



CPM Group

Silver, Gold, and Economic Myths

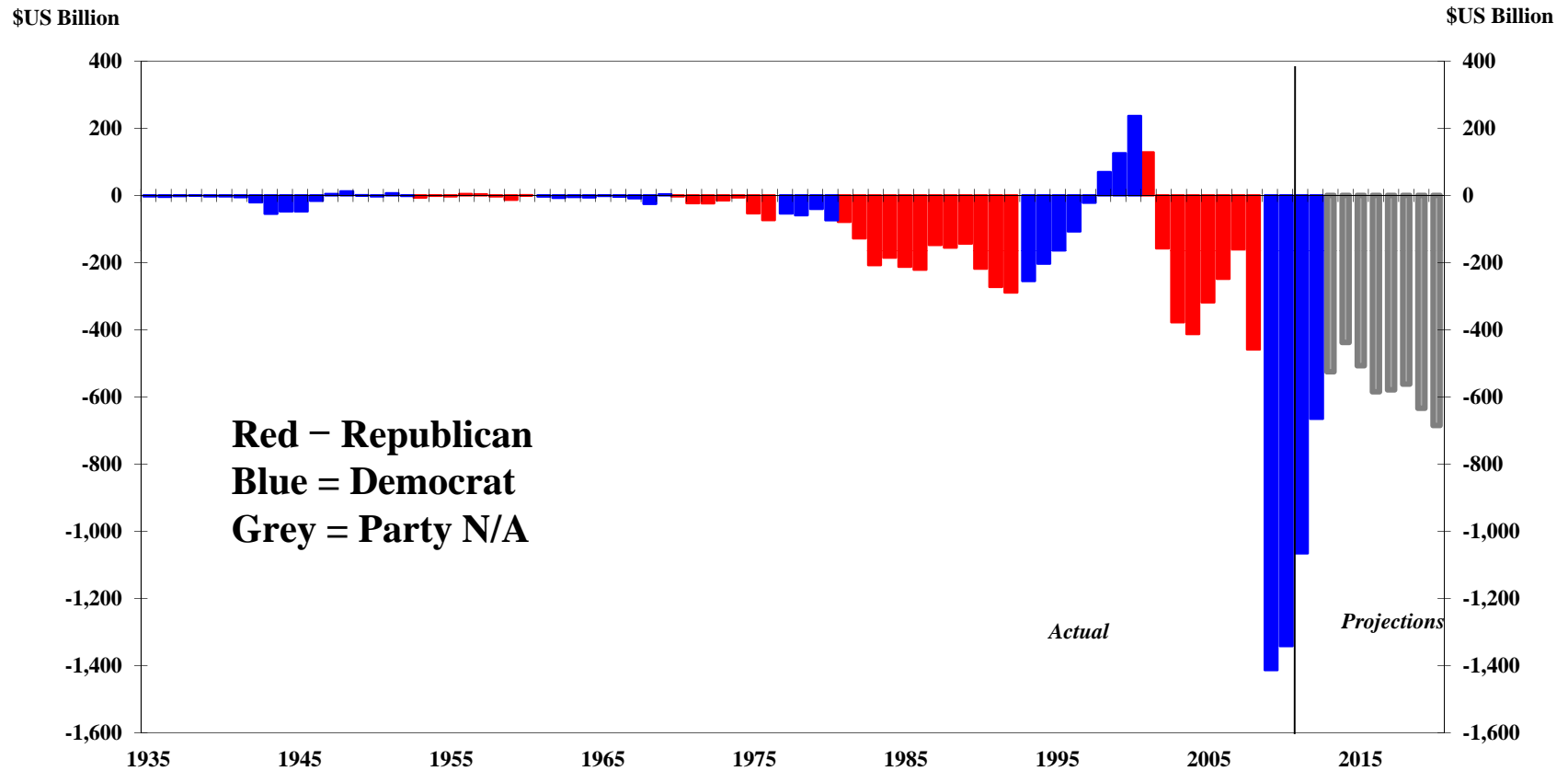
*The Silver Summit
Spokane, Washington
October 2011*

Jeffrey M. Christian
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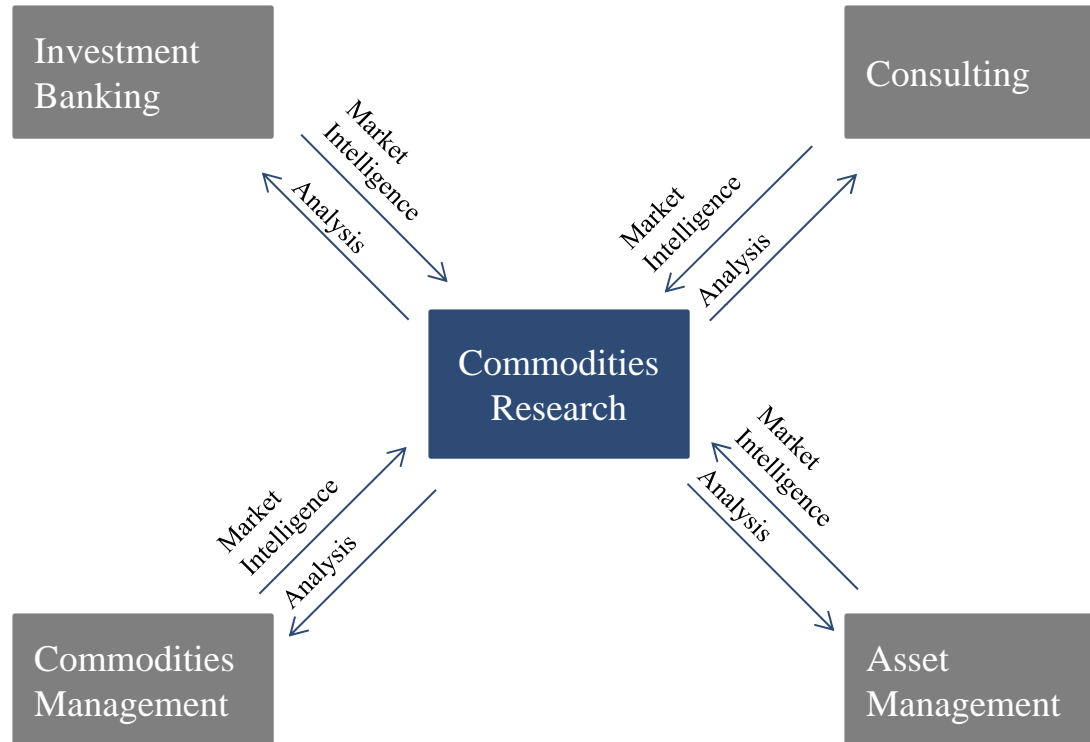
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U.S. Federal Debt

U.S. Budget Surplus & Deficit, CBO Projections



Research Driven Commodities Advisory Services

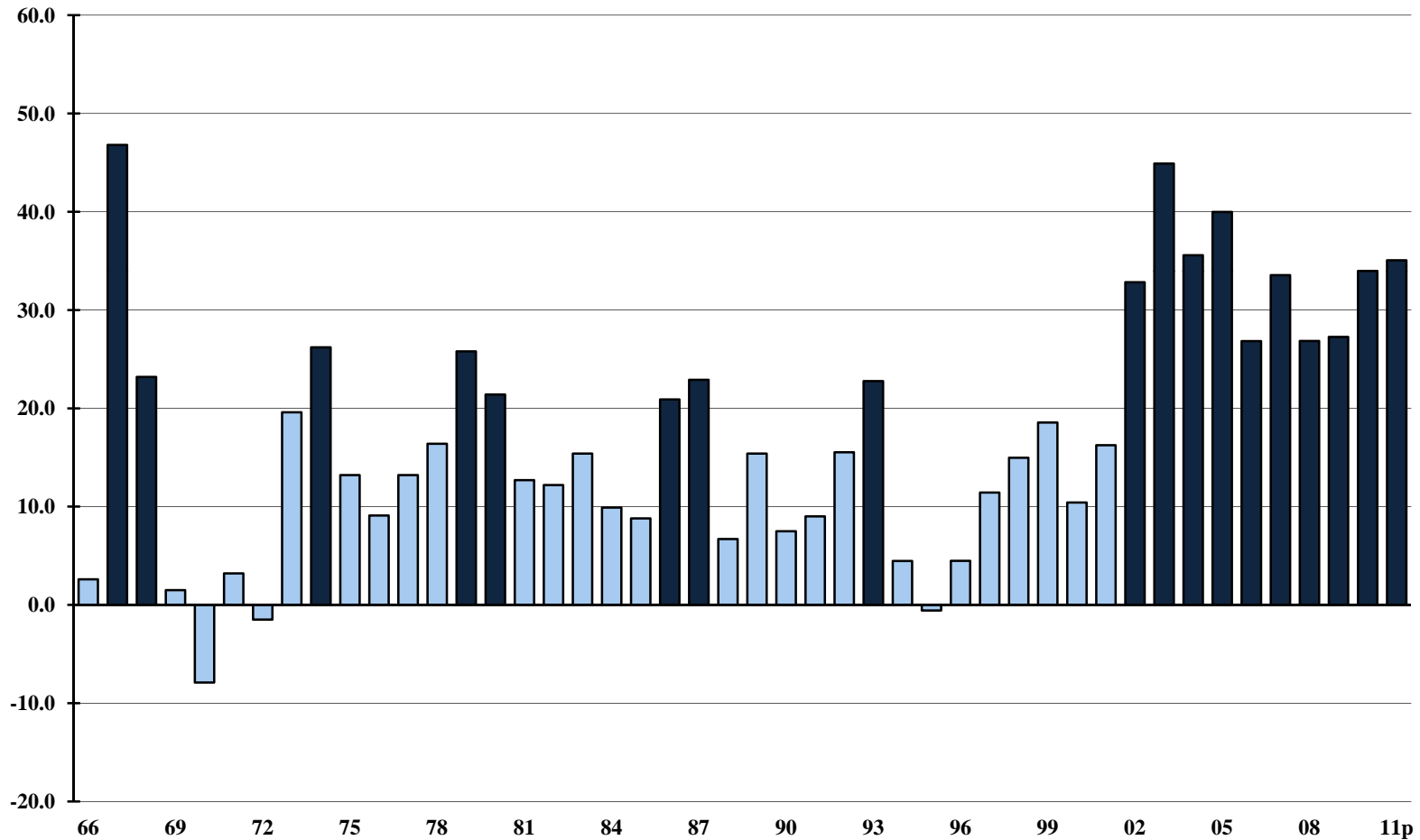


Financial Institution's Share of CPM Revenues

<1%

Annual Net Investment Demand for Gold

Million Ounces

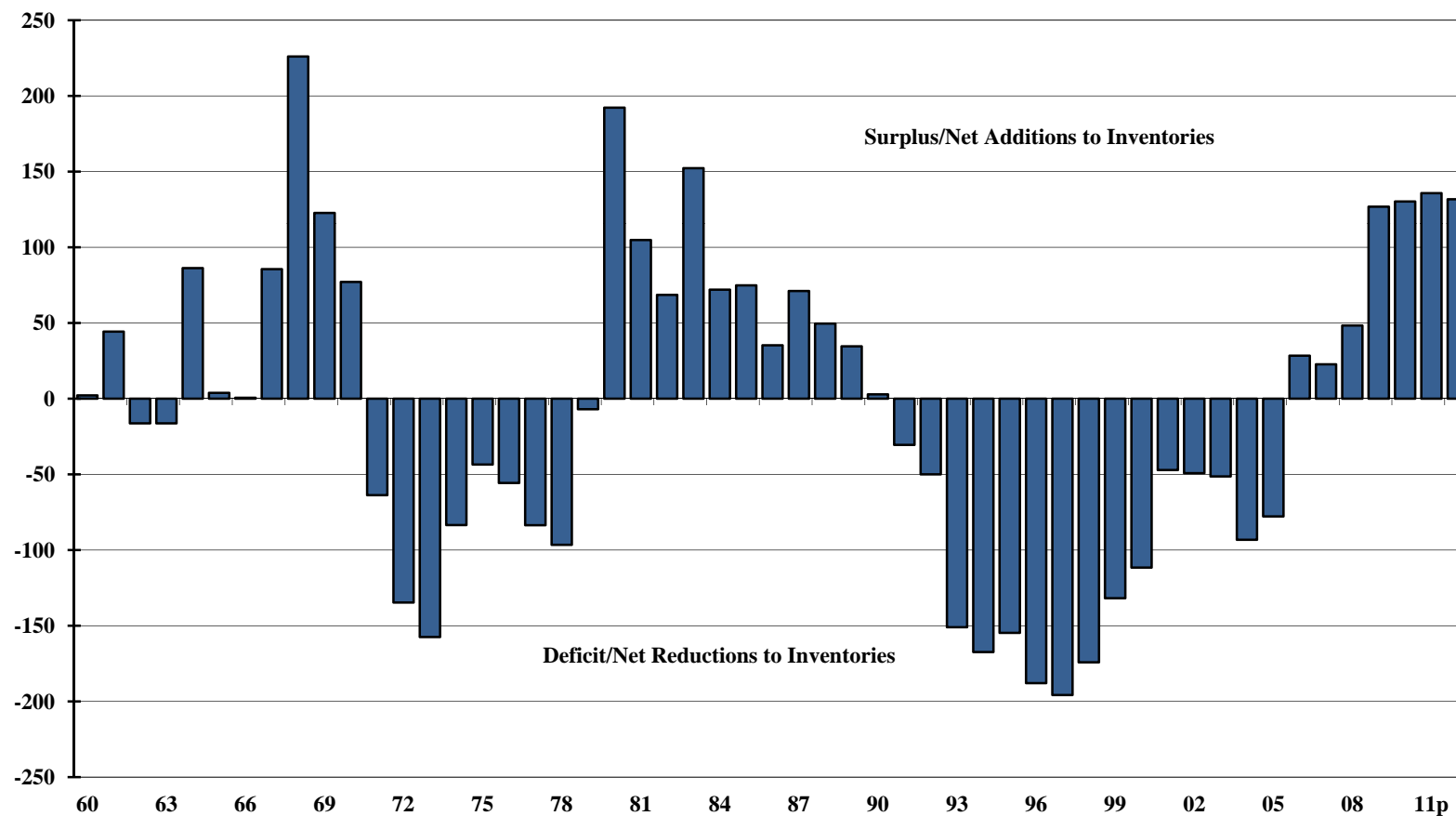


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Annual Net Investment Demand for Silver

Silver Market Balance

Million Ounces

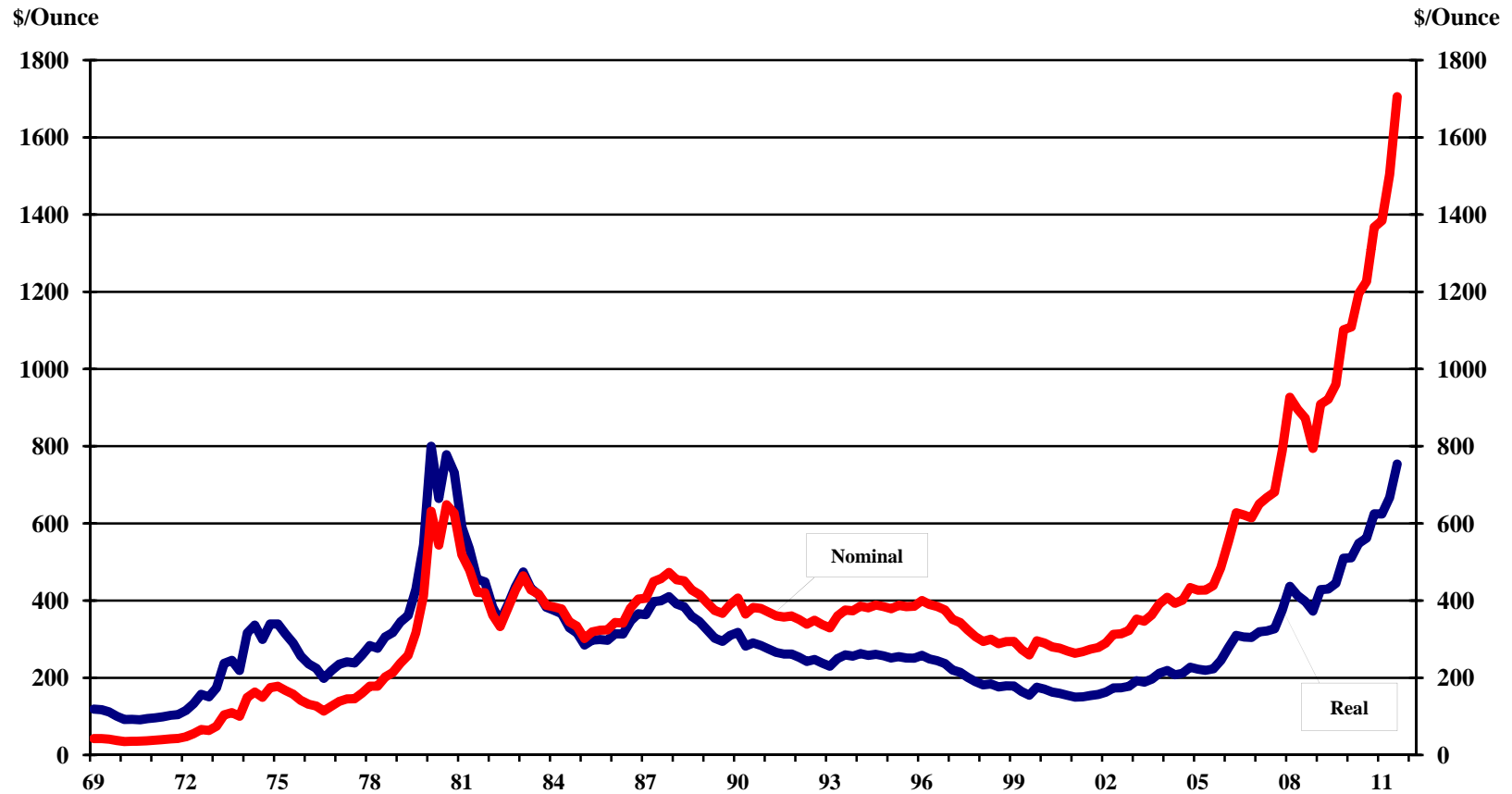


Gold's Purchasing Power

Gold's Purchasing Power Is Neither Constant Nor Stable

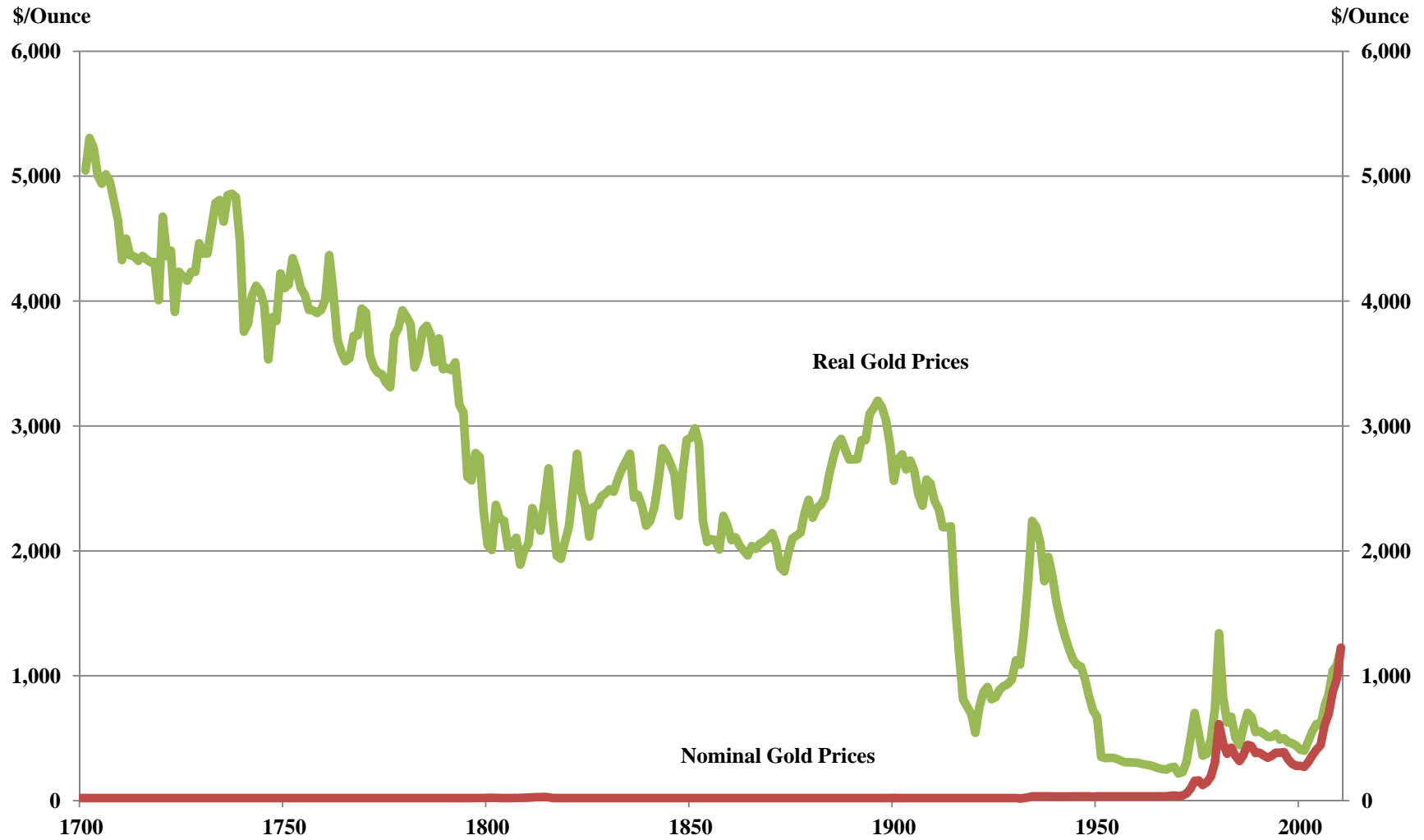
Real and Nominal Gold Prices

Quarterly, Through Third Quarter 2011



So Much For Storing Value

London Gold Prices since 1700 *Base Year = 2010*



The Constitution

What The Constitution Says About Money

Article I, Section 8: The Powers of Congress

“To coin Money, regulate the Value thereof....”

If one is empowered to regulate the value of money, in what measures would that value be weighed?

- Against other nations’ money.
- In terms of gold and silver, and
- In terms of its purchasing power of various goods and services.

By definition money in the new Republic would be something the value of which was measured against gold and silver. The value of something cannot be measured against itself. Ergo, money was something other than gold and silver.

In 1871 the Supreme Court ruled in Knox versus Lee that nothing in the Constitution requires the Federal government to use gold and silver as the basis of the nation’s monetary system.



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What The Constitution Says About Gold and Silver

Article I, Section 10: Powers Prohibited The States

“No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts.”



This passage says one thing about making money: The States are not allowed to coin Money. The reference to gold and silver Coin refers to the States' payments of debt.

In fact, it is a provision about what acts the individual states are prohibited undertaking, including issuing their own money.

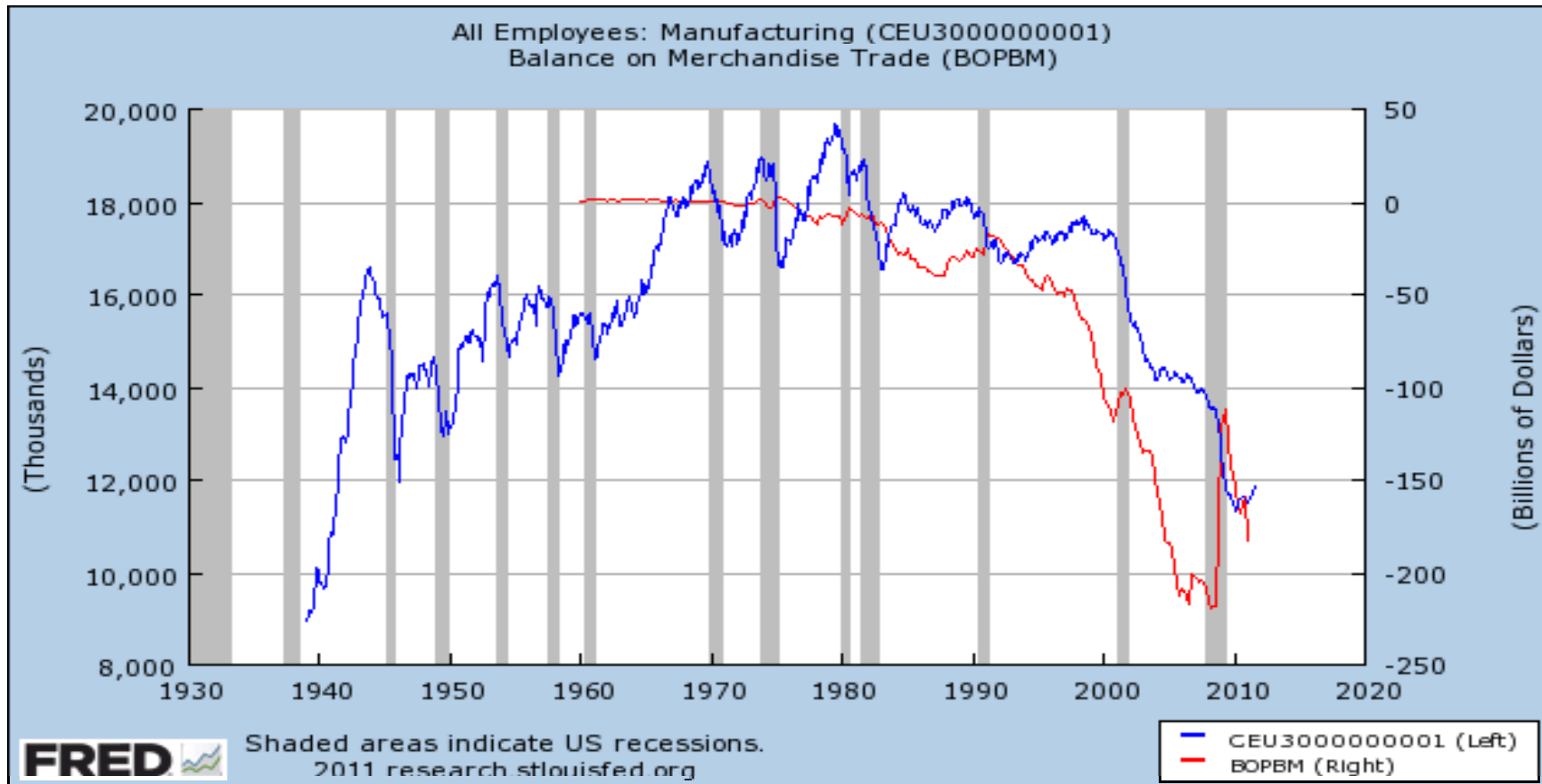
What debts did the States have at the time the Constitution was drafted, and to whom?

Why would the Federal government want the States to pay their debts to it in gold and silver Coin, as opposed to, say, money?

Economic Realities

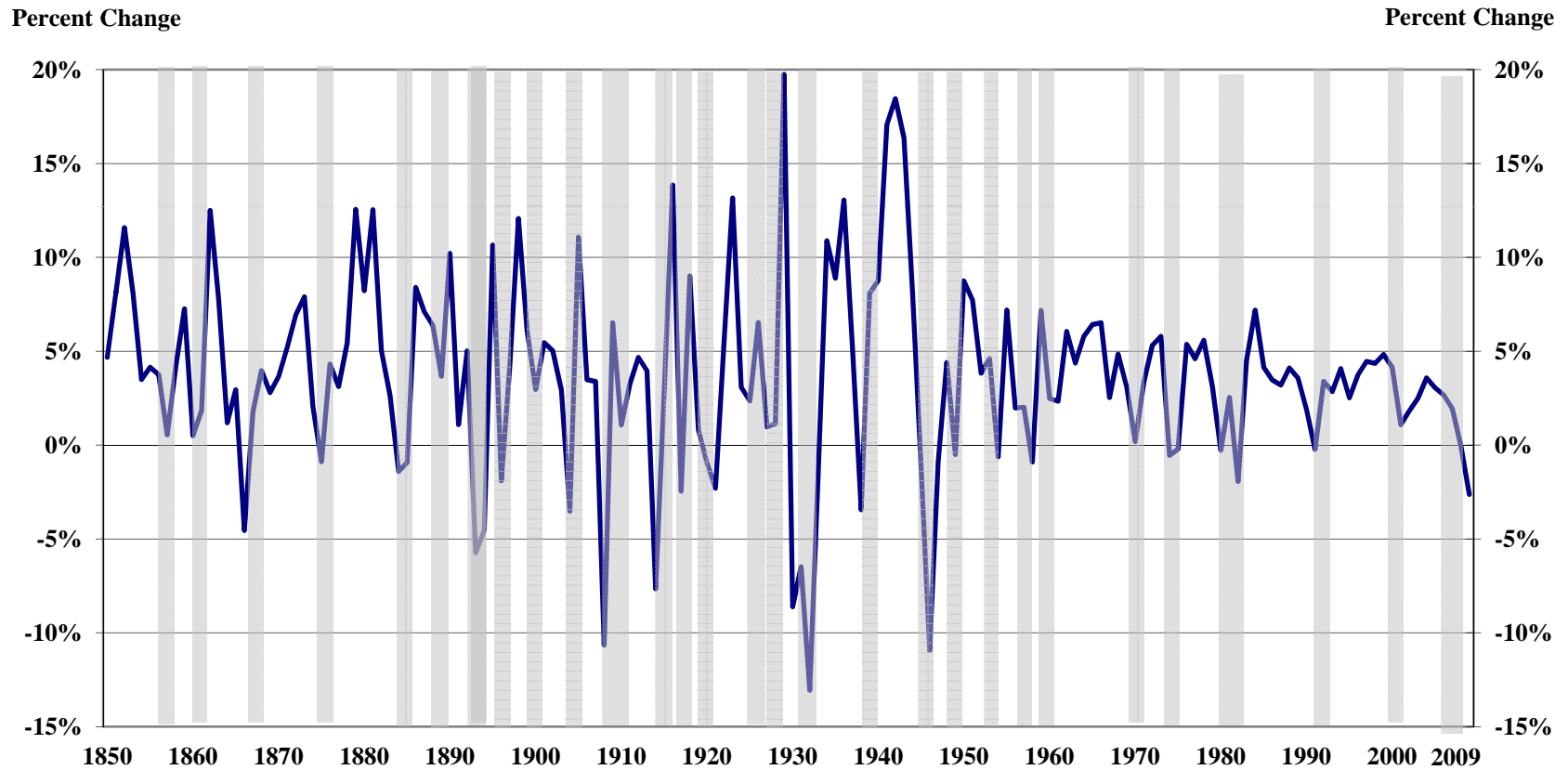
U.S. Manufacturing Jobs and Merchandise Trade Balance

In the early 1980s the Reagan Administration changed the tax code to make it tax advantageous for companies to export jobs. No Administration or Congress since then has reversed this policy.



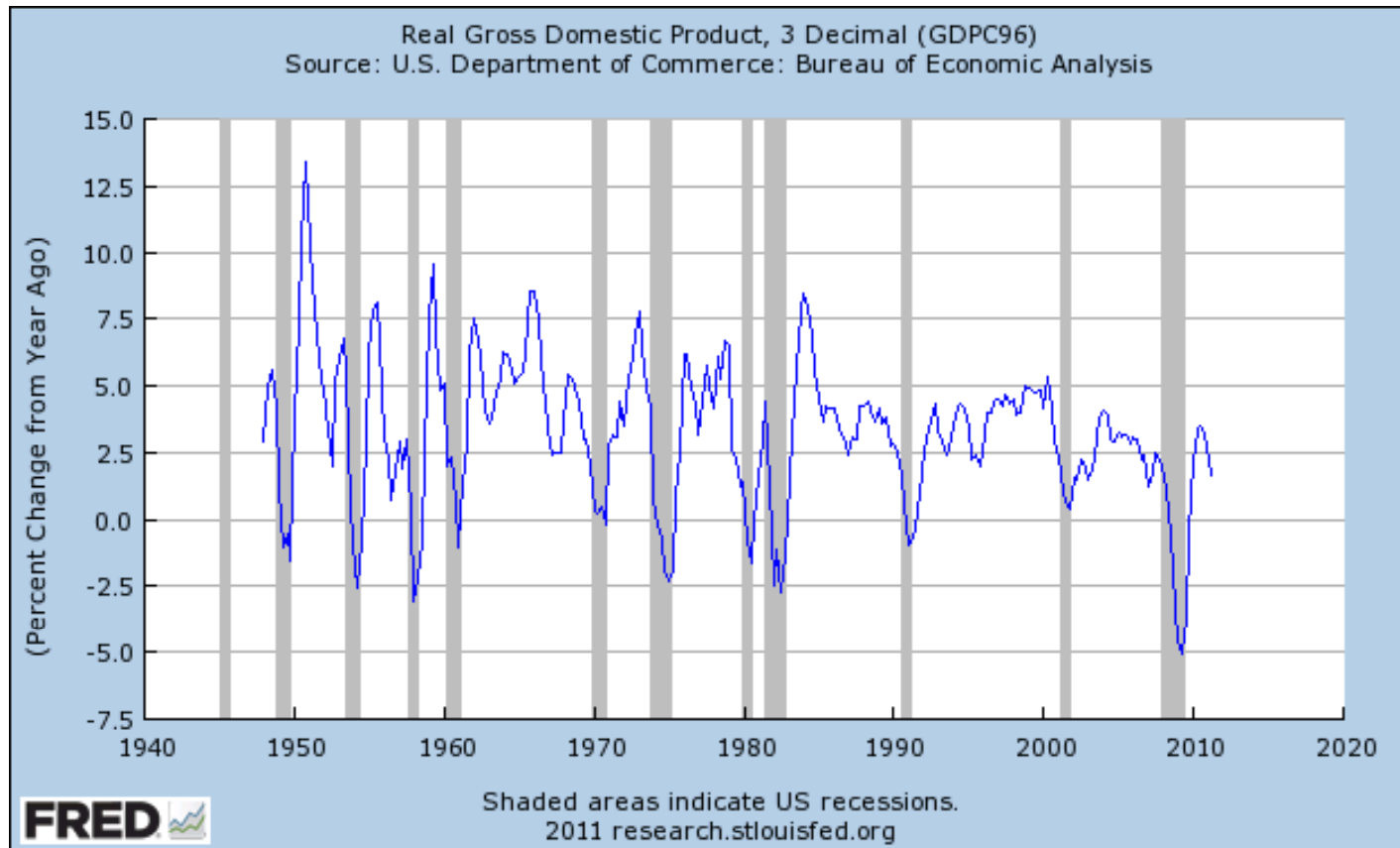
The Economy was More Volatile in the Good Old Days

*U.S. real GDP: 1850 – 1919, 16 recessions, 22 month average length;
1945 – 2009, 11 recessions, 10 months average length*



U.S. Real GDP: The Post-1983 Stability Has Ended

*U.S. real GDP: 1945 – 1983, 8 recessions, 11 month average length;
1983 – 2007, 2 recessions, 8 months average length*



Despite what you may have been told:

The economy became progressively less volatile after the creation of the Federal Reserve Banking System, and after the Great Depression and World War Two compared to the period prior to the creation of the Fed.

Anyone who says the economy is more volatile now than it was before a national banking system existed, i.e. the Federal Reserve System was created, simply is wrong.

Why would someone espouse this view and continually refuse to discuss both privately and publicly how he could repeatedly misconstrue the U.S.'s economic history in such a large way?

Corrupt Bankers Prefer State Regulation

Bank lobbyists kept the United States from having a national banking regulatory system from the 1780s until 1913, with two brief exceptions, using misguided populism to allow for state chartered banks to engage in a wide range of corrupt practices that led to repeated massive bank panics, financial crises, recessions and depressions.

It was only by tricking the congressmen in the bank lobbyists' pockets that the Congress was able to pass legislation allowing for one.

Ill-conceived Anti-bank Populism Has Its Costs

1791 - 1811: First Bank of the United States

1812 - 1817: Deep and prolonged recession, characterized by massive counterfeiting by state-chartered banks.

Banking interests pay Congressmen to block national banking legislation.

1817 – 1836: Second Bank of the United States

1837 - 1861: Deep and prolonged recession, characterized by massive counterfeiting by state-chartered banks.

Banking interests pay Congressmen to block national banking legislation.

1870 - 1898: Three major depressions, bouts of hyper-inflation, massive fraud by state-chartered banks repeatedly precipitating bank panics and economic crises.

1870 – 1913: Three full fledged depressions, and eleven prolonged recessions.

1907 - 1913: Bank Panic of 1907

U.S. in recession for 60 of the next 90 months.

Banking interests pay Congressmen to block national banking legislation.

Beware Republicans Calling For False Gold Standards

This Is A U.S. Treasury Note



This is a U.S. Treasury Note. I apologize for using an 1891 bill, but modern-era Treasury Notes are so rare that a search of the internet for a photo of an actual U.S. Treasury Note only turned up this photograph.

This Is A U.S. Federal Reserve Note



This is a Federal Reserve Note. Most printed currency issued by the U.S. government since the 1971 has been Federal Reserve Notes instead of Treasury Notes.

Reagan's Sham Gold Standard

In 1980 Ronald Reagan campaigned on a platform that included a plank calling for a return to a gold standard. The gold standard the Republican Party said it was calling for was conceived and written by Arthur Laffer, the same economist who gave us 'supply side economics' and a quintupling of the U.S. Federal deficit to more than \$200 billion within four years.

Laffer's proposal was that the U.S. Treasury would be required to hold gold the value of which was equivalent to 40% of the Treasury notes outstanding.

He purposefully excluded Federal Reserve Notes. Most currency issued after the 1960s was Federal Reserve Notes.

When asked about this in private, Laffer acknowledged that it was a conscious omission. He said that the key to a gold standard was to restore public confidence in the dollar. If people thought Treasury Notes were backed by gold and did not realize that the Federal Reserve Notes being printed were not, the Treasury could print money with no restraints, while giving the public the false impression of the monetary discipline they thought a gold standard would provide.



The Truth About Monetary Systems

The only monetary system that has not failed is the current one.

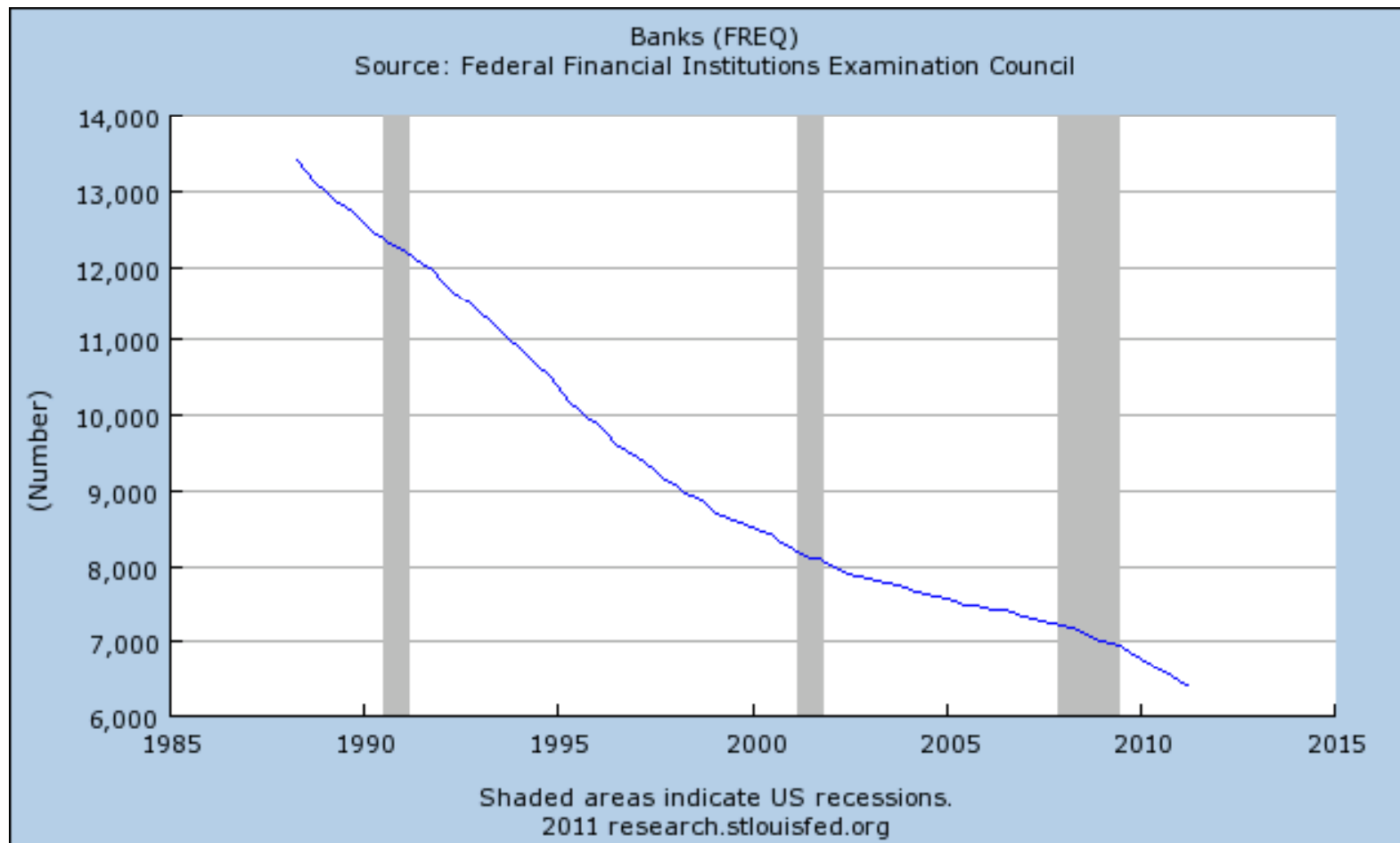
All previous monetary systems failed at some point.

Almost all previous monetary systems were backed by gold or silver. All of them failed. In other words, having a monetary system backed by gold and silver does not mean that it will be stable and long-lasting.

Does anyone else remember the series of currency crises from the middle of the 1950's through 1971?

Does anyone else realize that we went off of the gold system progressively in 1968 and 1971 because it was breaking in pieces and causing massive economic problems around the world, including here in the United States?

The Banking Industry's Contraction Is Not New



The Truth About Unfunded Liabilities

Everyone has heard about the enormous “unfunded liabilities” of the United States government. We were told in June they have risen to \$61.6 trillion dollars.

- **But what does this mean?**
- More importantly, **over what period of time** are these ‘liabilities’ ‘due?’ **That’s never said.** The demagogues never specify whether they it is 20, 30, 40, or more years.
- **Even more important is the issue of the government’s earning power during this period.**
- How much can the government earn during this time, relative to these ‘unfunded liabilities.’
 - The answer depends on the tax rate, and the U.S. economy’s growth rate.
 - At the current Bush rates topped at 35% and 2% real GDP: \$152 trillion over the next 20 years, \$306 trillion over the next 30 years.
 - At the Clinton rates topped at 39.6% and 2% real GDP: \$159 trillion over the next 20 years, \$319 trillion over the next 30 years.

The reality is that these ‘unfunded liabilities’ have been used to scare financially unsophisticated voters for decades, trying to frighten voters into accepting sharp reductions in their living standards for no good reasons whatsoever.

When Politicians Pretend To Understand Economics

"If this guy [Fed Chairman Bernanke] prints more money between now and the election, I don't know what y'all would do to him in Iowa, but we would treat him pretty ugly down in Texas. Printing more money to play politics at this particular time in American history is almost treacherous, or treasonous, in my opinion."

~~President Herbert Hoover, 1931~~
Governor Rick Perry, 2011

Gold

Gold Market Volumes: You Thought 100:1 Was High?

Gold Market Volumes

Million Troy Ounces

	<u>2010</u>	Multiples of Physical Annual Supply
Annual physical supply and demand	120.8	
Futures and Options exchanges trading volumes	6,438.80	53.3
London market clearing volumes	4,727.70	39.1
subtotal, exchanges and London	11,166.50	92.4
NEW DATA		
London turnover *	42,374.97	350.8
Total exchanges and new London turnover	48,813.77	404.1

* Based on a new survey of actual turnover rather than clearing volumes by 36 of the 56 London bullion market members, in the first quarter 2011. The figure here is the first quarter 2011 data multiplied by four; insofar as the market is running with higher turnovers in 2011 compared to 2010, this may overstate the relationship of total turnover to underlying physical supply.

The Gold “Confiscation” of 1933 - 1934

On 5 April 1933 the U.S. federal government decreed (Executive Order 6102) that all private citizens would be required to turn in their gold certificates and gold coins by 1 May 1933, a program that was later extended until the end of January 1934. The Treasury had estimated that it had issued **58 million ounces** of gold coins and certificates as of the end of February 1933. The U.S. Treasury had issued **28 million ounces of gold coins prior to 1933.**

40 million ounces of gold were turned in before the end of March 1933 -- before the decree took effect.

- Another **4 million ounces** were turned in within the first month following the passage of the law, by the 1 May 1933 initial deadline for U.S. residents to exchange their gold for dollars.
- Only another **2 million ounces** more were turned in during the subsequent 9 months, while the program continued.
- The Treasury reported that **8.2 million ounces** of gold in coin form must have been exported or “lost,” since it was not turned in.

- **The entire process was based on citizens voluntarily turning in their gold, with no enforcement. (Compare that to prohibition.) Holders of 83% of the gold voluntarily complied before the law even went into effect.**
- **The government did not coerce anyone to turn in their gold.**
- **The government did not go through people’s safety deposit boxes, homes, or other locations looking for and physically confiscating gold.**



Gold Is Poorly Correlated to the Dollar and Inflation

Given gold's historical role as a financial asset and a monetary asset, and the special place in mankind's dreams occupied by gold, gold also is the subject of many belief systems and superstitions that do not hold up to statistical scrutiny.

Correlations

Monthly

Gold	Inflation	TWD	DJIA	S&P	T-Bill	T-Bond
1970 - 2009	0.08	-0.28	-0.03	-0.05	-0.07	-0.11
2000 - 2009	-0.07	-0.41	-0.17	-0.12	-0.07	-0.17
2006 - 2009	-0.06	-0.45	-0.13	-0.11	0.00	-0.09

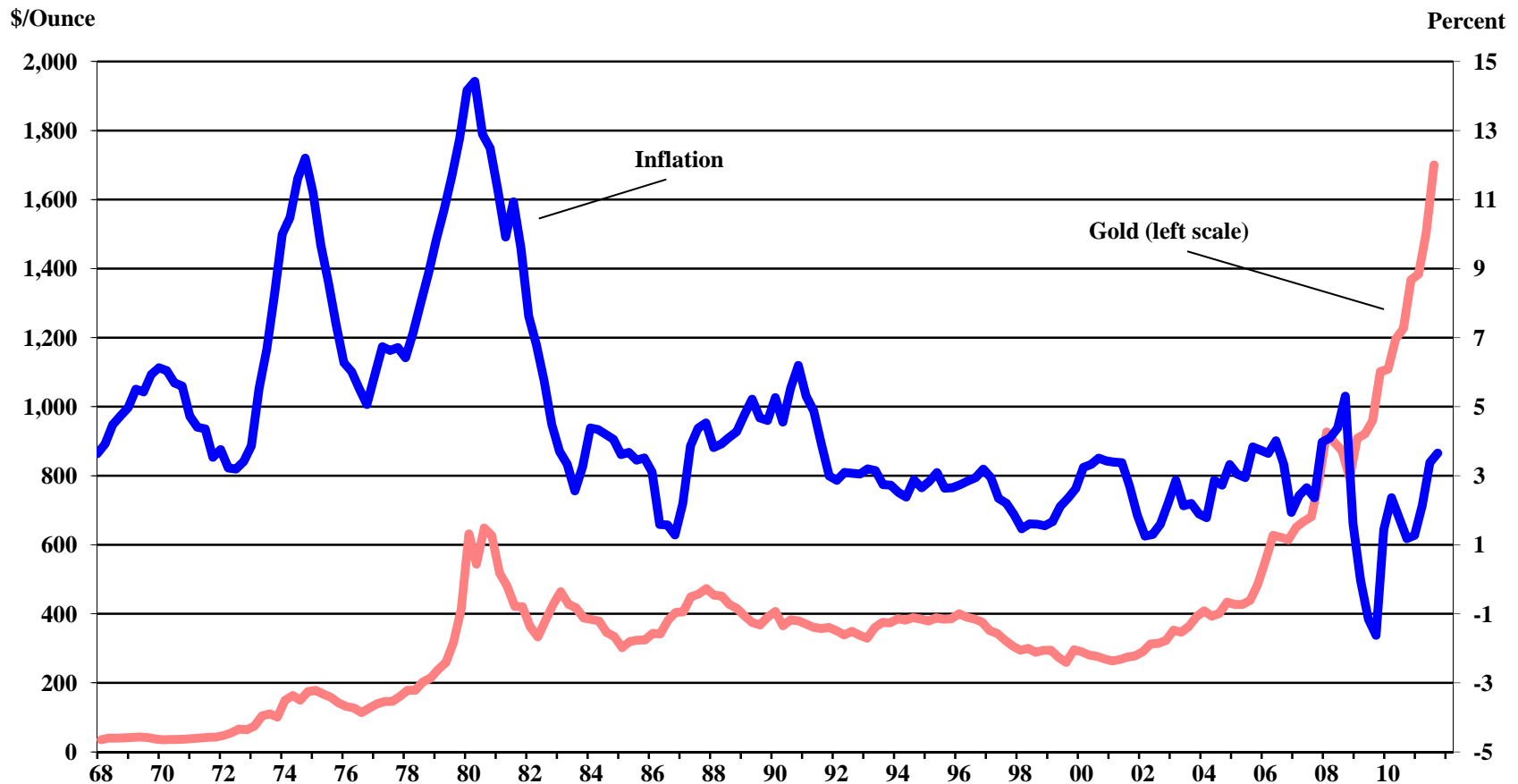
Note: TWD - Trade Weighted Dollar. 2008 Through December.

Source: CPM Group

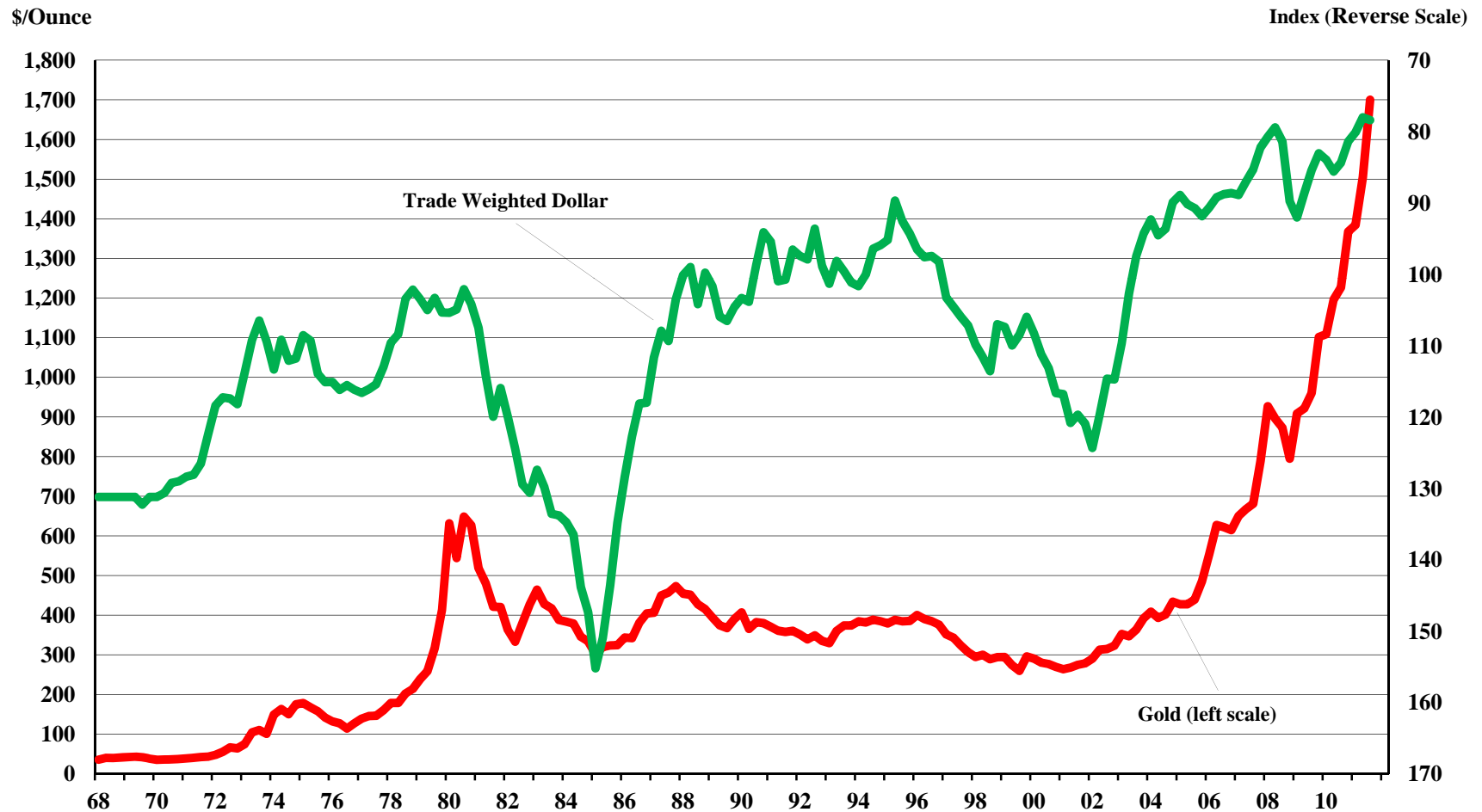
Gold Prices Are Not Highly Correlated to Inflation

Gold and U.S. Inflation

Quarterly, Through Third Quarter 2011

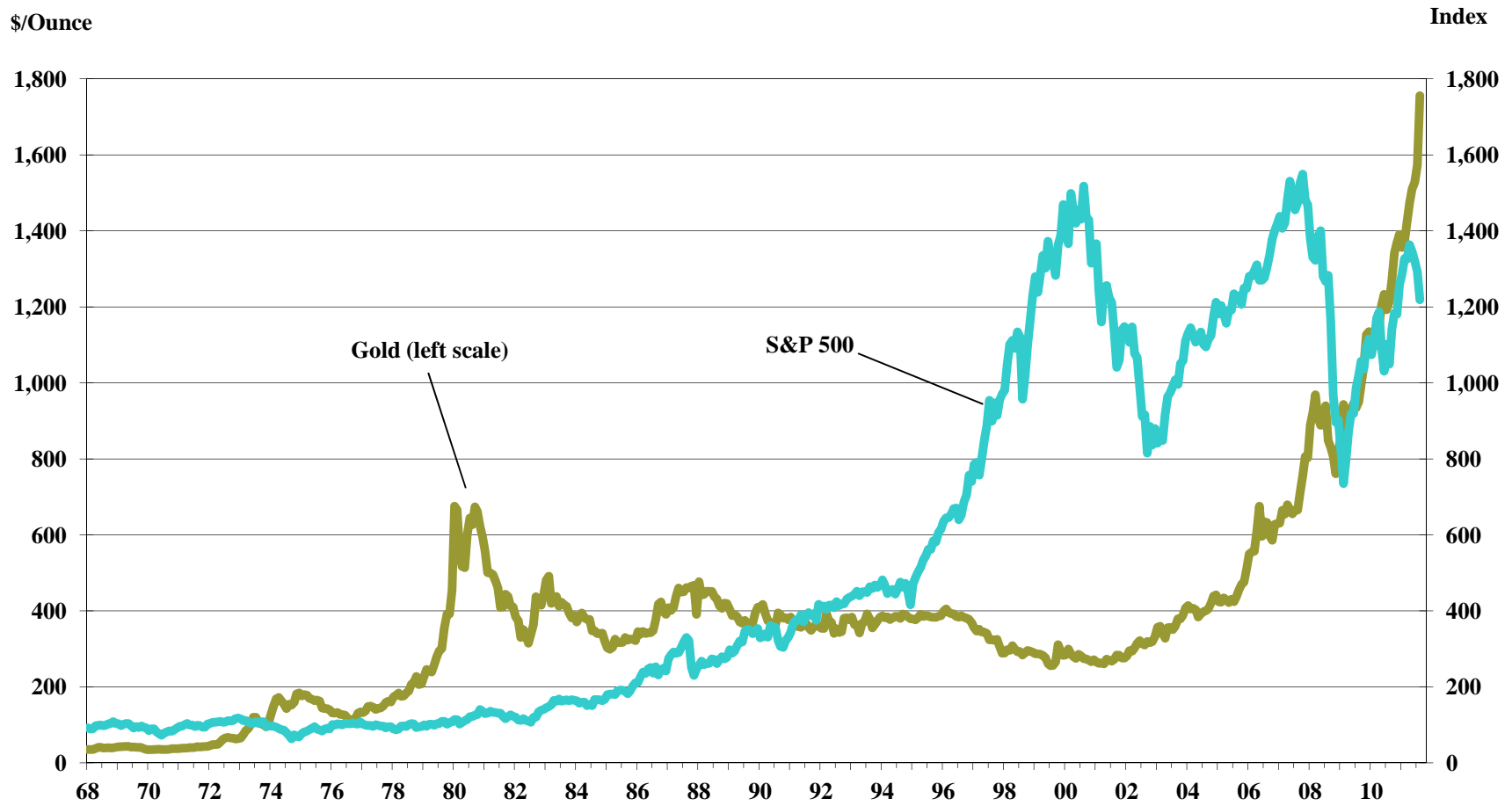


Gold Prices Do Not Trade Against the Dollar *Through Third Quarter 2011*

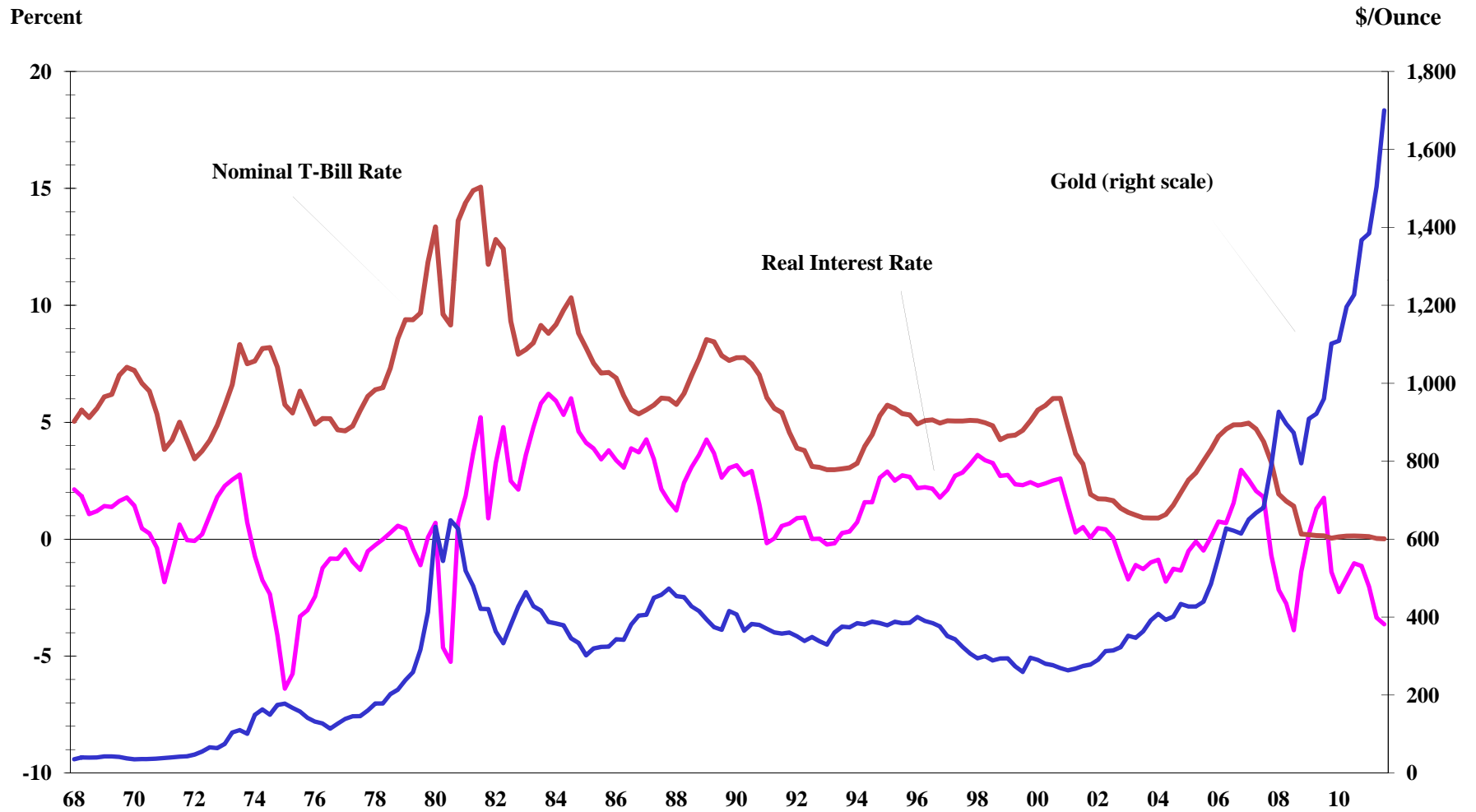


Gold Does Not Trade Opposite Stocks

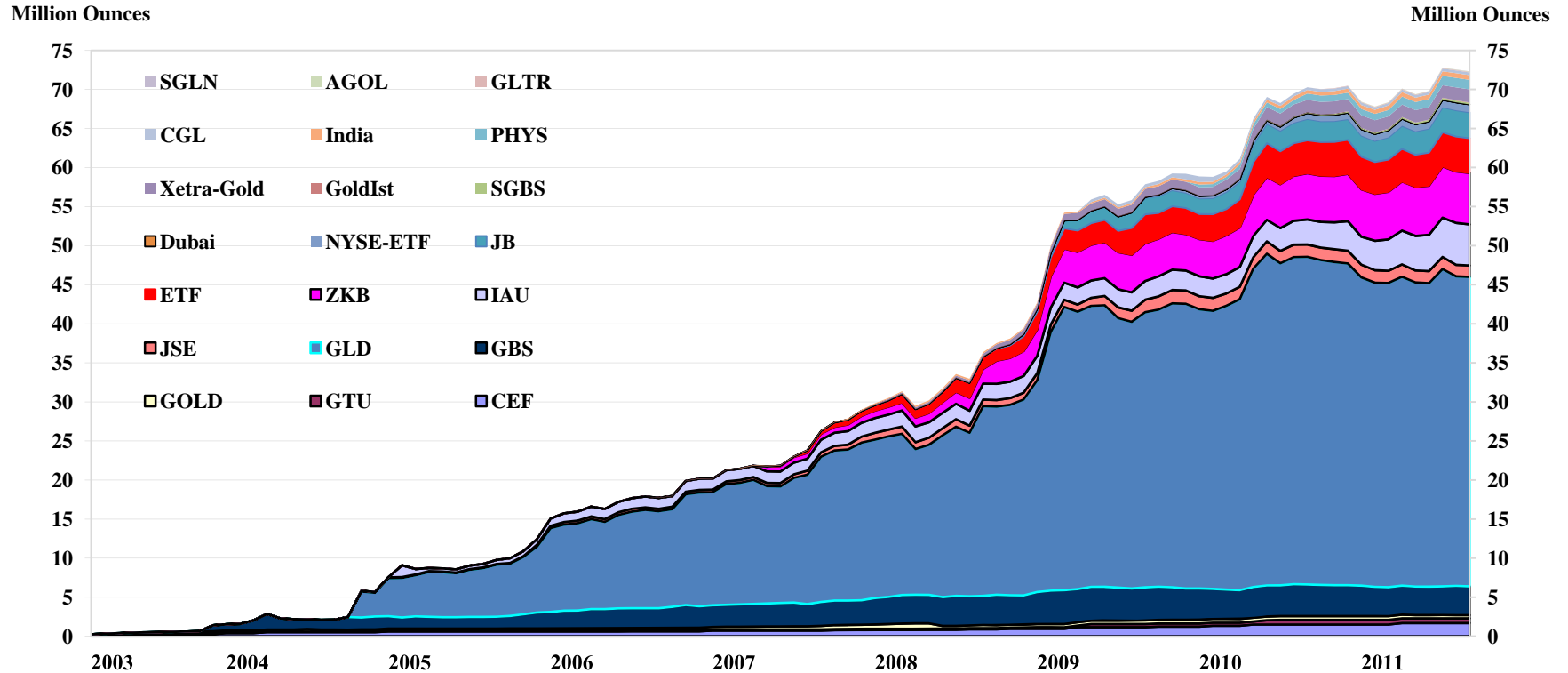
Gold and the S&P 500
Monthly, Through August 2011



Interest Rates Are Key, But Not Directly Statistically Related



Gold ETFs Are Only Around 20% of Recent Investor Demand



Note: CEF-Central Fund of Canada traded on the Toronto Stock Exchange. GOLD-Gold Bullion Securities traded on the Australian Stock Exchange, GBS-Gold Bullion Securities traded on the London Stock Exchange, GLD-Streettracks Gold Shares traded on the New York Stock Exchange, GLD (JSE)-Gold Bullion Debentures traded on the Johannesburg Securities Exchange, IAU-ISHares Comex Gold Trust traded on the American Stock Exchange, ZKB-Zurich Cantonal traded on the Swiss Exchange. JB-Julius Baer traded on the Swiss Exchange. ETF-ETF Securities traded on the London Stock Exchange. GOLD Dubai traded on NASDAQ Dubai. NYSE ETF-ETF Securities traded on the New York Stock Exchange. SGBS - ETF Securities' Swiss Gold traded on the London Stock Exchange. GTU-Central Gold Trust traded on the Toronto Stock Exchange. GOLDIST-Takasbank's ETF traded on the Istanbul Stock Exchange. Xetra Gold-traded on the Frankfurt Stock Exchange. PHYS-Sprott Gold Trust traded on the New York Stock Exchange. India-Indian exchange traded funds' gold holdings in this data series includes Gold Bees, UTI Gold, Kotak Gold, Reliance, Quantum, SBI GETS, and Religare. CGL-Claymore Gold Bullion ETF traded on TSX. GLTR - ETF Securities' precious metals basket ETF traded on the the New York Stock Exchange ARCA. Note: Closed end funds are included in this table since they hold physical gold. Data as of 11 March 2011.

The World Is Not Running Out of Gold

Gold Reserves in 1981 and 2008, in millions of ounces.

1981	
Reserve Base	1,010
Annual Production	44
Cumulative Production 1981-2007	1,833
2008	
Reserve Base	7,073
Total, Cumulative Production and Reserve Base	8,906

Silver

The World Also Is Not Running Out of Silver

Silver Reserves in 1981 and 2008, in millions of ounces.

- Investors and others confuse Reserve Base with total world Resources, and express unfounded concerns that the world is running out of silver.
- Reserves increase in response to price changes, new exploration and recovery technologies, opening up of new exploration territory, changes in legal and regulatory policies, and other factors.
- Today there are larger reserves than there were three decades ago.

1981

Reserve Base

8.1 (Bil. Oz)

Annual Production

0.4

Cumulative Production 1981-2007

13.7

2008

Reserve Base

18.3

Total, Cumulative Production and Reserve Base

32.0



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Where Has All The Silver Gone?

Changes In Silver Inventories

	Comex			Silver ETF Inventories
	Comex Registered Inventories	Comex Eligible Inventories	Total Reported Inventories	
31 Dec. 2010 - 30 June 2011	-17,645,690	12,528,480	-5,117,210	-48,869,247
31 Dec. 2010 - 30 September 2011	-14,645,150	17,301,720	2,656,570	-17,501,076

While conspiracy marketers tried to focus attention on a decline in Comex registered inventories in early 2011, they conveniently ignored the fact that most of the metal was merely shifting to eligible and not physically moving from Comex registered depositories.

More significantly, they failed to mention that more than five times as much silver had been sold by ETF investors, and did not dare admit where that metal had gone.

Reality Check: ETFs Hold More Silver Than Comex

Total Reported Silver Inventories

	Comex	Comex	Comex		ETF Holdings Far Exceed Comex
	<u>Registered</u>	<u>Eligible</u>	<u>Total Reported</u>	<u>ETFs</u>	<u>Inventories ETF/Comex</u>
31 December 2010	45,736,400	58,831,240	104,567,640	591,849,500	5.66
30 June 2011	28,090,710	71,359,720	99,450,430	542,980,254	5.46
30 September 2011	31,091,250	76,132,960	107,224,210	574,348,425	5.36

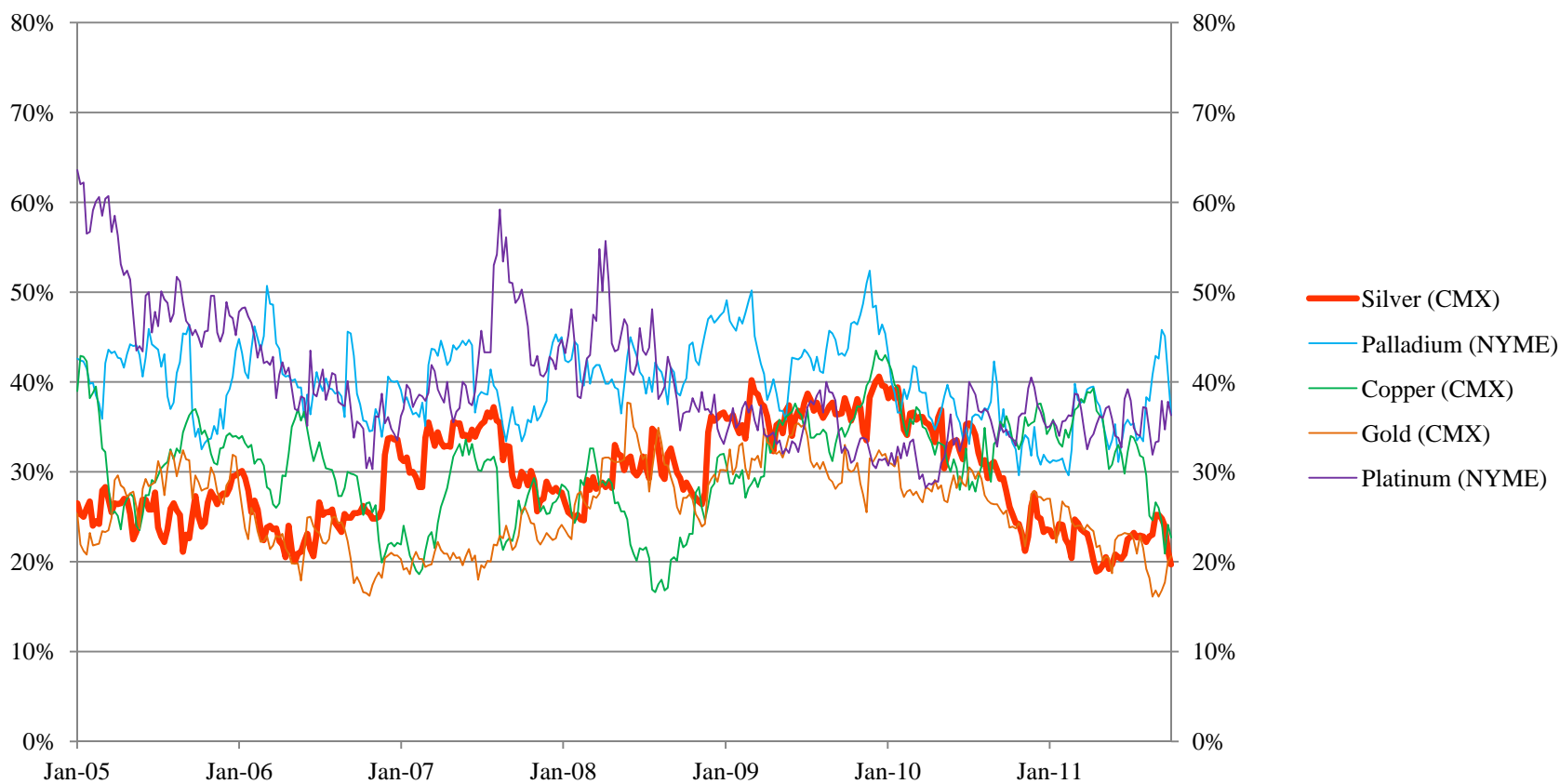
If you want to honestly analyze reported market inventories, you have to include all reported market inventories, not just Comex. The only two explanations possible for only focusing on Comex statistics is that you either are not doing a good job analytically, or you are consciously trying to distort market reality to make a point that is invalid.



Concentration of Commodities Futures Positions

Concentration of Net Short Positions by 4 Largest Traders

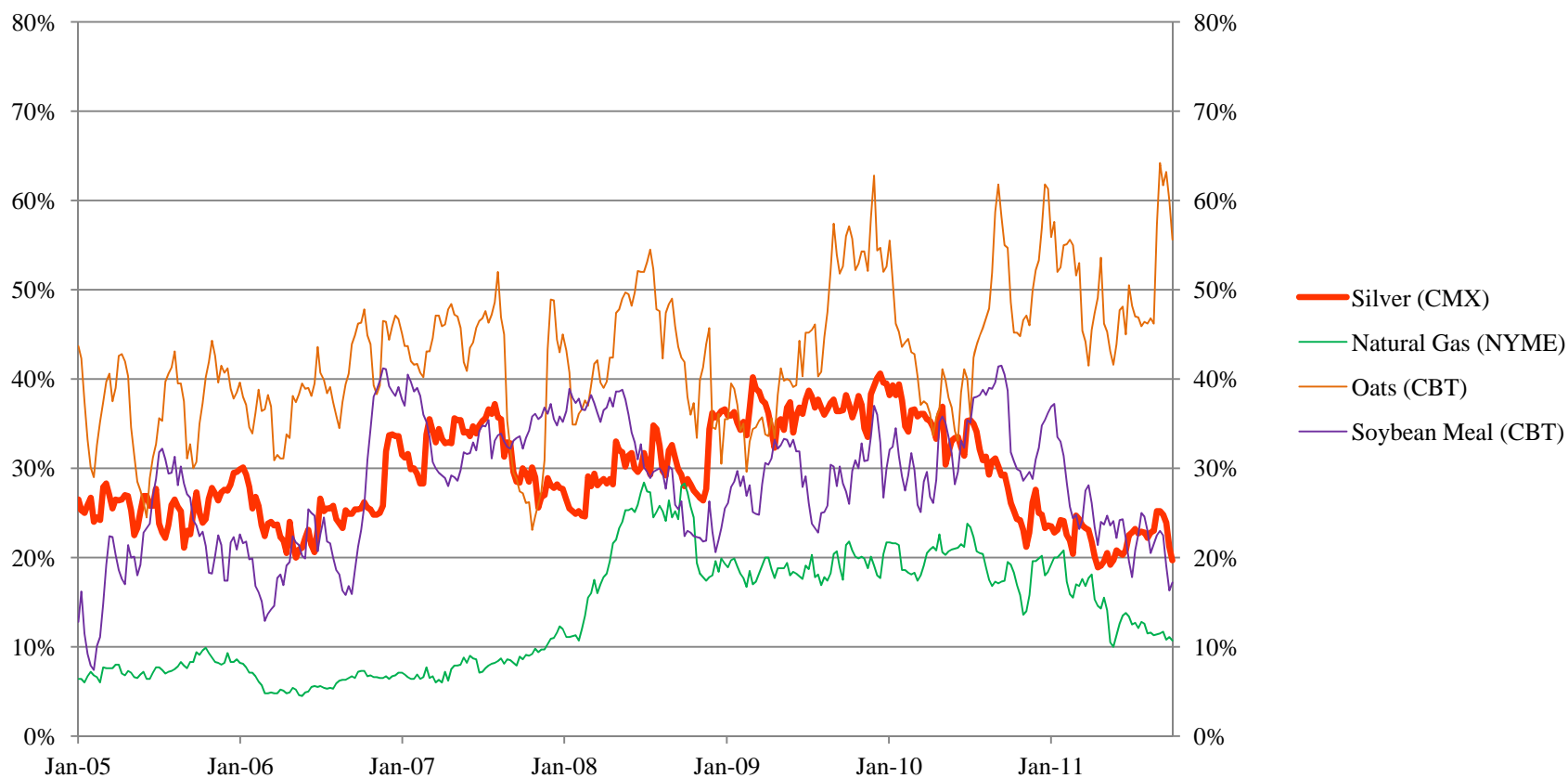
Weekly, Through Sept 2011



Concentration of Commodities Futures Positions

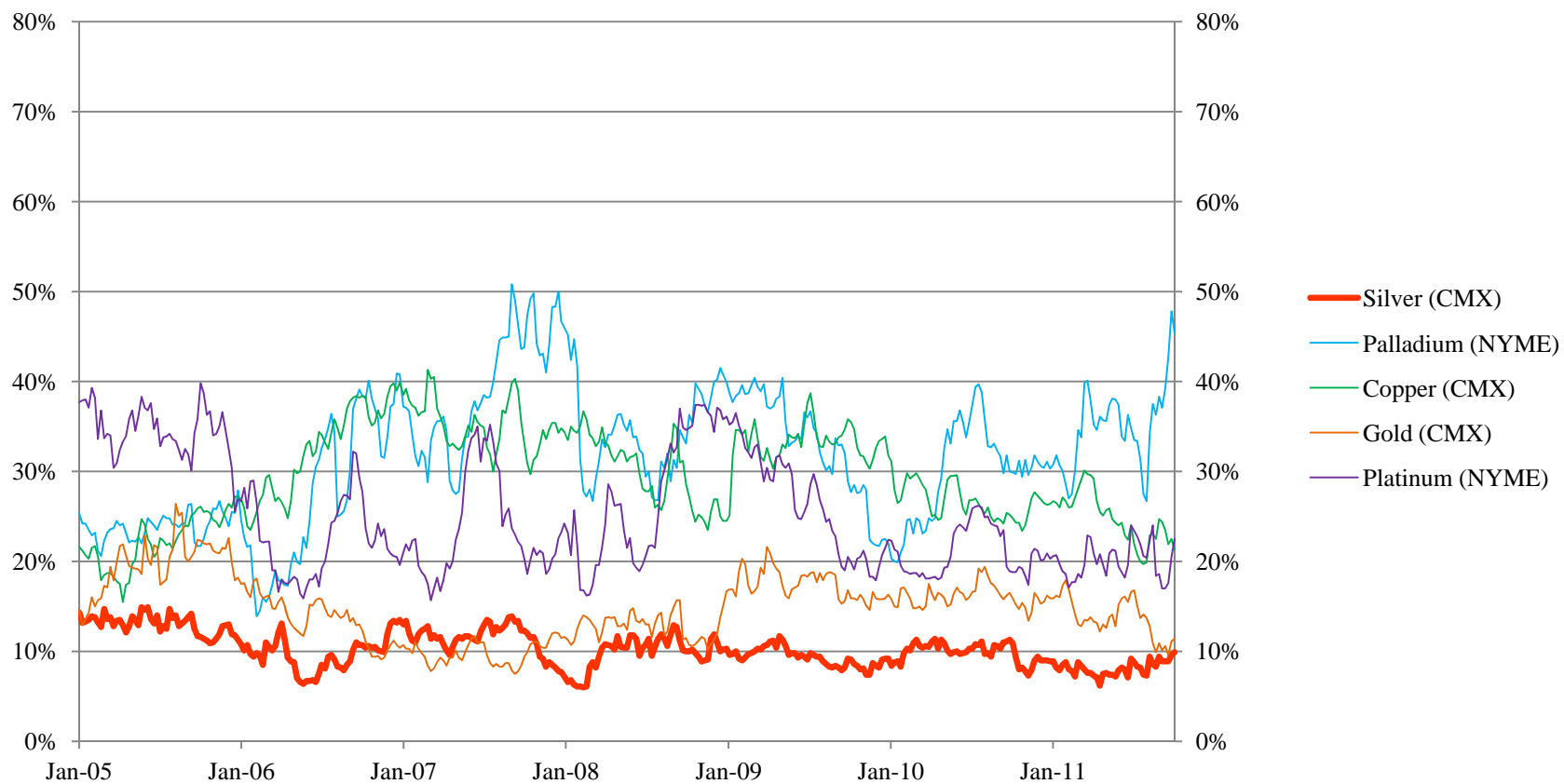
Concentration of Net Short Positions by 4 Largest Traders

Weekly, Through Sept 2011



Concentration of Commodities Futures Positions

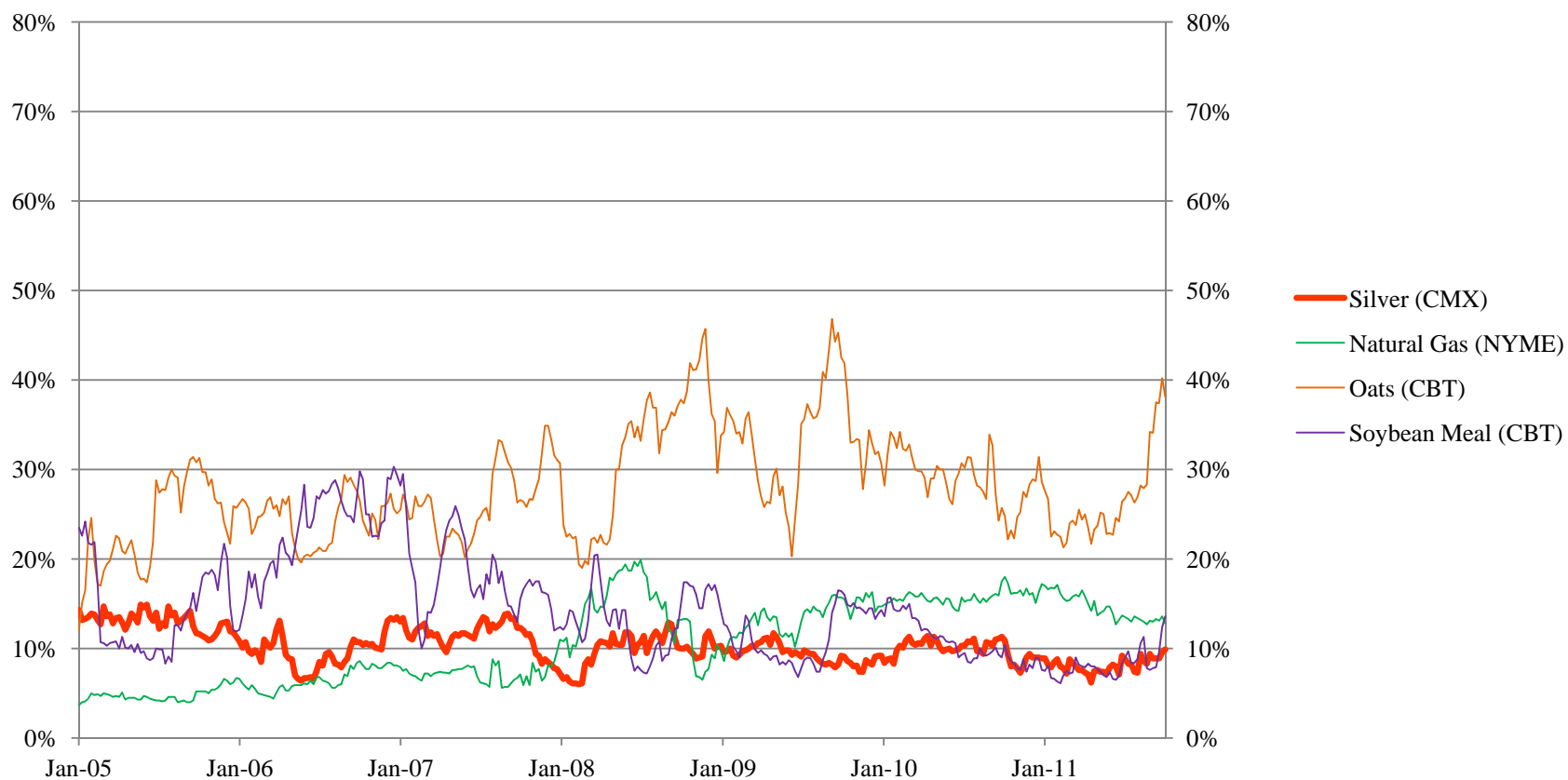
Concentration of Net Long Positions by 4 Largest Traders
Weekly, Through Sept 2011



Concentration of Commodities Futures Positions

Concentration of Net Long Positions by 4 Largest Traders

Weekly, Through Sept 2011



Banking 101

Banks make money by lending it out. Banks tend not to take big price risks. Banks make small fees, typically a percentage of the value of a transaction.

JPMorgan is experiencing record profits in its silver and gold trading desk. Because:

- It has no negative price exposure, running a hedged book, and
- The dollar value of its margins has risen enormously with the higher metal prices.

Example: A simple silver lease, at 3.0%.

- First quarter 2010: Silver at \$16.92 average price, 3.0% interest: \$0.51/oz lease.
- First quarter 2011: Silver at \$31.74 average price, 3.0% interest: \$0.95/oz lease.
- Third quarter 2011: Silver at \$38.86 average price, 3.0% interest: \$1.17/oz lease.

There are two big differences between JPMorgan on the one hand and Bear Stearns and Lehman Brothers on the other hand.

- First: JPMorgan is a bank. Bear and Lehman were not commercial banks.
- Second: JPMorgan is still in business. Bear and Lehman went bust.
- Why is this? Because JPMorgan is a bank, not a brokerage company. It does not take price risks. Bear and Lehman did.



The Conspiracy to Bilk Silver Investors

As a result of the way banks work, the ‘conspiracy’ to drive JPMorgan into bankruptcy by encouraging investors to buy silver coins and bars actually has provided the bank record profits on its silver bullion banking business.

I thought the conspiracy to try to drive JPMorgan into bankruptcy via silver purchases was silly, and was doomed to fail.

Then, someone explained to me that I missed the point entirely. The ‘plot’ to destroy JPMorgan was put forth and promoted to silver investors by people who sell coins, small bars, and silver ‘trusts’ that trade at obscene premia to real silver ETFs. These guys have made a fortune selling coins, small bars, and churlishly structured ‘trusts’ based on their promotion of the plan to ‘bankrupt’ JPMorgan. They knew at the outset that this would not bankrupt JPMorgan. They also knew that they would make a fortune off of investors by selling them overpriced silver investment products.

The Truth About the Hunts

The Hunts were not trying to corner the silver market. They were trying to ride a wave they saw inevitably coming to silver, and maybe help that wave along by promoting silver investments to others, after they had built their position.

The rules were not changed on the Hunts. The rules were imposed. The rules always gave the Comex management the right to impose such trading restrictions as it deemed necessary to avoid market collapses. The Hunts should have remembered those rules.

The two things that led to the destruction of wealth in the Hunt silver position were

- * Operational procedures within their corporate structure.
- * They had taken margin money out of silver as the price rose and put it into less liquid assets, so that when prices began to deflate, they did not have as readily available cash to meet the margins on the downward slope as on the upward slope.



*Case Study: Silver Market Events
In April and May 2011*

Silver Prices in April 2011, through 6 May



Silver prices rose sharply during April. Market commentary said it was due to a rush of investors into silver.

But investors were not buying much silver in April. Other factors were driving prices.

This led CPM to issue a report saying silver was about to fall from \$49 on 29 April to around \$37.

Guess What Drove Silver Prices Higher?

Silver In April 2011

	<u>31 March 2011</u>	<u>29 April 2011</u>	<u>Change</u>	<u>6 May 2011*</u>
Prices	\$37.89	\$48.58	28%	\$35.29
May Comex Open Interest	367,510,000	7,590,000	-359,920,000	3,135,000
Silver ETF Holdings	601,180,112	603,295,965	2,115,853	578,597,564
Coin Premia				
Eagles	9.3%	8.7%		13.2%
Maple Leafs	6.5%	5.3%		8.4%

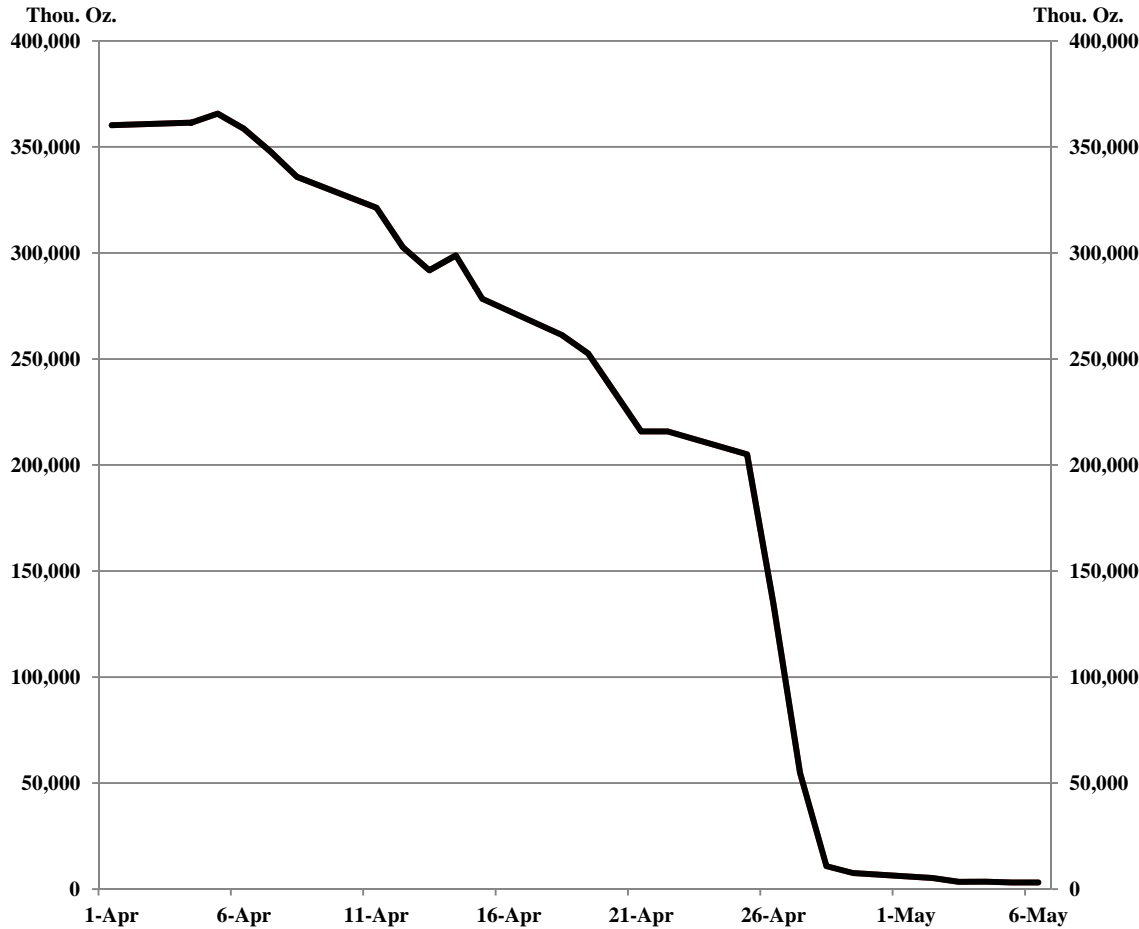
May Comex futures contract open interest and Silver ETF holdings are as of 5 May.

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6 May 2011

May 2011 Comex Open Interest

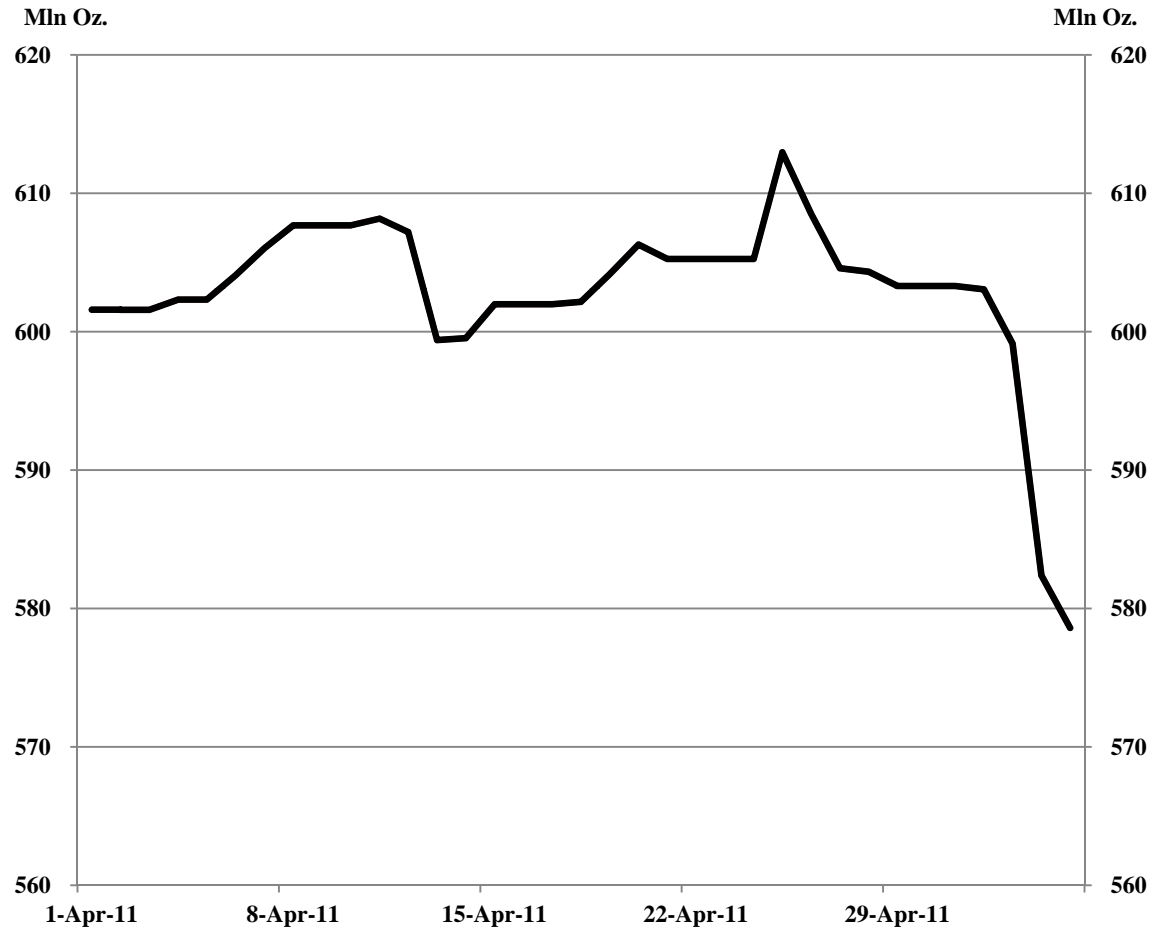
Silver Comex May Contract Open Interest



The roll of short positions out of the May Comex silver futures contract was the major factor behind the rise in silver prices in April.

Investors were not buying silver ETFs in April

Combined Silver ETF Holdings, 1 April 2011 to Present



ETF investors were not buying silver in April.

Nor were investors buying a great volume of silver in coin or bar form. Coin premia actually fell during April as coin investors were selling coins to take advantage of the rise in prices.

The Truth About Margins and Exchanges

Increasing margins at times of rising prices is more costly for shorts than for longs.

Except insofar as the shorts have physical silver as collateral for their shorts.

Margins hurt longs if the prices are falling and they bought at the top of the market.

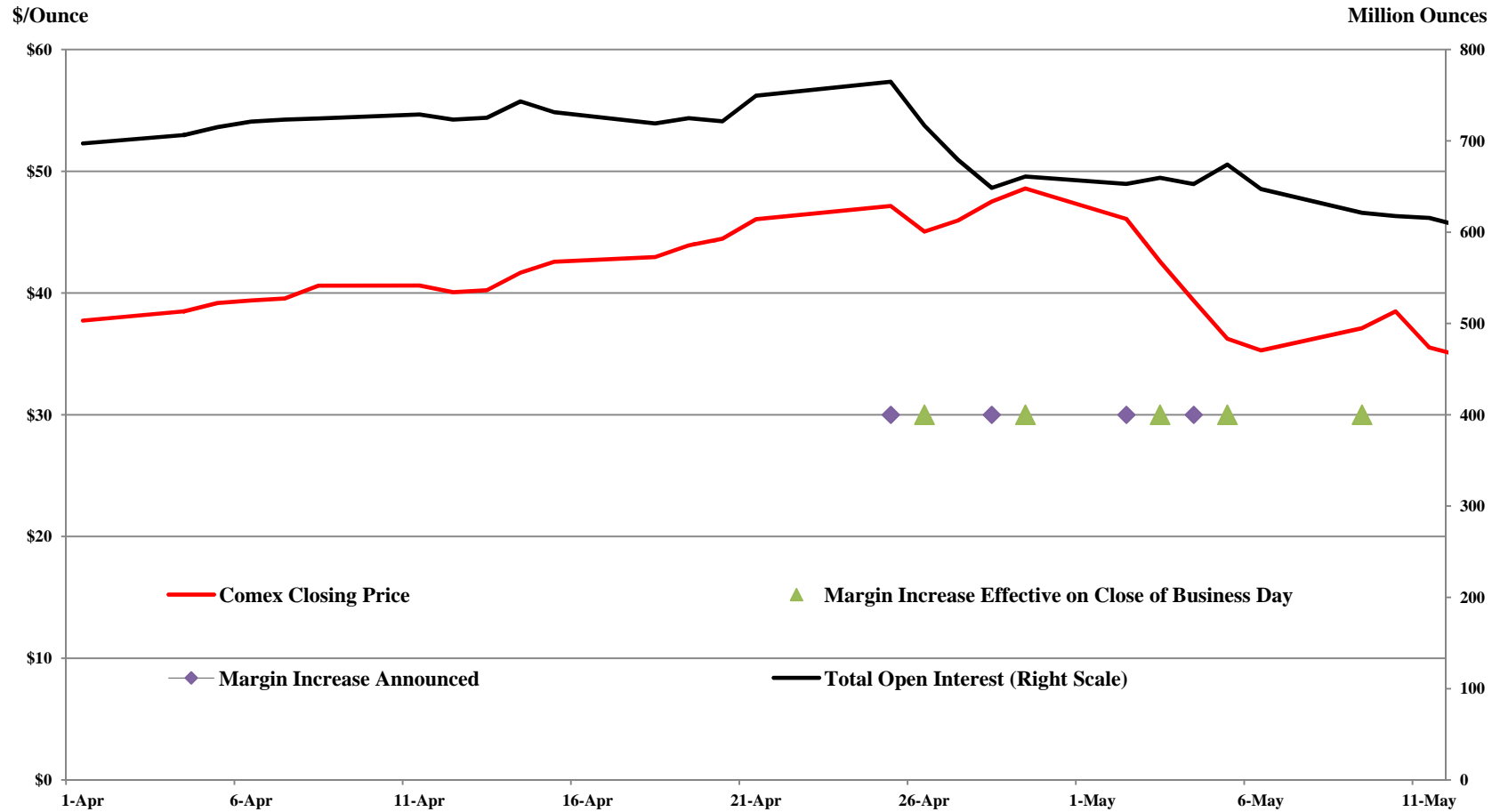
No U.S. regulated futures exchange with a clearinghouse has ever had a default.

All of the problems in 2008 occurred in non-exchange traded assets. The regulatory powers focus more on exchange-traded assets, however. The legislative and regulatory reforms so far enacted and proposed focus on regulated markets, and seem most likely to drive liquidity from the more secure, more transparent, better regulated and cleared markets into less secure, more opaque overseas and over the counter markets.



Comex Margin Changes Did Not Cause Price Decline

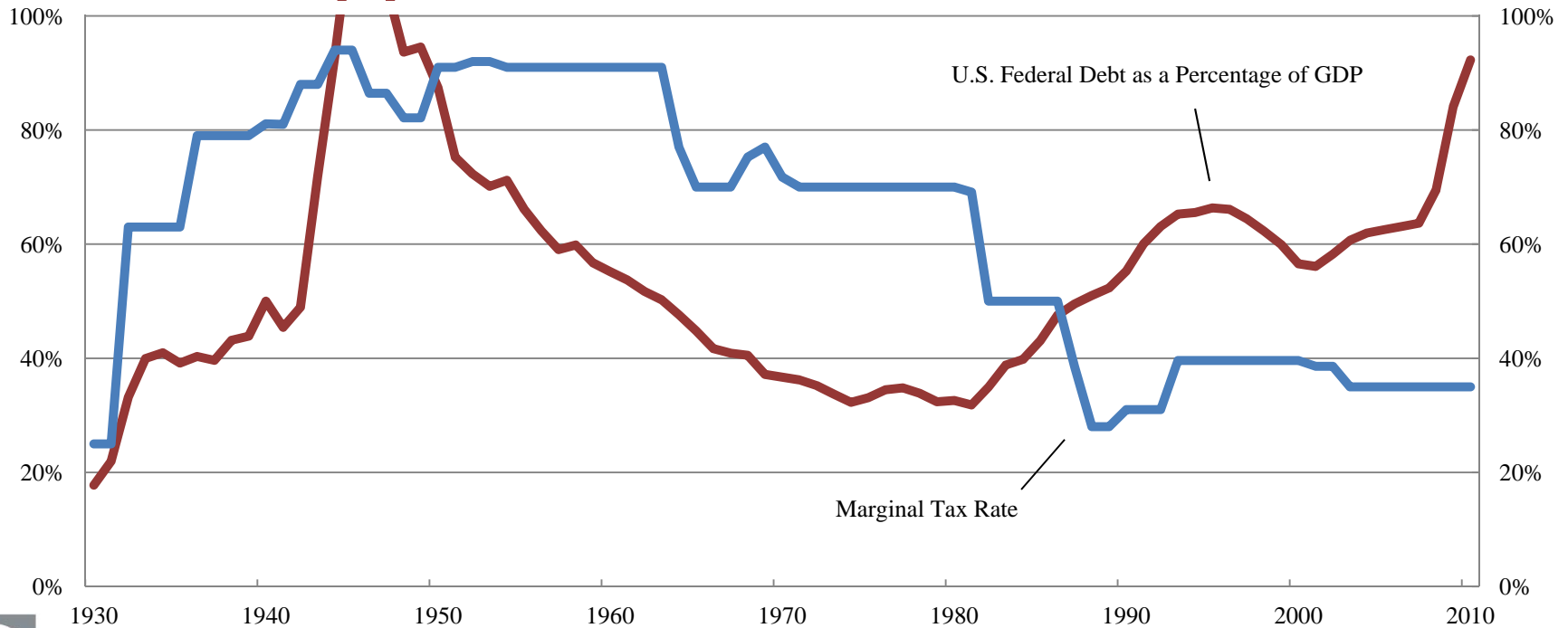
Silver Closing Prices, Total Open Interest, Comex Margin Increases
April 2011 Through 13 May 2011



Final Point

Defining Political Will

U.S. Federal Debt as Percentage of GDP
Annually, Through 2010



Thank You, and You Are Invited...

Question Your Assumptions: Open Questions with Jeff Christian

You are all cordially invited to an open question and answer period with me at 9:00 p.m. this evening, after the Silver Baron's Banquet, with coffee and dessert, in the Flowerfield Room.

CPM Group's Jeffrey M. Christian debated GATA's Bill Murphy on 15 May 2010, on Jim Puplava's Financial Sense. That audio debate is reviewable at the following link.

<http://www.financialsense.com/financial-sense-newshour/broadcast/2010/05/15/02/the-great-gold-debate>

Or at: http://presentation.kitco.com/download/jc_debate.mp3

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