Patient Capital.... Positioned for Profit

A PEEK AT THE WEEK THAT WAS - October 12, 2013

***You can always count on Americans to do the right thing -
after they've tried everything else.***

- Winston Churchill -

This week was a bit more intereting than last week at Club S&P. The 1700 sign is back up...after Mr. Market started whirling in dervish fashion all over again on Thursday. We're not sure exactly why. Maybe it was Johnny Boehner pretending to cosy up to Caesar...or maybe it was Caesar conferring the title of Most Powerful Bartender in the World on Zesty Janet Yellen?

But either way, Mr. Market was back on the table and the party goers loved it. Ms. Bond was not amused but kept herself relatively quiet with the 10 year Treasury oscillating between 2.61% to 2.71%, closing at 2.68% on Friday.

Meanwhile over at Bill Bullion's Gold Bar, the atmosphere continues to be morose. The few patrons still left hanging around are glumly holding their precious metal cocktails and feeling pretty low. Bill's bar is decidedly lonely. Maybe it's because the good folks at Goldman Sachs have told them that their gold is going much lower yet...but in a spirit of true altruism, have generously offered to buy it from any muppets...err...customers...who may need to sell. And then, naturally enough, on Friday, there was a sudden large sell order that drives down gold and silver prices, similar to the action of a month ago, almost to the day. Amazing coincidence.

For that reason alone, we will take another peek at gold this week. Please indulge us as we do this because, if our suspicions are correct, the coming months may provide the last best chance for a long time to grab some of the shiny and sheeny stuff at decent prices.

We'll also take a cheeky look at Barry's Obamacare and poke some fun at the debt ceiling debacle and the government shutdown, which, to the best of our knowledge, still goes mostly unnoticed. Gosh...much more of this non-government and the punters may start to realize how little the government actually does. Our esteemed leaders can't let that happen and they won't.

Finally, continuing our golden theme, our chart of the week shows the continuous rise in gold imports to China. As we have said before, the Chinese are certainly not innocents...but they are not idiots either. And they have a very long line of historical sight.

Let's get started...

Americans detest all lies except lies spoken in public or printed lies.

- Edgar Watson Howe -
US journalist (1853 - 1937)

> From Bloomberg...Oct 8, 2013 6:47 AM ET
> **Goldman's Currie Says Gold Is 'Slam Dunk' Sell After Shutdown**
> *"Once we get past this stalemate in Washington, precious metals are a slam dunk sell at that point," Currie said. "You have to argue that with significant recovery in the U.S., tapering of QE should put downward pressure on gold prices."*

OK...gold is going down, according to Goldman Sachs. They should know. It's in their name after all. Perhaps they should change their name to "**Gold In Sacks"** because we suspect that's what they are up to. For some reason, people continue to follow the Goldman lead and their call will probably be correct, although not everyone, including HSBC, agrees with them.

But perhaps we should look beyond that and consider doing what Goldman does, rather than what Goldman says. And we suspect that the good folks at Goldman and their big bank chums may tell their clients to sell and mining companies to hedge, while doing the opposite themselves.

Just for fun, let's see what happened back in 2008 when Goldman was telling everyone to buy oil because...the price was going up, up, up...of course.

> From Bloomberg...May 6, 2008 12:27 ET
> **Goldman's Murti Says Oil `Likely' to Reach $150-$200**
> *``The possibility of $150-$200 per barrel seems increasingly likely over the next six-24 months, though predicting the ultimate peak in oil prices as well as the remaining duration of the upcycle remains a major uncertainty,'' the Goldman analysts wrote in the report dated May 5.*

So, what happened. Well, as the chart below shows, after the Goldman call, the price did go up...but not for long. In fact,a few short months later, oil went into freefall.

We wonder who was selling and who was buying? Call us crazy but just maybe Goldman and their chums were on the sell side of that trade. With muppets on the other.

But OK...maybe Goldman just got the oil call wrong. Maybe they have the gold call right and it is going down to $1,050 / oz.

Hang on a moment. Just a month or so ago, Gang Goldman were forecasting the shiny stuff to hold around $1,400 / oz. So why the change of heart? Or mouth, at least? Well, perhaps they just need more time to cover their short positions and would prefer to talk down the price while they do this.

And let's not forget that the government is shut down and the regulators of the metals markets are on forced holiday (euphemistically called a "furlough"). So it's an excellent time for some market manipulation perhaps? Makes sense, except for the untidy fact that precisely the same shenanigans occurred almost a month ago to the day, at a time when the regulators were still ostensibly regulating.

We can speculate all we like but while we do, let's take a look at a couple of interesting actualities...ideally captured in the following two graphs.

The first is from September 12, 2013 and shows the market being stopped in its tracks by a large sell order of 2000 futures contracts (i.e. paper gold). This resulted in the gold price being driven down $10 oz almost immediately. It had such a dramatic impact that it literally stopped the market for 20 seconds...which you and we might think is irrelevant but when it comes to markets and trading, every millisecond counts.

Then, almost a month later to the day...on Friday, October 11, 2013...another slamdown. This time, the "seller" was dumping the equivalent of 2,000,000 ounces of the shiny stuff. Once again, the market is forced to "reset"...at a much lower price. Ka-pow!

Tossing huge paper orders at the market in order to trigger stop losses and drive down the price of a stock is affectionately called "banging". If done near the end of a market session, it is called "banging the close" and of course, it is manipulative and illegal. But that is exactly what has been happening of late with the gold market...normally at the time of opening of close thereto...in other words, "banging the open". Hey...the regulators are on holiday. Why not?

The point of all this is to remind you that these players are trading paper. All of this baloney is really just noise when it comes to the actual shiny stuff. But we woud suggest that rather than putting in your ear plugs and avoiding the noise, that you try to see through it for what it is and maybe even take advantage of any coming *crazy low prices*.

So when Gang Goldman tells us it's time to sell, maybe it's time to put on our best George Costanza impersonation and just "DO THE OPPOSITE".

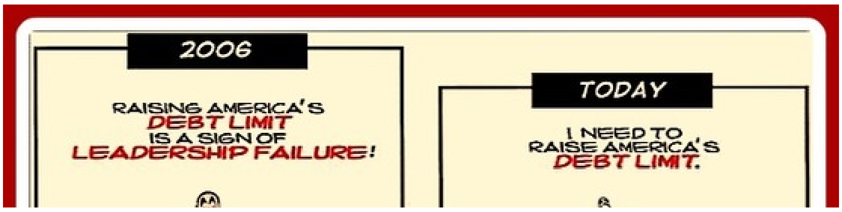
> From Forbes, December 5, 2012:
> **Selling Gold On Goldman's Call? Take A Page From George Costanza And Do The Opposite**
> *Gold has had a lackluster year despite some pretty favorable conditions, and on Wednesday, Goldman Sachs called the end of the yellow metal's decade-long rally. But maybe you should take a page from George Costanza's book and do the opposite the Vampire Squid says...*

To view the classic **"George does the opposite"** clip from Seinfeld, click on his image below. It will be a far better use of your 3 minutes than looking for signs of a non-operating government.

Oh...and speaking of the government and debt defaults, it's interesting that our US Treasury has absolutely no interest in selling one lousy ounce of its sizable gold stash to keep the wheels of Washington turning.

> From The New American, October 4, 2013:
> **Treasury Refuses to Sell Its Gold Even in the Event of Default**
> *Even in the event of a pending default, the Treasury will not be selling any of its gold reserves to pay the government's bills:*
>
> > *Treasury ... considered a range of options with respect to how Treasury would operate if the U.S. had exhausted its borrowing authority.*
> >
> > *Treasury considered asset sales ... [but] rejected the option of selling the Nation's gold to meet payment obligations because selling gold would undercut confidence in the U.S. both here and abroad, and would be destabilizing to the world financial system.*

Hmmm...seems like Treasury would rather fight than switch. Really...go on...take a few minutes to watch George's clip. And ponder the above. If gold is so treasured by Treasury, maybe it should be more treasured by us as well. Just saying...



A national debt, if it is not excessive, will be to us a national blessing.

Alexander Hamilton

US (Scottish-born) lawyer & politician (1755 - 1804) - Founding Father

Good old Alex got it partially right but in recent times, the rudderless rabble that inhabit the nation's capital has gotten it terribly wrong.

And people outside our borders are taking notice.

> ***"You can't hijack the global economy through political struggles. It's not responsible,"*** says Yu Yongding, a member of the Chinese Academy of Social Sciences, a leading government think-tank.
> ***"We are angry but are not panicked. The consequences are bad for the reputation of the US because the credibility of debt is so important,"*** says Mr Yu, who is also a former adviser to the central bank's monetary policy committee

But with 1.3 trillion in US funny money, how much can the Chinese really do without blowing up their own ship of state? Well....as we mentioned previously...the Middle Kingdom is very patient and sees things from a much longer term perspective than our western immediate gratification mentality.

And they are starting to take baby steps in the direction of freeing themselves from what they see as the tyranny of a one world reserve currency which is going dangerously downhill...largely as a result of the inability of the US to impose suitable fiscal self-discipline.

> From the Financial Times...October 10, 2013:
> **European Central Bank and China strike currency swap deal.**
>
> > *The European Central Bank and the People's Bank of China have established a currency swap agreement, the latest in a string of moves to help encourage global use of the renminbi.*
> > *The swap line, at Rmb350bn ($57bn), will be China's third largest after its facilities with Hong Kong and South Korea, and follows similar agreements with the UK, Australia and Brazil.*

Yes...mark our words...the Chinese have both the need and the ambition to establish their renminbi (currency) as an alternative reserve to the vaunted but vexing Yankee dollar. And we suspect that ultimately, this alternative will have at least some backing from the shiny stuff being hoarded so heartedly by those canny Chinese.

In the meantime, other nations are looking to protect themselves as well.

> From Bloomberg News, October 7, 2013:
> **Taiwan and New Zealand want their dollars down**

Look for more of these currency skirmishes in the future. As we've said many times before, **Currency World War III** is just getting warmed up.

But with a view to keeping it light and breezy this week, take a moment to click on the video link below. It's a pretty good parody of the silly US government and the pickle they've gotten their people into. No wonder recent poll numbers show an increasing desire to " kick all the bums out". We hope not. Right now those bums are doing exactly what the Founding Fathers hoped of them...NOTHING!

And...in the name of humanity...do spare a thought for Caesar Barackus and Empress Michelle during these tough times. Those poor things have had to cut back too. Caesar has had to cut 75% of his 1,700 member staff and is struggling to get by with just 430 or so "essential" personnel.

To make things worse, the housekeeping staff has been cut from 90 to 15. How shall they survive? Why, Empress Michelle can barely tweet anymore without the aid of her sixteen personal assistants, many of whom earn six figure salaries. In fact, there are more directors, associate directors, deputy dog associate directors, etc.in Empress Michelle's entourage than there were in our first president's entire administration.

Folks...the aristocrats are back and doing just fine...operating government or not. Cake anyone?

The art of medicine consists in amusing the patient
while nature cures the disease.
- Voltaire -
French author, humanist, rationalist, & satirist (1694 - 1778)

Whether you are for or against Barry's Obamacare, we thought it might be helpful to share the results of an extensive survey of physicians comprising the American Medical Association. The results may surprise you.

- The Allergists were in favor of scratching it, but the Dermatologists advised not to make any rash moves.
- The Gastroenterologists had sort of a gut feeling about it, but the Neurologists thought the Administration had a lot of nerve.
- Meanwhile, Obstetricians felt certain everyone was laboring under a misconception, while the Ophthalmologists considered the idea shortsighted. Pathologists yelled, "Over my dead body!" to which the Pediatricians pleaded... "Oh, grow up!"
- The Psychiatrists thought the whole idea was madness, while the Radiologists could see right through it.
- Surgeons decided to wash their hands of the whole thing and the Internists claimed it would indeed be a bitter pill to swallow.
- The Plastic Surgeons opined that this proposal would "put a whole new face on the matter".
- The Podiatrists thought it was a step forward, but the Urologists were p+++ed off at the whole idea.
- Anesthesiologists thought the whole idea was a gas, and those lofty Cardiologists didn't have the heart to say no.
- In the end, the Proctologists won out, leaving the entire decision up to the A-holes in Washington .

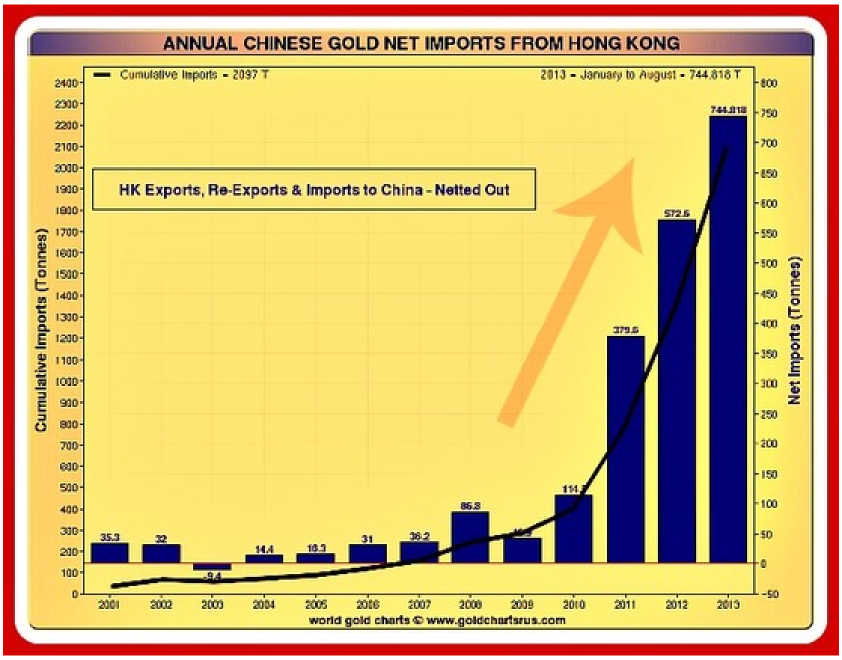
CHART OF THE WEEK

There are a billion people in China. It's not easy to be an individual in a crowd of more than a billion people. Think of it. More than a BILLION people.
That means even if you're a one-in-a-million type of guy,
there are still a thousand guys exactly like you."
A. Whitney Brown, "The Big Picture"

In fact, there are 1.35 billion people in the Middle Kingdom and it would probably not be too much of an exaggeration to say that a lot of them would like to get their hands on some gold (or silver) if they could. And a lot of them are. In fact, if they keep up the pace, the Chinese will absorb about half of the world's annual gold production. Between China and India, about 90% of gold production will be gobbled up this year. That does not leave a lot for the rest of the planet, does it?

This week's chart of the week (courtesy of Ed Steer's excellent *Gold & Silver Daily*) shows the huge rate of growth of gold imports into China. And all this is on top of the fact that China itself produces more gold than any other nation on earth (about 400 tonnes)...and exports absolutely NONE of it.

No...the Chinese are not idiots and they know a good deal when they see one. Perhaps we should too...especially while our friendly traders are intent on banging down the price.



Til next week...

“Ignorance is the curse of God. Knowledge is the wing wherewith we fly to Heaven.”
William Shakespeare

www.cravencapital.com 212 797 0217 bmacnish@cravencapital.com

Craven Capital is located at 11 Hanover Square, 6th Fl., New York NY 10005