Company News

Friday 3 October, 2008

Could owning gold be banned? Hedge fund warning.

By Rob Mackinlay

The manager of a gold hedge fund has warned that governments have banned owning gold in the past and could do it again if a rush for “the oldest currency in the world” undermines efforts to resurrect the financial system.

Mark Mahaffey, co-manager of Hinde Capital, pointed out that the sale of one ounce gold coins – known as golden eagles – in the US had been halted and reports earlier this month said that South Africa had run out of gold krugerands after a Swiss buyer bought 5000 coins.

Mahaffey said that the US had banned owning gold in 1933 and that if the current crisis is worsened by a rush for gold, governments might act.

He said: “The worst thing for any kind of central banking crisis is everyone buying the oldest currency in the world. Buying gold is a clear sign that investors don’t have confidence in the financial system."

He said that the problem at the moment was that too many people had too much debt and that central banks hoping to address this could devalue everything else in the system.

The fear for anyone who is in credit is that the financial system could become geared towards negating debt which, in turn, would destroy the value of their assets. One way of bypassing this threat is to buy gold.

However a general shift to gold would undermine the power of central banks and their influence on the economy.

Back in 1933 President Roosevelt’s Executive Order 6102 banned the “hoarding of gold coin, gold bullion, and gold certificates” known as the Gold Confiscation of 1933. It forced US citizens to sell to Federal Reserve at $20 an ounce. Shortly afterwards the price of gold was raised to $35.

The move was not intended to restore confidence in banks but to prevent cash escaping from the system controlled by central banks.

Such a move may seem far-fetched but a number of governments have already intervened in commodity trading through futures markets. These interventions were made because of fears that investors in food and fuel futures may have been pushing up prices.

Pressure was put on politicians to curb speculation as food and fuel prices soared earlier this year. However experts remain divided over whether the inflows of new cash into these markets had actually driven up the prices.

Governments, including the US, were prepared to act to curb speculation in commodities despite the ongoing debate - although the arguments appeared more one sided in the UK: The FT joins the establishment herd: has the debate on commodities speculation closed?

In the US politicians of all hues support legislation that limits speculation on commodities markets and increases market transparency.

To comment on this article please contact :
rob.mackinlay@financialexpress.net
Tel. 020 7408 8074