Dollars and Gold Revisited

A Monday Morning Musing from Mickey the Mercenary Geologist

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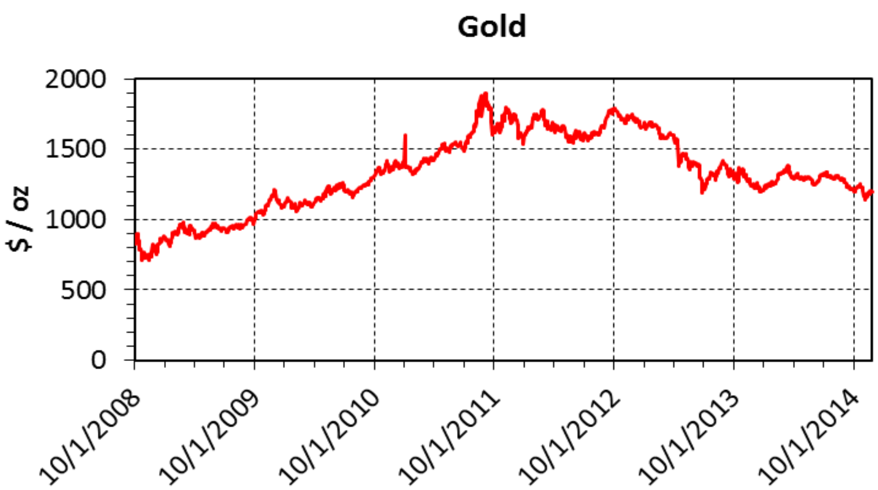
In the midst of the global economic crisis of 2008-2009, I posted a musing entitled "Dollars and Gold" (**Mercenary Musing, March 23, 2009**). At that juncture, gold was priced at less than $1000 per ounce in US dollars. The Federal Reserve was only six months into what turned out to be a five-year campaign of massive inflation of the US money supply backstopped by zero interest rates.

In that missive, I bucked the bullion bugs and boldly boasted gold would not hit $2000 an ounce. Indeed, the Fed's policy that created $4 trillion in new "money" since Q3 of 2008 spurred the biggest bull market for gold since 1980-81. But it still has never reached that pie-in-the sky figure of $2000.

Gold's all-time closing high of $1895 (London) was set on September 6, 2011. In the early fall of 2012 it began a slow decline with lower lows and lower highs until finally capitulating in mid-April to late June of 2013, when it briefly closed below $1200.

Since that time, gold has been generally range-bound from $1200 to $1350 an ounce, with some brief forays above $1400. For most of the past month it has traded below $1200.

This 6+ year chart illustrates the steady rise and subsequent fall of gold since bottoming in late October 2008:

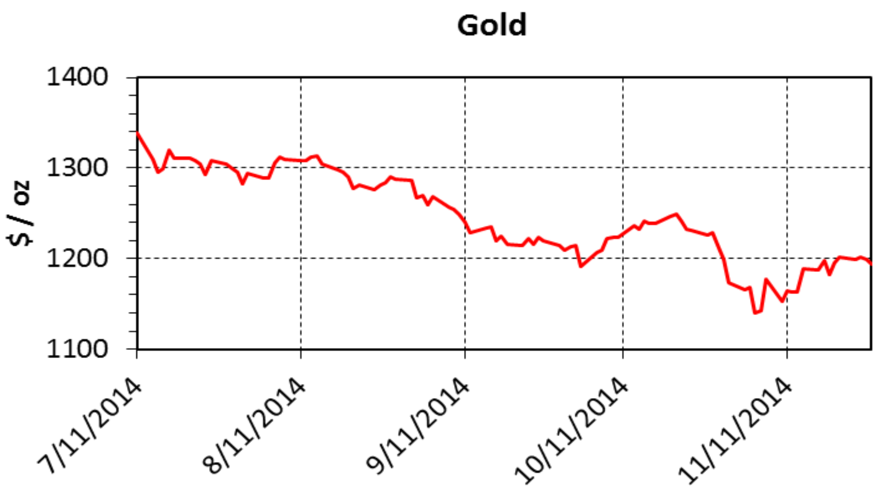


In two recent Mercenary Musings I explored the very high inverse correlations between the US dollar index (DXY) and precious metals, copper, and oil since July 11 (**[November 17, 2014]**; **[November 24, 2014]**). An irrefutable case was made that the weakness in commodity prices for the past 4+ months is largely accountable to the strength of the US dollar.

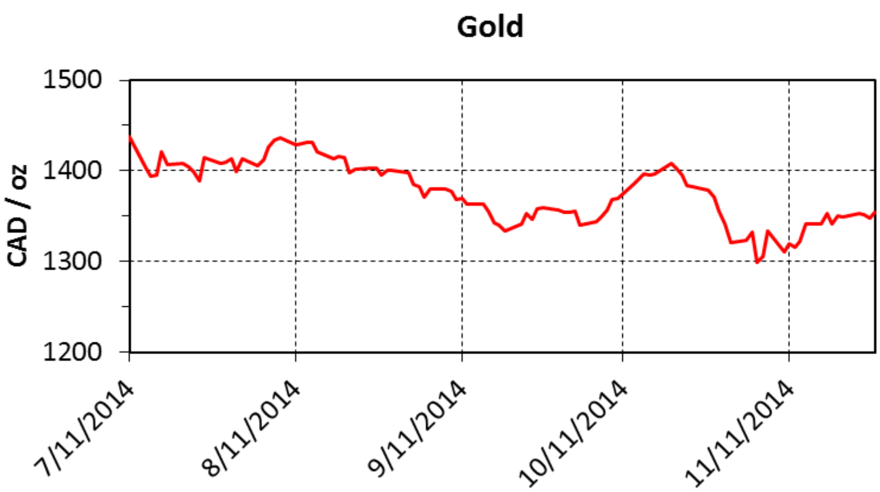
Today, I continue in the same vein with more evidence that gold has not lost any significant value or purchasing power on the world stage since July 11. My case will again be made with a series of charts.

Let's look at the price of gold in other major world currencies, including the six that comprise the DXY. Note that these gold prices are intraday New York quotes.

Firstly, here's the price of gold in US dollars, showing an 11% decline from July 11 to November 27:

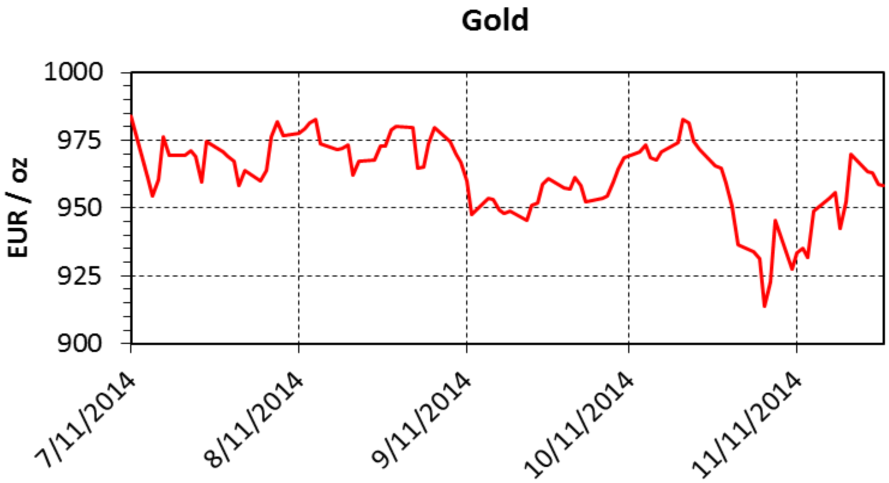


Next is the price chart in Maple Leafs where gold has declined about 6%. I think gold's lesser loss in loonies illustrates the reliance of Canadian economic health on export of its hard commodities. That factor is somewhat countered by the country's closely intertwined relationship with big brother to the south:

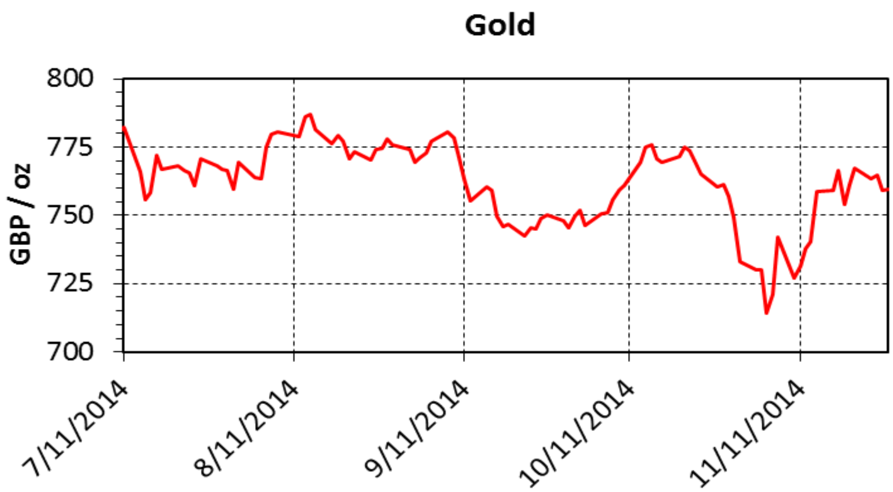


Now let's compare the significant drops in the price of gold in North American currencies with their European counterparts and specifically the four currencies represented in the US dollar index.

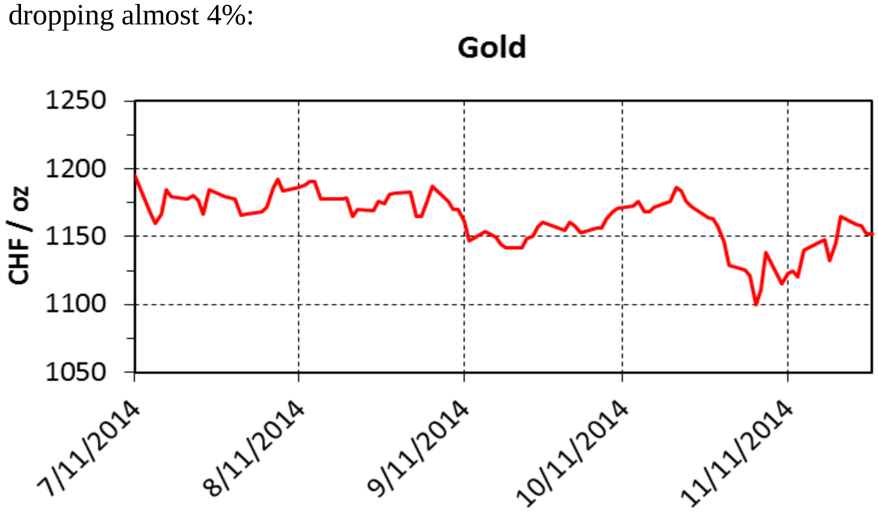
Gold has largely maintained its value in Euros, the currency without a country. It is off less than 3%:



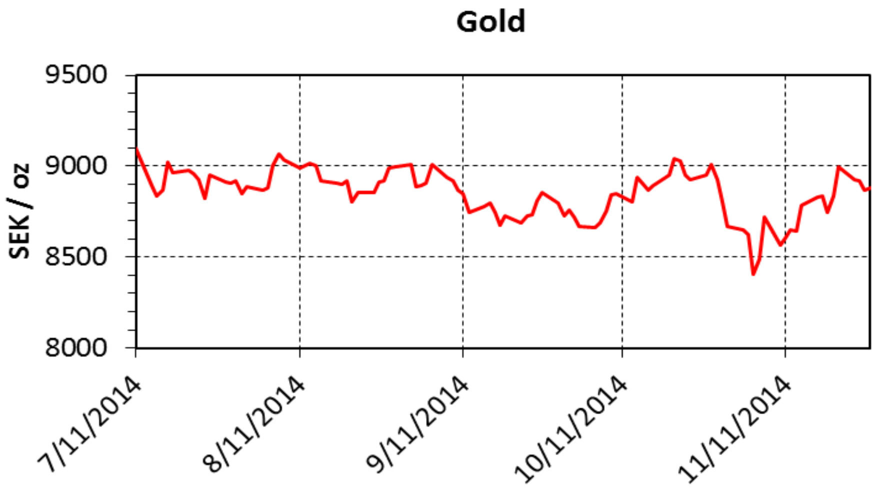
The value of gold in the British pound largely mimics its continental counterpart, also with a 3% decline:



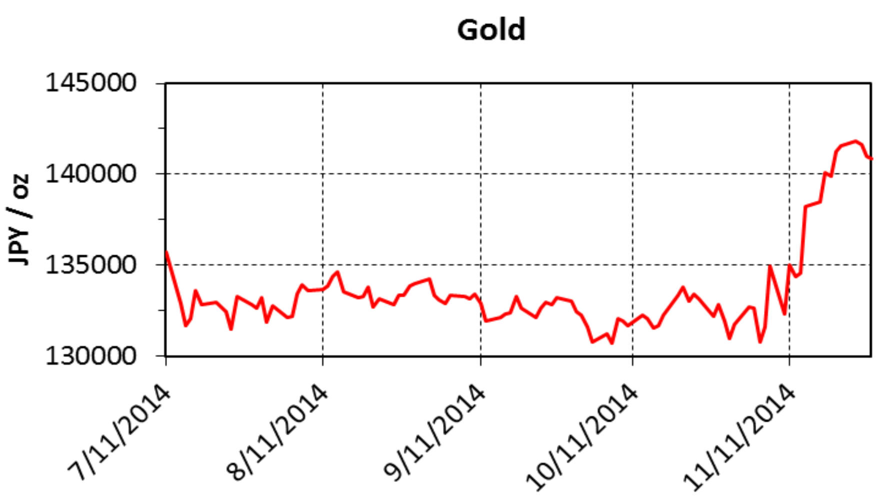
The story is the same in the world's former banking and money-laundering safe haven, with the gold price in Swiss francs dropping almost 4%:



Gold in the Swedish krona is down a little more than 2%:

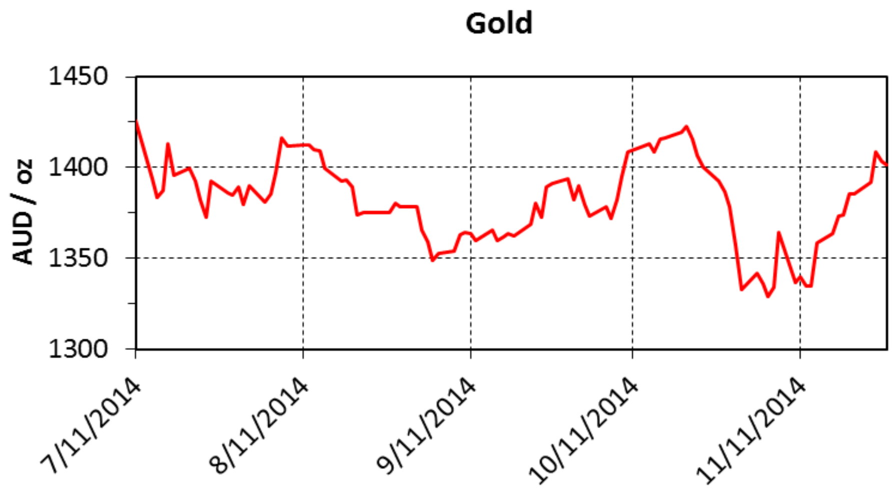


Meanwhile, gold's value in Japanese yen has actually gone up 4% over the period. Note however, it was flat until early November. The recent gain is undoubtedly due to the recently-admitted failure of "Abenomics" and Japan's sink into recession and is illustrated by the following exponential rise:

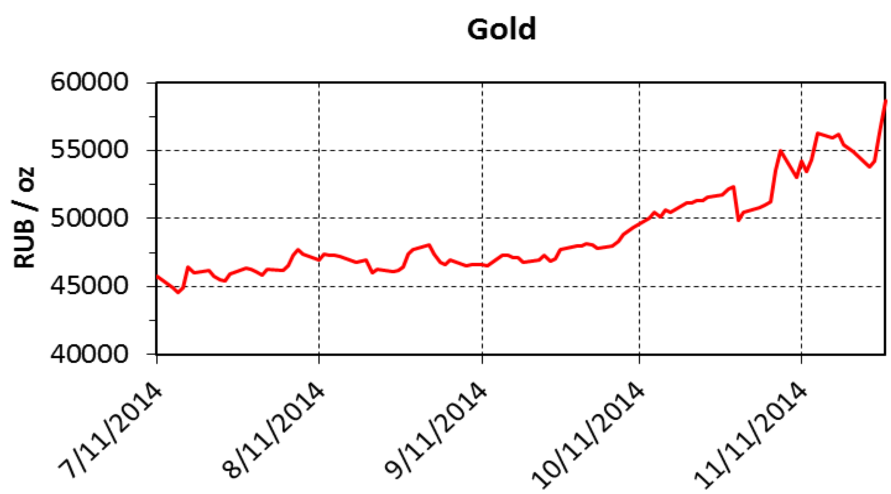


Finally, let's see how the price has fared in the currencies of three of the world's five major producers of the yellow metal. We will ignore China, the largest producer, because it does not freely float its currency on world foreign exchange markets. The United States ranks third; its chart was presented above.

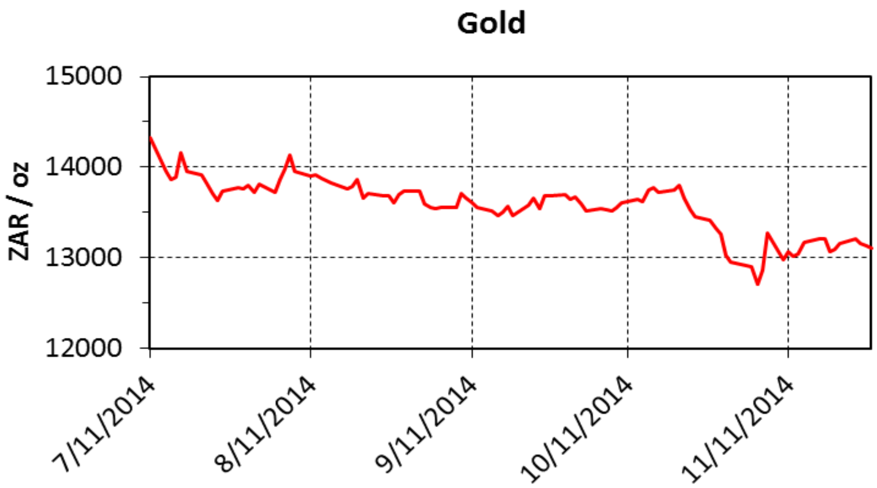
Here's the chart for Australia, second in production. The Aussie dollar has taken a beating lately and that is reflected by the decline of 2% in its gold price:



Russian is the fourth largest producer of gold. This country's economic health is tied directly to its oil, gas, nickel, and palladium exports. It should come as no surprise that given the decline in hard commodity prices and economic sanctions due to the geopolitical situation in Ukraine, the ruble has fallen drastically since early summer. Its abject weakness is reflected in the gold price, which shows a whopping 28% gain since July 11:



The following chart for South Africa, the fifth largest producer, surprised me. Its currency, the rand, has been very strong over our interval. In fact, the price of gold in rand has fallen more than 8%, exceeded only by the US dollar in this study. South Africa's country-wide mining strikes ended in mid-July, and perhaps that accounts for the rand's relative strength:



Athough gold is off substantially in US dollars since mid-July, it has either lost very little or actually gained in the currencies of most other major economic powers and two of the five largest producer countries in the world.

I draw a metaphor with Einsteinian physics: The value of gold at any given time must be viewed within the context of relativity and one's particular frame of reference.

We should always be cognizant that gold is the only real money and its true value is never subject to the decrees, fiats, macinations, whims, let alone the dreams, fantasies, and whimsies of elected and/or autocratic national governments.

Gold is inflated only by the ounces mined every year; that is a minor amount compared to the vast reserves that have been hoarded and stored for millenia. Conversely, fiat currencies have been continually debased through out recorded history, no more so than in the aftermath of the global banking meltdown.

All the world's major economic powers have been engaged in a race to devalue their currencies and prop up fragile or failing economies. After six years of worldwide fiat currency debasement, the US dollar is now considered to be merely the best of all evils and has once again become the world's choice as an economic safe haven.

Simply put, it is the world's reserve currency. In my opinion, it will remain so and there is no end in sight, despite the many attempts by opposing ideologies to impose or force a substitute.

Now for a personal note: I view the weaker price of gold and other precious metals as a buying opportunity. Gold is on sale and perhaps even more so in this instance, since its perceived weakness is mostly attributable to a stronger US dollar.

I urge you to recall my favorite version of The Golden Rule: *He who owns the gold makes the rules.* Rest assured folks, that I act accordingly.

Ciao for now,

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Acknowledgement: Gwen Preston is the editor of Mercenary Geologist.com.

The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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