

## **The World is Not Enough!**

### **James Bond, Gold and the New Economy**

Next week sees the release of another James Bond movie 'Quantum of Solace', which will no doubt raise a small cheer amongst ardent 007 fans. The writer however finds himself in a slight quandary. I remember fondly the James Bond movies of the 60s, 70s and 80s. The glorious simplicity of James Bond and his daring-do, be it jumping from aeroplanes, leaping between impossibly spaced skyscrapers or simply showing a level of 'charm' most of us aspired to replicate (failing quite dramatically – for the record).

The new James Bond is a slightly calmer model, more in touch with his feelings and the impact of life around him. Perhaps trying to appeal to a wider audience, needing more couples to attend because generally, you don't seem to see many groups of boys off to the cinema together anymore.

We checked Wikipedia to find out what the title 'Quantum of Solace' actually means. Quantum, apparently, is an indivisible entity of a quantity (for physicists out there) and for the rest of us, simply an amount of something. In this case that something is solace, which is actually a heavy metal band from New Jersey or perhaps, more likely, a reference to something calming.

Of course "Quantum of Solace" is really based on an Ian Fleming short story and although written a long time ago, one can't help feeling the title is incredibly relevant to today's economic and commercial environment. Perhaps Bond can make a difference to our lives after all!

Our world has changed markedly in recent times. Once the bastions of security and stability, the majority of financial institutions are viewed with some suspicion by the man on the street. HBOS will shortly be taken over by Lloyds TSB, Northern Rock crumpled last summer and ended up a nationalised business accompanied by Bradford and Bingley. Our major banks have gone to the government and secured a huge injection of capital to enable liquidity and capital ratios to be maintained and, in theory, normal lending and commercial practices to continue.

Whilst the obvious need to maintain stability occurs to most of us, there does appear to be a certain amount of injustice in all of this. The capital injection provided by the 'government' actually comes from the people, we the taxpayers. There is a bill for us to pay, maybe not now, but down the line for sure, through increased tax revenues to support the higher public borrowing that inevitably accompanies this kind of measure. (By the way: the cost of the support provided to the banks is £50 billion which equates to nearly £1,000 for every man, woman and child in the UK).

Of course the quality financial institutions will come through these difficult times and it will help if they have management teams that understand the products and services the business offers. One would hope any boards not being able to grasp the methodology behind complex derivatives would recognise (as risk management is the primary responsibility of the board) that the business may be venturing into a zone of unknown and unquantifiable business liabilities. Maybe that will inspire a few directors to give their service portfolio a haircut leaving more modest, quantifiable and manageable offerings.

Meanwhile, as our economy, and particularly our financial institutions, reshape and reorganise, how does the world deal with this crisis? As one might expect, it inevitably comes down to basics.

In the UK we are all rushing to Lidl and Aldi, once scarcely visited by the well heeled masses, these are the new institutions of choice. Indeed, it seems the delicatessen offerings of Lidl and Aldi compare very favourably with the offerings in larger chains. And, if you do need candles and bully beef to store in your garage to survive the crisis, you can probably get them much cheaper at these 'discount outlets' than from the major name supermarkets.

We are all thinking about money a lot more too, that's if we have any left; where should we keep it, how should we keep it and for the first time in a long time, beginning to doubt cash as a viable asset.

Of course cash is effectively tree pulp (i.e. paper), ink, maybe a sliver of silver foil and a great big dollop of confidence. You believe that the cash you hold has value. £1 will buy you a chocolate bar, £2 a cup of coffee and so on. As long as you have that confidence everything in the cash world works just fine. People accept your money for goods and services and you feel comfortable holding cash as a store of value.

But on occasions the confidence does fail and then it can have devastating repercussions. Often failure is government inspired. Governments like to print money (whether they claim to be directly responsible or not). A bit of paper, ink and electricity is all it takes and you can create billions.

Technically the amount of money in circulation is called the money supply. In western nations it's been expanding at some pace for years and that expansion can have serious consequences because the more pounds, dollars and groats around, the less valuable they become.

More and more money has been injected into the financial system recently, \$700 billion in the US alone in the last month (to support their financial institutions!) If they continue expanding the amount of money out there its value drops and the consequences of that can be seen in Zimbabwe at the moment where people can pay trillions of dollars for a loaf of bread!

Why this happens is just a supply vs demand issue. If Sony Playstation release only 100 PS7s in 2010, they may be worth £100,000 each or more, but if they release 100 million, they may only be worth £10, or less. The same is true with money, the more cash there is around the less valuable it becomes.

Governments can print their way out of short term financial crises by creating cash, but the medium and long term effects can be hugely damaging. Over the generations people realise that they need an ultra safe store of value and here enters gold.

Gold, described by some as the 'barbarous relic' has an interesting role to play in the current crisis. Back in the 1970s we saw gold rise from \$35 all the way to \$850 when it reached its then all time high in early 1980. In real terms that means gold would have to reach \$2,300 to represent its value in 1980 money.

Since 2000 (when the then UK Chancellor of the Exchequer Gordon Brown sold UK gold reserves for \$250 per ounce) gold rose to \$1,030 per ounce by March 2008 and recently retraced back down to

\$700. Most commentators think it's about to go much higher because, for many, it represents a 'safe haven' store of value in troubled times.

Interestingly, on the street, it's quite difficult to buy gold bullion or gold coins, which are increasingly in demand and subject to long lead times for delivery. In fact, some of the bullion dealers in London report long queues waiting to buy gold and a level of interest in gold that has not been seen for some time.

Back in 1973 Roger Moore (aka James Bond) starred in the film Gold about South African gold mining. Maybe the connection between Bond and gold is a little more than coincidence especially when you consider other Bond titles include 'The Man with the Golden Gun' and 'Goldfinger'. Perhaps Bond has been trying to tell us something over all these years.

Although the writer hasn't yet seen the new Bond film, it will come as no surprise if our new Bond achieves his 'Quantum of Solace' cuddling up to ..... you guessed it – half a dozen tins of bully beef, a clutch of candles and a couple of bars of gold bullion.

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