

CHINA SHOCKED THE market earlier this year when it revealed its gold reserves had doubled in five years, not least because Beijing had been quietly buying under the counter from its own mines. It seemed to many that the Central Bank of China had been found out, that it had finally spoken the unspeakable and declared: 'We're not going to use the US dollar as our reserve currency anymore'. After all, who wouldn't want out of a currency whose value has nose-dived 20 per cent in a year, especially when it is no less than the global reserve currency?

Even though they must continue to buy from the US Treasury, they're hedging their holdings by diverting their capital wholesale into physical assets – commodities – and most tellingly, into gold and industrial metals.

It makes a lot of sense when you consider the United States currently owes China close to a trillion dollars, so if it's losing ten per cent per year by investing in the plummeting value of the dollar, it's losing \$100bn a year. By buying gold instead, if the US dollar slides ten per cent, gold prices will rise ten per cent, and the shrewd economic superpower gains handsomely, where before it would have lost... significantly.

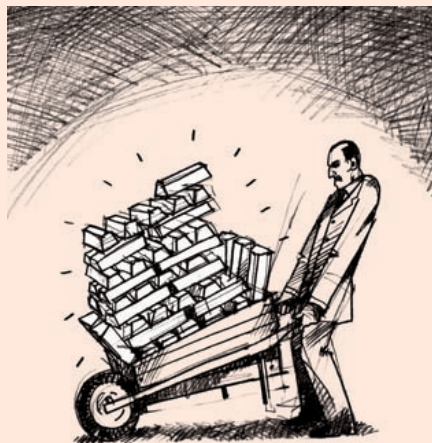
China is far from alone in shunning the greenback in this way. In November, the Indian government spectacularly bought 200 tonnes of gold, almost half of the total 403 tonnes earmarked for sale by the IMF, sparking a rush from speculators and adding \$25 to the value of a troy ounce overnight.

Mauritius immediately purchased two tonnes of gold from the IMF and while some may see this as insignificant compared to the bulk buying of the nuclear powers bear in mind this move no less than doubled its long-time reserves. Sri Lanka and Russia promptly followed, and traders are now anxiously awaiting other central banks, particularly China or Brazil, and sovereign wealth funds from the oil-rich Middle East, to grab whatever gold they can lay their hands on.

The acquisitions clearly confirm the fresh appetite for gold among central banks fearful of a long-term decline in

China Is Going For Gold

Investors dump the dollar and the rush for risky commodities is only just beginning, says **MIKE BAGHDADY**



the value of the US dollar, but it's not just large institutions that are losing sleep over it. Wealthy individuals are now following suit, adding fuel to this already raging fire. And they don't want to buy gold stocks or gold futures – they want physical gold in their hands, and they want it now.

In October, Harrods began selling gold bars and coins for the first time. And the following month, savers desperate to take advantage of record bullion prices forced the Royal Mint to more than quadruple production of gold coins. The world's biggest maker of pure gold coins, the Austrian Mint, reported annual sales of

1.9m ounces to October: that's 23 per cent more than its sales for the whole of the previous year.

With forecasts that a new record price of \$1,500 per ounce and higher is achievable in the first quarter of next year, it's unlikely that anyone who hasn't already bought has missed the gilded boat on this glittering insurance policy of sorts. And it's not just gold that is cleaning up among the fear, uncertainty and doubt of the dollar, either. Silver, platinum, palladium and copper have all reached fresh annual highs simultaneously with gold, and other commodities are hot on their heels...

Normally in November and December, the prices of agricultural commodities like grain and corn fall as the harvest comes in and the markets are flooded with a surplus of product. But this year we are seeing these prices rise to new highs as more institutions and individuals are moving failing cash into them, to get them out of volatile and plummeting currency values.

The effect this is having, psychologically, is to further fuel demand for commodities in the market as everyone rushes to get a piece of the action in this bull market. It's risky stuff, of course, as runaway prices await their inevitable correction, but as any good trader knows: minimising your risk, while maximising your position will be sure to pay dividends.

Here at Spyglass (spyglasstrading.co.uk), we forensically analyse price behaviour and plan our forthcoming week's winning trades every Sunday night in our online open Planning Session at 1900 GMT. Please come in and contribute – or if you want to see how it works, just sit back and watch our predictions play out.

Whether gold continues to soar and we continue to go short on the dollar, or the greenback recovers and the insatiable current hunger for commodities proves to be short-lived, one thing's for sure: when the price goes up, it's an indication of more demand – pure price behaviour – and it's contagious. ■

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