

The Central Banks' Gold: A Story of Silent Expropriation

Part II

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Theme: [Global Economy](#)

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The theft of gold from central banks continues

Erik Sprott, a billionaire and well-known investor with 35-years of experience working in financial markets and a great connoisseur of the intricacies of the gold trade, believes that official statistics clearly do not fully take into account the actual demand for gold on the world market (typically estimated to be between 4,000 and 4,500 tonnes per year). According to his calculations, the actual demand for this precious metal over the last decade was an average of 2,300 tonnes higher than the official figures cited by the World Gold Council and other reputable organisations⁸. The supply of gold through new mining operations and scrap gold is clearly not enough to cover the world's actual gold demand.

Some kind of secret source of gold exists which is covering an unaccounted-for demand of approximately 2,300 tonnes per year. According to Eric Sprott, the volumes of gold coming onto the market from the vaults of central banks are not enough. Since the beginning of the 21st century, additional supplies have been provided by the central banks of economically developed countries - the US, Western Europe, Japan - as well as international organisations with their own gold reserves - the International Monetary Fund and the European Central Bank. In the first decade of the 21st century, the total gold reserves of these central banks and international organisations, according to official figures, have remained very much unaltered and stand at a level of 23,000 tonnes.

If Sprott is correct, then it turns out that the gold reserves of central banks in economically developed countries have only been available to meet the additional unaccounted-for demand for ten years. So in theory, by around 2011, the vaults of central banks in countries that are part of the «golden billion» zone should have been empty. But it is now already 2013. Moreover, it is worth remembering that these vaults were already half-empty by the beginning of this century, which follows from Veneroso's estimates in Part 1. As early as 1998, almost half the official gold reserves of all the central banks had «gone walking» beyond the central banks' walls. So, by way of example, of the 23,000 tonnes of official reserves in the central banks of the «golden billion» zone in 2001, the vaults only actually contained 11,500 tonnes. At best, this would only be enough gold to cover the additional unaccounted-for demand for five years. So the gold vaults of the «golden billion» should have been empty by 2006, not 2011. It is some kind of mysticism!

They are not only stealing their own gold, but other people's as well

The mysticism disappears if we remember that the central banks of certain countries are not only using their vaults to store gold listed on their balance sheets, but also gold belonging to foreigners (primarily to the central banks and treasuries of other countries). However, their storage services are also used by private structures, first and foremost by major banks. In connection with the story of Germany's plans to repatriate their gold from other countries, we found out that of the total volume of this country's official reserves, equalling approximately 3,400 tonnes, more than two thirds is held outside of the country. Exactly 1,536 tonnes are in the vaults of the Federal Reserve Bank of New York, 374 tonnes are in the vaults of the Bank of France and 450 tonnes in the vaults of the Bank of England.

We will now attempt to look at the issue of foreign gold from the other side - from the point of view of those countries playing the role of «guardians» or «storekeepers». There are a few of these major «guardians» in the world. These are the same old USA, Great Britain, France and Switzerland. Moreover, in the last country in this list, the role of «guardian» is not just played by the central bank (the National Bank of Switzerland), since Switzerland is also home to the Bank for International Settlements (BIS). In this short list, the lion's share of all foreign gold is accounted for by two countries - the USA and Great Britain (see the table below).

Gold reserves held in the USA and Great Britain (as of 1 October 2012, tonnes)

| | USA | Great Britain | USA and Great Britain together |
|--|----------|---------------|--------------------------------|
| 1. Own gold | 8,133.50 | 310.30 | 8,443.80 |
| 2. Foreign gold being stored | 6,200.50 | 5,067.70 | 11,268.20 |
| 3. Together: own + foreign gold | 14,334 | 5,378 | 19,712 |
| 4. The percentage of foreign gold in the total amount of gold being stored | 41.1 | 94.3 | 57.2 |

In order to continue their game with gold, the monetary authorities of the «golden billion» countries needed to dive their hand not just into their own reserves of the precious metal, but also the gold reserves entrusted to them by other countries. It is not difficult to work out that the foreign gold in the vaults of the Federal Reserve Bank of New York and the Bank of England would be enough to cover the additional unaccounted-for demand for gold to the tune of 2,300 tonnes for approximately five years.

Of course, the gold reserves of foreign countries held in Switzerland, Canada and Australia still need to be taken into account. It is entirely possible that the central banks of a number of countries outside of the «golden billion» might be involved in the gold games being played by the monetary authorities of the «golden billion» countries on a voluntary-compulsory basis. Taking into account these reserves of the precious metal, the central banks' gold games might last for another one or two years. This is exactly the opinion of Eric Sprott and a number of other gold experts. The USA and Great Britain, in the vaults of the Federal Reserve Bank of New York and the Bank of England, are holding more than 11,000 tonnes of foreign gold. It is remarkable that in Great Britain there is in excess of 16 times

more foreign gold than own gold, while in the USA, foreign gold makes up 76 percent in relation to the country's own gold reserves.

The Bank of England holds the gold of various countries in the British Commonwealth (Australia, Canada, India etc.). Today, the Bank of England plays a major role not just for countries in the Commonwealth, but also for countries in continental Europe. Austria, for example, holds 80 percent of its gold reserves in the Bank of England, Holland holds 18 percent and Germany holds 13 percent. There are also clients from other countries. The Central Bank of Mexico, for example, holds 95 percent of its gold reserves in the Bank of England. Organisations called bullion banks (private banks that deal with physical gold bullion) also put their gold in the Bank of England. Part of the foreign gold in the Bank of England is held on the basis of storage contracts, with foreign clients paying for the service. Part of the gold is held in deposit accounts, on which interest is charged.

The «gold game» may come to an end as early as tomorrow

The «moment of truth» may come even earlier than Sprott predicts. Why? Because I believe that in his calculations, he does not take into account, or underestimates, certain confounding moments linked with both supply and demand on the world gold market.

The first moment. China's demand for gold is growing rapidly. The growth rate of gold imports into China is unprecedentedly high. If the import of gold into China through Hong Kong (according to the official statistics of the latter) equalled 45 tonnes in 2009, then in 2011 it amounted to 431 tonnes and in 2012 exceeded 834 tonnes. As part of its gold policy, China intends to further step up its buying of gold on the world's markets. China is buying up gold to meet the growing demands of the jewellery industry, growing investment demand and to build up state reserves. Sprott took the «Chinese factor» into accounts in his calculations, but somewhat underestimated it.

The second moment. After the first wave of the financial crisis came to an end, a number of central banks began actively buying up gold on the world market. Beginning in 2009, central banks around the world turned en masse from net sellers of gold to net buyers of gold for the first time in two or more decades. In 2011, net sales of gold by the world's central banks amounted to 430 tonnes, in 2012, according to preliminary estimates, they may exceed 500 tonnes. Hiding behind these average figures is the vigorous activity of central banks in countries like Mexico (net sales of 98.9 tonnes in 2011), Russia (94.4 tonnes), Turkey (79.3 tonnes), Thailand (52.9 tonnes), the Republic of Korea (40.1 tonnes) and Kazakhstan (14.9 tonnes) to buy up gold. Although the Central Bank of the Republic of China has not changed the size of its gold reserves since 2009, it is nevertheless known that the country is one of the main buyers of gold on the world market. Official Chinese statistics are camouflaging the activities of the Central Bank of the Republic of China.

The third moment. Erik Sprott draws attention to this himself in his latest publications. It refers to the sharp decrease in the supply of gold in the form of scrap metal. On average, during the first decade of the 21st century, the size of this supply amounted to 1,700 tonnes, but this has now been cut in half. As a result, the average annual supply of gold has fallen to 850 tonnes.

The fourth moment. This is a question of the real demands or plans of a number of countries around the world to repatriate official gold reserves from abroad. Germany is already in discussions for the return of its gold from the USA, England and France (a total of 2,360

tonnes). The Netherlands, Switzerland, Ecuador and Azerbaijan have also started preparations for the return of their gold from abroad. The campaign to get gold home could turn into a panic that will seize tens of countries (according to certain information, there is gold belonging to 60 countries in the vaults of the Federal Reserve Bank of New York alone)...

It is therefore possible to argue that a final clearing out of the vaults of central banks in countries that are part of the «golden billion» zone is currently under way. The gold could run out at any moment. Maybe it already has. One of the signs that this is the case is the increasingly frequent scandals that keep flaring up about the so-called «tungsten gold». There is strong suspicion that it was not «invented» by the Chinese (as certain media are alleging), but by the real owners of the «golden billion's» central banks. It is difficult to imagine what else these owners can come up with to maintain the illusion that there is still gold in the vaults of central banks. A scandal is brewing, and it is going to have global economic and political consequences.

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