Gold by Montresor

The Soviets and the price collapse

The crashing of the gold price is of political benefit to the Russians and their allies in London.

The collapse of the gold price by over $35 during December, breaking all barriers to fall below $299 in Australia on Dec. 20, is the result of political warfare by the Soviet Union and its allies in Britain against President Ronald Reagan. While the simple might think that "the Russian," the world's second largest gold producer, would always act to keep prices high, the men in Moscow can see far beyond mere narrow economic interests.

Knowing they cannot stop Reagan from building his beam-weapon defense system, the Anglo-Soviet faction has decided to destroy the rest of NATO's economies and those of the Third World, by collapsing their currencies and commodity prices.

It is only this bashing of every other currency which explains why the dollar is strong for the moment, despite a 2% drop in the Fed Funds rate to the 7% range, and the lowest prime rate since August 1983. More small drops in the prime will come soon if the Fed lowers its discount rate as is expected.

The Soviets are acting to depress the prices of many commodities sold by U.S. allies, beginning with the joint Anglo-Soviet dumping of oil. Not only have real oil prices—what customers pay on the spot market after discounting—dropped $3 from OPEC's $29 posted price, but grain and other commodity prices are dropping. The *Financial Times* commodity index is down from 295 in late November to 285. This will hurt Latin American and African exporters badly.

Since Reagan's landslide election victory, the President and Secretary Weinberger have forcefully promoted a new beam-weapon defense of the United States. While the Soviets have 100 billion U.S. dollars to dump, they seem to fear that to crash the dollar now and let gold rise might provoke Reagan into declaring a bank holiday and putting the dollar back on gold.

For now, the Soviets have opted for destabilizations in a wide band of Asia, the Mideast, and Europe. Since the assassination of Indira Gandhi, all of Asia and the Mideast have been politically destabilized. India has been wracked by strikes and disasters such as the Bhopal gas leak. Not only Mrs. Gandhi, but Prime Minister Zia of Pakistan, King Fahd of Saudi Arabia, and King Hussein of Jordan are on Soviet-asset Qaddafi's hit list.

It is thus pure politics to encourage "safe haven" flight-capital to the United States, since economics shows the dollar is worthless, given the rotten U.S. economy and banking system. Now, with the collapse of oil prices, begun with British Petroleum's November price cut that is threatening to flatten the Gulf economies, Mideast flight capital is accelerating.

The Soviets are simultaneously bashing Europe, where again, smart money is getting out for political reasons. Since the Soviets "warned" Mrs. Thatcher with near-assassination, the oil price collapse and threatened collapse of the British economy has brought sterling down 20¢ to the $1.15 range. Top British analysts think it could fall to $1.00. Flight capital is still leaving Germany. U.S. Ambassador to Bonn Arthur Burns, who began the collapse of the German mark last December by predicting Germany will leave NATO, made a similar speech in mid-December, and the pro-Soviet Green Party is getting closer to toppling the conservative Kohl government. The Bundesbank dumped close to $1 billion in December to strenghthen the mark, but still the dollar sticks at the DM 3.10 level.

Even Switzerland is being hit, as its franc fell to 2.57 on Dec. 27, a 10% drop since June and a seven-year low, because Arabs and others are moving out of low-rate Swiss investments into dollar investments.

Deflation explains only some of the weakness of gold. Much of Asia-Mideast savings are held in gold, which must be and is being dumped as the gold price collapses—first in Hong Kong each morning—in order to buy dollars for capital flight.

In 1979, gold collapsed from the $800 level when a Swiss consortium raised over $10 billion to short gold. *EIR* thinks an Anglo-Soviet combine may be shorting it now. The combine may be led by the directors of Kissinger Associates at S.G. Warburg's in London, which recently sold a 9% interest in its Mercury Securities holding company to Harry Oppenheimer's Consolidated Goldfields, which works the London gold market in partnership with the Russian Gosbank there.

The pro-Soviet faction in London has been in the ascendancy over the "Churchillian" defense hardliners. The recent collapse of Johnson Matthey and Deak, Perrera probably consolidated Soviet control over the gold market. The Soviet gold operation was itself reorganized with the Wazchod Handelsbank affair.