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US Smashes Gold, Rest Of World Buys Gold

The calm Thanksgiving time never came this past week as markets crashed worldwide on fear the Dubai debt crisis will be the spark that lights the next round of the bear market. Whether that be true, it's still too early to tell.

Nothing was spared as investors sold first and asked questions later. Even gold was hit on Friday's New York open as evidenced by the chart below. But it was short-lived as buyers eagerly emerged from the shadows.

The way gold came back so strongly after being smashed so quickly is astonishing. In days gone by a move lower like that would have seen a lengthy painful correction, raising concerns with gold investors, in turn shaking out the weak hands. This time most people didn't even notice the fall as buyer emerged from the dark shadows to buy cheap gold.

The support under the gold price lately has me becoming more confident that we won't see a major correction again. Buyers don't seem to need much of a fall to get excited enough to enter the market. Let's see how this develops over time, but so far it appears that we are never going to see $1,000 gold again. Time will tell.

Always remember, at these all-time high levels every long is profitable, every short is underwater.

Unfortunately my chart service hasn't updated their precious metals charts so the usual technical analysis that I get so many compliments on is not included this week. But rest assured they, along with many other charts, thoughts and company updates will be included in [Tuesday's subscriber update].

Fundamental Review

The FDIC now puts the number of troubled banks up to 552. We all know by now that the metrics that measure this are designed to be passed, and very hard to fail. But still, the new number is quite high and likely understated by 100% on the very conservative side.

The FDIC is already $8.2 billion in the hole. Didn't they just go negative last month? Wow!

There are no failed banks, aka, biggest losers, this week as Thanksgiving shut mostly everything in America down.

The potential debt default out of Dubai rocked markets around the globe late in the week. Asking for a moratorium on debt payments for six months is in effect a default. What do you think will happen in six months? This story has only begun as the debt repayment schedule remains quite heavy through 2013. All the unfinished projects that never really made sense from a sustainability standpoint, will certainly not add to the beauty of the area.

A report came out talking about the potential for central banks to increase their gold reserves. If you read my weekly letter you already know very well about this subject. They say that emerging central banks have the scope to buy more gold since their reserves are proportionately very small in terms of gold.

The U.S., Japan, ECB, UK, Germany, Italy, France and Switzerland have gold making up on average 37.9% of their reserves. This is in stark contrast to countries such as China, Russia, India, Taiwan, South Korea, Brazil and Singapore who've only got a 2.2% weighting on average. These counties are cash rich and gold poor. Much of their reserves are made up of the depreciating US dollar.

Friday's major gold takedown, then melt-up is further evidence that countries on the second list are buying physical gold on any dip in price. Even such a small drop in percentage terms brought the buyers out in force, quickly. There is no time to waste as the race to buy as much gold for as cheaply as possible is on.

Perhaps this funds selling gold first and asking questions later as the Dubai debt issues floated to the surface sparked the move by triggering stops. Whatever the case it was short-lived.

When compared to India's recent 200 tonne purchase which only cost $6.7 billion. These countries have over $4.1 trillion in reserves. If they were to increase reserves of gold to only 5% that would be $115 billion which simply could not be supplied. If they were to increase the reserves to the average of the first lists percentage...well that can't happen. This all just says that gold is still early in it's move higher. Confidence being lost in the US dollar is the key.

Speaking of the above, Russia bought 0.5 million ounces gold in October as they were saying they would sell. You got to love their way of accumulating, unlike Gordon Brown's announcement that they would sell gold before they sold it, I suppose in order to minimize their revenues. I just can't explain that move other than to manipulate the price lower, but that was very short lived and sparked this current gold rush. This brings back memories of Putin holding that famous gold bar years ago. It was a sign to the world in 2005, literally.

Russia also bolstered the Canadian dollar as they announced their plans to diversify into it, but it's since come back to near where it began. The Canadian dollar has been one of the best performing currencies this year rising over 16%.

India is hot on the scent of the IMF's remaining gold. They are reportedly open to buying the remaining gold. I doubt they are the only bidders.

Sri Lanka has bought 10 tonnes of gold from the IMF this past week. In the article they mention that Sri Lanka has a 20 month $2.7 billion loan from the IMF. So they borrow some cash and buy gold from the same organization. Nice move! Central Banks globally have stepped up buying gold since it's breached the 1K level. Why did they wait for that magic number to fall? This is certainly not a sign of a top in gold yet.

Another admission came this week that miners are having a heck of a time replacing their mined gold. This is but one reason I am focusing on the smaller companies with small scale production, proven deposits or whom are close to finding one. Those companies will be swallowed whole, by the majors as we continue on. I say, bring on the bidding wars!

I still don't quite know what the result will be regarding the Canadian Mints missing gold. They now say the gold was double counted and also they underestimated the shrinkage during processing. Haven't they been in this business long enough to know exactly how much they lose in processing. The mint even burns clothing periodically to recapture gold particles. The $360,00 taxpayer funded audit didn't come up with any double counting problems many moths ago, and that's why the police were called in. Now they say it was an accounting error. If true, how about a refund, or at least partial refund for the failed audit? I doubt we will ever learn the truth in this one, but something fishy is going on.

Reports of Krugerrand gold coins running out are circulating these days. The real shortage is a ways off though. But articles such as this have raised the premiums investors pay on coins.

After last week saying they would reinstate certain coins early in December the US Mint this week has suspended sales of the American Eagle 1 oz gold coin. The funny thing is that they say they will resume sales early in December. Isn't that next week? Or do they mean December 2010?

A major depository in the US is asking retail investors to remove their gold and silver from storage. The excuse is that retail investors aren't profitable enough. The real story is that for many years the retail customer was their only customer. Now their "buddies" with the big money want a place to keep their gold and are giving us little guys the boot.

New Canadian legislation is being considered by government, and opposed by miners. Canadian based miners operating in developing countries would be governed by Canada. The bill would allow Canadian officials to receive environmental or human rights complaints and take appropriate action.

It's still in the early stages, and the miners say it would create a strong incentive for companies to relocate outside Canada, would risk their competitive positions, result in reputational damage, and undermine their current collaborative approach to corporate social responsibility and damage the Canadian economy. I don't think this will pass since it would in my view both move companies outside Canadian jurisdiction and not see new companies formed within. It's all about growth and this would be a major mistake at a major crossroads.

This weeks final link takes us to America. It's a stunning visual of how the crisis has affected the unemployment rate at a rapid pace. And this is using the government's "official" numbers which are suspect. Using more traditional realistic metrics the numbers should be essentially doubled. It's a must see and very short.

In my free, nearly weekly newsletter I include many links and charts which cannot always be viewed through sites which publish my work. If you are having difficulties viewing them please sign up in the left margin for free at http://www.preciousmetalstockreview.com/ or send an email to warren@preciousmetalstockreview.com with "subscribe" as the subject and receive the newsletter directly in your inbox, links and all. If you would like to subscribe and see what my portfolio consists of please see here.

Until next week take care and thank you for reading.

Warren Bevan

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