The Bank of International Settlements actions has just reinforced the position of gold!

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The RIO Club has identified the most important change in the financial markets in years! This swap transaction effectively represents a back door remonetisation of gold, (You heard it first from RIO!).

Last weeks swap is perhaps the best news story for gold in 30 years. I would strongly suggest that the information reported below is extremely positive news for the future of gold.

The Bank of International Settlements (BIS) has just released its 2010 annual report. This states that "gold, which the bank held in connection with gold swap operations, under which the bank exchanges currencies for physical gold, stands at 8,160.1 million units in special drawing rights, equivalent to 346 tonnes this year, and up from nil in 2009." RIO's research has shown that this amount has climbed to 382 tonnes since the report was issued.

Swaps - What are they and who deals with them?

Swaps are financial instruments that allow for the exchange of one asset for another, in this case, gold for currency. They are not gold leasing, futures or options which the 1999 and the 2004 Central Bank Gold Agreement (CBGA) stated would not be increased. However, the 2009 CBGA did not contain this statement. Swaps could be undertaken by the signatories of the CBGA, as these were not included in any of the three Agreements.

Gold swaps are usually undertaken between central banks. One central bank exchanges foreign exchange deposits (or other reserve assets) for gold with an agreement that the transaction be unwound at an agreed future date and price.

The monetary authority acquiring the foreign exchange will pay interest on the foreign exchange received, the rate of which is currently very low. Gold swaps are usually undertaken when the cash-taking central bank may want foreign exchange but does not wish to sell outright its gold holdings.

The Wall Street Journal recently reported that the BIS carried out these swaps with commercial banks. Neither RIO nor its analysts know of any commercial bank that has 382 tonnes of gold on their books. The above action is deeper rooted and yet again we may be first to stop the massive move/change which looks to be afoot. To me It seems very likely that should these commercial banks have been part of the deal, they would have been acting for a central bank [or several over time] who wished to remain anonymous.

The facts show that the BIS received the gold into its safekeeping for the nation that required the foreign exchange for the swap period. Swaps of this nature are renewable once the time runs out, so it is impossible to say for how long the swap will last. The central bank that undertook the swap would have to be certain that it could return the currencies to have the gold returned at some point in the future. If that country defaulted, then and only then could the BIS go ahead and sell this gold. The important fact to note is that any sale in the open market would be trumpeted loudly to all as well as reported in the Press or by the World Gold Council, BIS or IMF.

Why use gold and not currency?

It believes that the financial crisis has led to a decline in the number of credit-worthy counterparties and a reduction in credit lines these counterparties can offer. This is ***very*** significant in a world where credit risk and debt problems have been the subject of bankers' fears since the appearance of the Greek debt crisis. Club members should note an interesting fact for someone in troubled Greece; **gold swaps allow a central bank's reserves to be lent in a <u>credit-secure</u> fashion**. In other words, a gold swap allows the lender of currency to benefit from greatly reduced credit risk, as the gold can be held in an allocated account, usually at the Bank of England. The currency deposit is secured with gold throughout the life of the deposit.

Any country such as Ireland, Portugal, Spain, Italy, the U.K. and U.S.A. can follow this route. Members should also note that these sales may not be permitted for fiscal reasons under Eurosystem rules, but these are not sales, but swaps. That being the case who swapped this gold is ***very*** important?

I would be first I am sure to strongly point out that it is very likely to be one of the countries I have mentioned? If I am proven correct, their situation is far graver than previously thought. The implication is that the collateral they offered just wasn't good enough, so they had to use their gold. **<u>I would be first perhaps to say that this is big news for the monetary system in general!</u>**

<u>The Significance of the Transaction[s]</u>

What is significant about this or these transactions is that gold is being used in international settlements after so many decades of being sidelined in the monetary system! The transaction itself confirms that gold is being used in this manner, which is a dynamic confirmation of gold's return to the monetary system just as I have been forecasting. We are going to witness a massive change in the current financial system.

This "swap" might be the first desperate step in such a transaction with the swapping bank hoping to repay the foreign exchange, but should it fail, the BIS would have to decide either to keep the gold on its books or to sell it. Again, keeping it on its books is part confirmation that gold is active again on the monetary system, which will be seen as a massive support to its value.

The headline story soon will be **“Gold is back and alive in the monetary system!”**

What really happened I believe is that one or more nation needed foreign exchange to counter some shortfall in its accounts and raised these funds as a short-term liquidity measure, thinking that it would be able to return the currency and receive its gold back. The gold would then be returned at the conclusion of the swap period in return for the currencies swapped. If it fails to return these funds to the BIS, then the BIS could discreetly place the gold with another central bank, should it not want to keep the gold. If it did so, the BIS would simply report its disposal of the gold, the originating central bank would report the drop in its gold reserves and the gold buying bank would report its increase in the reserves.

This puts the transaction into an entirely different category. It seems that one or more of the developed world's central banks’ credit is not good enough for other governmental institutions. Important here is that should this story get into the financial news then the financial markets would experience a huge shock, which would shake the global financial system to its core and which may result in the biggest upheaval of the market in decades!!! No wonder the BIS is keeping such a low profile!

RIO Professional Investors Fund which trades gold and will benefit should my predictions on the above be proven correct, because gold will very likely move out of its current trading range and hit my predicted short term figure of $1,300 an ounce on the back of the above. However, should this story gain international media spin gold’s value may hit $1,500 an ounce as bull market in this metal rages. It is also pertinent to mention that RIO Professional Investors Fund produced yet another positive gain in June, its third consecutive gaining month this year.

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