Written by **Alex Newman** on February 22, 2013

Amid Record Demand in 2012, Central Banks Scramble to Buy Gold

The global demand for gold hit a new record value level in 2012 and central banks around the world were gobbling up the precious metal at rates not seen in nearly 50 years, according to findings released by the World Gold Council this month. The industry council said that in value terms, gold demand in 2012 was over $235 billion — an all-time high — and fourth-quarter figures of more than $66 billion marked the highest Q4 total ever.

Central bank buying, especially in the developing world, was responsible for about 12 percent of the total demand for gold in 2012, up from 10 percent the previous year. According to the council's research, even as the price of the precious metal averaged a record $1,669 for the year, central bankers bought more than 534 metric tons — the highest level since 1964 and 17 percent more than in 2011.

The central-bank buying spree was led by monetary authorities in Russia, Brazil, Iraq, and other developing nations. Analysts said the exploding demand was part of a worldwide effort to diversify away from the troubled U.S. dollar and the severely embattled euro as the global economy continues to struggle, with more than a few experts harping on so-called "currency wars" as central bankers race to devalue their fiat currencies through inflation of the currency supply.

Chief market analyst Ric Spooner at CMC Markets told CNBC that he expected the trend to continue, pointing to a "broad tendency for the U.S. dollar to decline in value with the Federal Reserve's QE (quantitative easing) policies." Assets like gold, he added, "are a hedge against debasement against foreign exchange reserves."

Marcus Grubb, managing director of investment research at the U.K.-based World Gold Council, noted in a statement that China and India remained the world's gold "power houses" despite troubled domestic economic conditions. Even in the face of Indian government policies aimed at curbing demand, Grubb said, consumer sentiment toward the precious metal remained strong in India, reaffirming the important role played by gold in that nation with its "underdeveloped" financial system.

"Notwithstanding the predicted economic slowdown in China, investment demand was up 24 percent in Q4 on the previous quarter and jewelry consumption held steady at 137 tons," Grubb explained. "Central banks' move from net sellers of gold, to net buyers that we have seen in recent years, has continued apace. The official sector purchases across the world are now at their highest level for almost half a century."

Despite what Grubb called "the turbulent macroeconomic climate" throughout 2012 and the regional uncertainties plaguing both India and China — the two largest gold markets in the world — annual demand was 30 percent higher than the average for the past decade. The council, an industry group based in London, also expects monetary authorities to keep buying more of the precious metal in an effort to diversify their reserves.

"We think that the current rate of net central bank purchasing, driven by emerging countries, is likely to continue to be very strong," Grubb explained. "This is very much due to a desire to diversify away from over-reliance from the dollar and the euro." Both currencies have come under serious pressure — especially in recent years amid major economic and financial woes throughout the West.

IMF data compiled by Bloomberg showed that among monetary authorities, Russia's central bank was in the lead, adding some 570 metric tons over the last decade, 25 percent more than the Communist Chinese regime. Russian government boss Vladimir Putin, like other leaders on the global stage in recent years, has long complained publicly about the U.S. dollar's status as the world reserve currency and American authorities' abuse of that monopoly.

Policymakers loyal to Putin seem to believe in the strategy, too. "The more gold a country has, the more sovereignty it will have if there's a cataclysm with the dollar, the euro, the pound or any other reserve currency," Russian lawmaker Evgeny Fedorov with the United Russia Party told Bloomberg from Moscow, echoing sentiments expressed by other government leaders around the world.

Meanwhile, the latest data also showed that investors were also expanding their gold holdings last year. According to the World Gold Council, global investment in gold exchange-traded funds (ETFs) was up by more than 50 percent last year over 2011, though that slowed modestly during the fourth quarter.

Despite the seemingly bullish news, in recent days, gold prices have taken a serious beating, dropping down to $1,576 per ounce on February 22 — the lowest levels since mid-2012. Some analysts have tried to claim that an alleged "economic recovery" in the United States is dampening investor appetite for the precious metal as a safe haven against inflation and increased economic turmoil.

Experts and investors with solid track records, however, suspect something else is going on. Indeed, more than a few prominent analysts anticipate that the price of gold in terms of Federal Reserve notes will continue its decade-long meteoric rise over the coming years — especially with the privately owned U.S. central bank still creating gargantuan amounts of new debt-based currency to artificially prop up the economy by buying up everything from Treasury bonds to mortgage-backed securities.

Euro Pacific Capital chief Peter Schiff, who famously warned about the economic implosion that hit at the end of 2007 long before it happened, said part of the reason for the downward pressure on gold was an upbeat Fed forecast about the economy and an improving stock market. The U.S. central bank, however, has a terrible record, Schiff added, pointing out that the Fed was upbeat about the economy even after the greatest recession since the Great Depression had already started.

"People who are saying there is no reason to buy gold now never understood the reason people were buying it in the first place," Schiff said during a February 21 talk explaining the recent pullback in prices, adding that the continued currency printing by central banks was highly bullish for gold. "The point is this: Central banks are now aggressively pursuing inflation on purpose…. There are trillions of reasons to buy gold — there's more reason than ever to buy gold."

Other respected experts believe the price of gold is being artificially suppressed by Western central banks and especially the Federal Reserve. Gold Anti-Trust Action (GATA) Committee chief Bill Murphy, for example, told *The New American* in mid-2010 that even though the Fed was trying to hide its market manipulations, it was clear that there were shadowy influences operating behind the scenes.

"By suppressing the gold price, they can keep the dollar stronger than it would be and keep interest rates less than they would have been," Murphy explained, noting that the manipulation played a pivotal role in the recent economic meltdown. "What happens is every time gold prices soar, what do you hear?

Too much inflation? Crisis? It's always bad for the Wall Street crowd and the incumbent politicians.... If the gold price had been allowed to trade freely, interest rates wouldn't have been kept too low for too long."

At the same time, as *The New American* has documented extensively in recent years, there is a concerted global effort to dethrone the U.S. dollar as the world reserve currency — eventually, at least — and replace it with a planetary currency instead. Under that vision, which has found strong support among the highest echelons of power in government and finance, the global monetary system and world currency would be managed by a further-empowered International Monetary Fund (IMF).

Some experts suspect that the recent gold-buying binges by developing-market central banks are part of the long-term effort to eventually kill the fiat U.S. dollar, which is quickly being inflated into oblivion as the Fed conjures trillions into existence to bail out governments and big banks around the world. Analysts, meanwhile, broadly expect the rising price trends in gold and silver to continue over the coming years — at least as long as central bankers around the world, largely working together behind the scenes, keep printing currency like there is no tomorrow.

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