# GOLD AS A STABLE CURRENCY...

# ...OR NOT.

# MANSA MUSA'S JOURNEY

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# Gold as a stable currency... or not. Mansa Musa's Journey.

*Let us tell the story of the pilgrimage of the man considered to be the richest in the world and who, thanks to his generosity, put so much gold into circulation that he distorted its price and ushered in a period of high inflation. This is not the only time that this has happened in history. The introduction of precious metals into Europe from Spanish colonies had a similar outcome. We should also remain on our guard in the medium term given the lax monetary policies implemented by central banks and the risks that they present to portfolios.*

The value of gold as a monetary asset is inherent to human civilisation, practically concurrent and common to all (or almost all) societies. Its stunning appearance, the fact that it is virtually inert and inalterable by the elements and easy to work, as well as its rarity all make it easy to use as a currency and a way of accumulating wealth since the earliest times.

We therefore have its value as a practically inalterable safe haven etched into our minds, a way of maintaining something which will always be held as a symbol of wealth anywhere in the world, keeping its purchasing power intact.

Nevertheless, movements in the markets such as those experienced in recent months have seen its price fall around 30% from historic highs, have led us to reconsider this notion which is so closely associated with human philosophy. Is this circumstance a historical one-off? The answer is no. As is the case with any other asset, the price of gold or rather its purchasing power, depends on the laws of supply and demand and the number of people participating in the exchange, in other words, the depth of the market.

In the early 14th century, the Islamic world was at its cultural and economic peak, with the main cities and commercial centres in North Africa and the Middle East a hive of activity. Baghdad, Cairo and Damascus, among other urban centres, dominated Mediterranean trade, while the Ottoman Empire began to exert serious pressure on the Byzantium Empire. Only its retreat into the Iberian Peninsula, where only the Kingdom of Granada survived, seemed to represent a halt to its expansion.

Nevertheless, from the heart of sub-Saharan Africa came an unexpected economic threat to the Sultans of the Maghreb and the Middle East. In 1324 the emperor of Mali, Mansa Musa, considered by many to have been the richest man in history, began his pilgrimage to Mecca.

Despite being a total unknown in many centres of power at the time, the Kingdom of Mali was a vast territory, located along the Niger River basin. It had virtually inexhaustible gold reserves, both in the country's mines and as nuggets found in the river sediment. Malian law stipulated that any nugget above a certain size was the property of the King and had to be deposited in state coffers. In exchange they received the same weight in gold dust which was used as a currency in domestic trade.

In 1324 Mansa Musa began his journey to Mecca. As you might well imagine, he did not travel alone. He was accompanied by 60,000 men, each of which carried a gold sceptre weighing 1.5 kilos, as well as a caravan of 100 camels which were also weighed down with gold.

Given the spiritual motive for the King's journey, the idea behind taking with him such vast riches was not to pamper Islamic rulers but rather to share out the wealth among society's less-favoured classes. Musa and his entourage handed out gold to the poor and the peasants they met along the way, on many occasions refusing to meet the noblemen that governed the lands they passed through.

However, such a quantity of gold could not fail to have some effect on the North African economy.

Gold was accumulating in the region's main trade centres, given that people wasted no time in exchanging the metal for more basic resources. It has been estimated that, in terms of purchasing power, the value of gold fell up to 50% in the markets of Cairo, leading to markedly inflationary trends in the area.

Such was the economic impact that Mansa Musa was forced to borrow all the gold he could carry from money-lenders in Cairo to rectify the market, obviously at high rates of interest. As a result he became the only man in recorded history to personally control the market price of this commodity. The excess gold was gradually taken out of the economy, meaning that it could recover its value as an exchange currency, although price instability lasted a further decade.

However, it was clear that gold's intrinsic value was defined by its scarcity and the fact that few people held significant amounts. When large quantities suddenly reach the market, its value goes into freefall, as would happen in Castile and in Europe some centuries later, with the introduction of vast amounts of gold from the American colonies.

These days, there are no longer great kings who can inject large amounts of gold into the system. However, there is a financial economy which is able to introduce far greater amounts electronically, through the use of derivatives and other instruments that artificially inflate supply in moments of high demand (when there is tension on the markets or uncertainty regarding systemic risk etc.) for an asset whose value resides in its very scarcity.

We therefore need to be prudent when handling such assets in our portfolios, considering them to be a risk investment. Although nobody believes that we will see gold ingots distributed among the masses, we cannot rule out the possibility that double-digit falls in their price might once again appear on the horizon.