bucks for that, there's no end in sight, and the new Fed chairman will probably be just as friendly to the warmakers and make things even worse ultimately – that is, keep the printing press active enough to pay the war profiteers well and the economy moving ahead, for now at least.

Ben Bernacke, the new chairman, begins his tenure with a nickname he may live to regret – "Helicopter Ben." Now there's a dubious handle for a former distinguished academic at Princeton and now Fed chairman. He got it after his remark that he'd drop dollars from a helicopter if that was needed to stimulate the economy – meaning, of course, he'd keep the printing press running "full out" if that's what it took. Central bankers never run out of paper or ink.

ARE THE PUNDITS MISSING THE REAL MESSAGE FROM THE GOLD MARKET

I don't know, and they're a lot smarter than I am, but I'll stick my neck out. World stability changed direction after 9/11 when the Bush administration declared war on the world – at least all parts of it not subservient to US interests. The price of peace with the US is "knowing who's boss" and being respectful and obedient – just like organized crime family members are to "The Godfather." But just as mob bosses mete out punishment to disobedient underlings, so too will be the fate of any nation daring to go its own way, independent of US wishes. It'll likely see some hostile action against it – political, economic, military or all three.

The "fun and games" began for real against Afghanistan a month after 9/11 and went into overdrive against Iraq in March, 2003. Now the war drums are audible against Iran, at the head of the target country queue, with Venezuela and Syria likely next in line and other choices to be named later to follow. Despite the enormous cost (an economic boon at the outset and for a while), the Bush administration declared a "permanent state of war" and doesn't want to be accused of running out of targets. To keep the war economy going they'll always have another one at the ready.

Looking back, the price for good times that were too good or for reckless behavior that was too reckless has always been the same – the day comes when you "gotta pay the piper." That may not be this week or next month, but I'll speculate that the sharply rising gold price in the US is discounting more than the usual financial rebalancing its price action usually indicates. Ask any gold seer and they'll explain that while geopolitical events may affect the price of gold, they're never a major factor. I'll be contrarian and speculate that along with whatever other message the gold market is sending, it's also signaling concern about the geopolitical threat to peace and world stability, especially in the strategically important Middle East. High oil prices may be sending the same signal, although of late prices have stabilized and come off a bit.

My best guess is that the rising gold price may be the canary in the mine shaft warning of a growing and dangerous change in world stability reflected in investor sentiment. At times of growing economic or geopolitical tension, uncertainty or danger, gold is seen as a conservative asset or "safe haven" and a way to preserve wealth as it always has been for the past 6,000 years. That's a track record even the Dow Jones averages can't match.

There's a lot for investors to worry about now along with the new war drums beating I'll discuss below. There's the perceived threat of terrorist attacks, the continued loss of civil liberties in the West and especially in the US, the possible disruption of oil supplies, and at some point that "piper" waiting to be repaid for years of financial profligacy in the US to fund all the "adventuresomeness" and excess stimulus to keep the economy humming. And there's one other factor affecting the US dollar. Many currency experts believe the currency is in a long-term bear market that began in 2002, even though it rebounded well last year and is holding its own so far this year (a cyclical rally in a longer term secular bear market say the dollar bears). Some of the reasons given for this trend are the emergence of the euro as a competitor to the dollar in December, 2001 by the 12 European nations using it and the desire of other nations to diversify into other currencies (as well as gold). And its interesting that some Islamic nations have begun doing some bilateral commerce in gold dinars and China now has its first gold exchange. All this signals a potential or maybe likely shift away from the almighty dollar as the world's primary reserve currency.

ANOTHER MIDDLE EAST WAR MAY BE ONE TOO MANY

Now to those war drums and the speculation that's now rife that the Bush administration has chosen Iran as its next target. I read about it every day as well as hear the same kind of strong administration rhetoric hostile to Iran that we heard in the run-up to the Iraq war. The demonizing campaign moved ahead further in mid-February when Secretary of State Rice told the Senate Foreign Relations Committee the US would "actively confront" Iran and asked for an extra $75 million in funding for anti-Tehran propaganda and support for opposition groups inside and outside the country. It all points to one thing. The US may launch an attack against the Iranians and do it as early as March when Iran opens a new oil bourse and begins trading in euros. Saddam did the same thing in 2000, providing the US an added reason to attack him, and other oil producing countries including Venezuela, Russia, Indonesia, Libya and Malaysia have also agreed to sell oil in euros.

The sale of oil worldwide in dollars has been a key support for the dollar and its stability through the years. The US will do whatever it takes to preserve this. If enough countries begin selling their oil in euros or other currencies (the Japanese yen is the only other possibility), it would seriously undermine the dollar and have grave consequences for the US economy. The US, and especially the Bush administration, will surely go to war to prevent this.

MORE CLUES POINTING TO WAR WITH IRAN

If the gold market and those reading this need more evidence, consider these two jarring tidbits. Last year former chief UN weapons inspector Scott Ritter said George Bush received and signed off on orders for an aerial attack on Iran planned for last June. It didn't happen then, but former CIA officer Philip Giraldi also claims he has information that the Pentagon was ordered by Vice President Dick Cheney to draw up plans to attack Iran "to be employed in response to another 9/11-type terrorist attack on the United States… (and)… As in the case of Iraq, the response is not conditional on Iran actually being involved in the act of terrorism directed against the United States……Iran is being set up for an unprovoked nuclear attack" against them by the US.

Nervous anyone, especially those of us convinced our own government was behind or complicit in the first 9/11 attack. A number of US government officials and private "terrorism" experts are on record saying it's just a matter of when, not if, the US will be struck again. On June 6, 2003, the AP quoted a US government report saying "There is a 'high probability' that al-Qaida will attempt an attack with weapons of mass destruction in the next two years." Are we being set up to be duped again if there's a major strike against us? You know the drill by now – a major attack happens on US soil, the Bush administration and complicit corporate media hype what happened, scare the public and get them mad enough to demand retribution, they blame it on Iran claiming secret intelligence they can't reveal, and it's (nuclear) bombs away – and George Bush's approval rating skyrockets just like after 9/11, and the Republicans keep control of both houses of Congress in November.

HOLD ON TO YOUR BULLION (IF YOU HAVE ANY) -THINGS ARE WORSE THAN YOU THINK

As disturbing as another real or faked "terrorist" attack is plus a new war, consider this. Under the radar the US has been waging "nuclear war" against Iraq by using so-called depleted uranium weapons (DU) since the Gulf war in 1991. We also used them against Afghanistan in 2001 and later as well as against Serbia/Kosovo in 1999. These are radioactive and chemically toxic weapons that are banned under the Geneva and Hague Conventions, and any use of them in combat or for any purpose is a war crime.

The military loves these weapons and uses them because DU is a "dense metal" able to penetrate hard targets like tanks and structures and explode inside them. However, after exploding they also aerosolize into a fine spray of submicroscopic particles that contaminate the air, water and soil with toxic radiation. They're also swept by winds into the atmosphere and carried long distances, falling to earth along the way and contaminating vast areas far from the combat zone. The result in Iraq from the Gulf war, repeated bombings using these weapons all through the 1990s, and now with their intensive use for nearly the last 3 years, is that vast areas of the country are an irremediable, irradiated, toxic wasteland. The country is largely unsafe for human habitation forever (the radiation contamination has a half-life of 4.5 billion years) even with an end to hostilities, and there's no sign of that which only makes things even worse.

The Bush administration has now stated its intention to use so-called "mini-nukes" or "bunker-busters" as conventional weapons in any area of conflict. They're not "mini", but they sure are "nukes", about one third as powerful as a Hiroshima bomb or stronger as they can be made to any desired potency. Officially, these weapons are called "Robust Nuclear Earth Penetrators", and they work the same as other DU weapons – penetrating a designated target before exploding including those underground for protection. But since these weapons are much stronger than the ones now being used, the destruction and fallout from them will be much greater. And should they be used, it's likely that world instability will increase and cause great reverberations including in the financial and gold markets.

If the US attacks Iran, even by a "shock and awe" strike from the air only with no invasion and with so-called "mini-nukes", the Middle East may boil over even more than it now has. But there's even speculation the US will make a targeted invasion into the area known as Khuzestan, the Iranian province bordering Basra in Southern Iraq, where most of the nation's oil is located (possibly as much as 90% by some estimates). Make no mistake, the situation in Iraq is hopeless, the war is lost and the US knows it and will find a way to exit eventually even though it's now spending billions on as many as 14 permanent bases in the country. With that quagmire to resolve and with the Arab street and entire Muslim world justifiably inflamed, it's hard to imagine the US would risk making things even worse by attacking Iran. But that's what many writers and Middle East analysts are now predicting. If they're right, the very risky and uncertain fallout from it is what the gold market may be signaling as the price of the precious metal heads higher.

IRAN IS IN FULL COMPLIANCE WITH NPT – YOU'D NEVER KNOW IT FROM THE ONE-SIDED HOSTILE NEWS REPORTING

Iran is a signatory to the Nuclear Non-Proliferation Treaty or NPT and is in full compliance with it. The core of NPT is in Article IV which gives signatories "an inalienable right to develop research, production and use of nuclear energy for peaceful purposes" and acquire technology from other signatories to do so. That's exactly what Iran is doing as opposed to Israel which is not an NPT signatory and is known to have 200 or more nuclear bombs, a stated intent to use them if they choose, and no condemnation of this by the world community. Of course, Israel is a valued strategic ally while Iran is an "outlier", going its own way and refusing to bow to the dictates of the "Godfather" (a no-no), Israel or any other nation. It follows that launching an attack against them has nothing to do with its legal right to develop commercial nuclear power or even its right to defend itself against a hostile US and Israel by building any weapons it feels it needs. It's only about the long-term US desire for regime change in this oil rich country. As in Iraq (and also Venezuela and Syria) we want a government subservient to the US, and, of course, we want the oil – not access to it, but control of it, the profits from it and being able to decide who gets it and who does not. The plan isn't to take over Iran's exports of carpets (the finest in the world), fruit or pistachio nuts, but maybe the war hawks might want to on second thought as they're worth about $39 billion a year.

CONCLUSION

So where are we, and what's it all add up to – trouble likely, maybe big trouble down the road that may come sooner than most think. Will it, and is that what I'm predicting? I've always loved the answer Hollywood film mogul Louis B. Mayer once gave an interviewer when asked how well he thought his newest movie would do at the box office. He said he never liked making predictions, especially about the future. Louis was a lot smarter than I am, and I'll go along with him on that one. I don't know what the US, in fact, will do (or how gold and the financial markets will react) and neither does anyone else outside the power circles making these decisions. They may even be unsure themselves at this time. But my best judgment is that the gold market senses trouble and is sending an ominous message that all is not well in the world, and it's better to take cover in the traditional safest of all safe havens than risk potential big losses in the financial markets. As one market seer once said – we'll know for sure "in the fullness of time." Place your bets, and stay tuned.

Stephen Lendman lives in Chicago and can be reached at lendmanstephen@sbcglobal.net. Also, visit his blog site at www.sjlendman.blogspot.com.

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About the author:

Stephen Lendman lives in Chicago. He can be reached at lendmanstephen@sbcglobal.net. His new book as editor and contributor is titled "Flashpoint in Ukraine: US Drive for Hegemony Risks WW III." http://www.claritypress.com/LendmanIII.html Visit his blog site at sjlendman.blogspot.com. Listen to cutting-edge discussions with distinguished guests on the Progressive Radio News Hour on the Progressive Radio Network. It airs three times weekly: live on Sundays at 1PM Central time plus two prerecorded archived programs.