Battle of The Titans in the Gold Market

In his own words, we can thank gold bull and investor Eric Sprott for the recent retreat in the gold price below US$1,500 per ounce. These comments were made on September 26th at an industry conference hosted by Red Cloud Securities in Toronto. Mr. Sprott suggested that the bankers who are known to trade down the gold price affected this price drop knowing he would be talking up the price at this event, and to “piss him off”. He takes the [gold market](#) personally and it is this commitment and understanding that makes Sprott a significant voice for the gold industry – one that is heeded.

Mr. Sprott took pleasure in showing an indictment of JP Morgan related to gold price manipulation by the bank and its precious metal traders. But he believes this price manipulation still exists in the market but its influence is being diminished as the London Bullion Markets (LBM) fix price is no more. This was an appropriate term as a graph depicting potential gold price over a significant period on the LBM was net $2 per ounce based on LBM trades. However, trading outside the LBM would have pushed the price to net $20,000 per ounce for the same period.

This illustration highlights a battle in the gold market: the banks that are selling or shorting gold and it is the public that our buyers taking the hit looking for higher prices. It is this market where standard supply and demand forces are not totally observed and that the precious metal miners must operate. This additional risk is the bane of the industry and one that keeps some investors away.

Gold continues its recent flirtation with $1,500 an ounce but the price support remains. The main factors pointed out by Mr. Sprott to support and move gold higher were: interest rates;

inflation; repo rate; and gold market size.

Interest rates are lower than the real cost of financing. The US is a bankrupt country with a 22 trillion dollar economy and a 1 trillion deficit a year, but entitlements go up to $5 trillion a year as healthcare costs are now 20% of business costs. Banks continue to add charges besides the borrowing costs. This is tied to the real inflation rate. He sees the CPI is not the real measure of this. Actual inflation costs in the US incurred by the consumer are said to be up to 8% year-over-year. Gold rises in an inflationary environment as a store of wealth.

There is a liquidity crisis in the banking system highlighted by a recent jump in the overnight repo rates from 2 to 10%. This is a big additional risk in the financial sector. It adds to the continuing support for the gold price.

The gold market is around one half of a percent of the total market value. The Gold mining business only adds an extra 1.5% of gold extracted per year. In the current market and economic backdrop, many financial gurus are calling for increased exposure in the gold market. Mr. Sprott mentioned portfolio manager Ray Dalio making the case for a 5 to 10% weighting in one's accounts in gold. Due to the relatively small size of the gold market, any secular movement into it would create significant price moves as supply and demand could impact the gold sector positively in this way.

Mr. Sprott is a well-known supporter and investor in the gold sector. This recent presentation highlighted the factors he and others believe, including me, supporting the gold market and shows the potential to increase the bullion prices and independently create demand for sector exposure, leading to increasing gold market values. Mr. Sprottt invested in more than a dozen gold players in the past year putting his money where his mouth is. Can others take up this battle with him?