The great gold bullion conspiracy

Pierpont suspects London and New York are using mere paper to suppress the price of gold and make the euro and $US look good. China and India are buying the real stuff.

The world is in the midst of an economic war between countries, currencies and gold, according to **Nick Barisheff**. Nick is the president and chief executive of **Bullion Management Group** of Canada, which has been advising punters to buy gold for the past decade, so clearly he wants gold to win the war.

He's certainly right about the battleground. In April the main theatre of the war was the gold market, where the conflict was fought ferociously and is by no means finished.

In case readers hadn't realised, the world gold market is unregulated and opaque. The two big markets are the London bullion market, where the gold price is fixed twice a day at 10.30 am and 3 pm, and Comex in New York, where gold futures and options are traded.

London reveals no figures on the volume or range of trade and neither London nor Comex reveal the identity of the big buyers and sellers. There is no meaningful governmental regulation of either market.

Innocent readers of Pierpont (there may be some) might imagine that the gold market comprises chaps with bags of gold bars selling it to chaps who want to buy it. In fact, it's all done on screens and the daily physical trade is dwarfed by that in the derivative markets, which turn over the equivalent of the world's yearly mine output every three days.

But the physical balance is shifting and one day this could prove lethal to the short-sellers who have been dominating the derivatives.

The gold price peaked in September 2011 when it touched $US1895 an ounce, after which it went jaggedly sideways. Eighteen months later it was probably due for a correction of some nature, but whether the $US200 fall in the metal in mid-April of 2013 was due to manipulation cannot be proved. There are strong grounds for suspicion, though.

Consider the sequence of events.

On April 2, **Societe Generale** produced a report entitled *The End Of The Gold Era*, forecasting a fall in the price to $US1375 by the end of 2013.

On April 10 **Goldman Sachs** (which until then had been bullish on gold) released a report urging its clients to short gold. The metal was then trading around $US1570. Given the behaviour of Goldmans during the GFC, Pierpont cannot quite rid himself of the suspicion that if the bank were advising clients to short gold, it may well have had a short position of its own already.

The following day a rumour began circulating that Cyprus was planning to sell its gold reserves of 13.9 tonnes. This was followed by wilder rumours that Cyprus would be followed by Portugal (382.5 tonnes) and Italy (2451 tonnes).

None of this made much sense. The Cyprus reserves equate to less than 4 per cent of a day's trading in Comex gold futures. Selling Italy's entire gold stock would rob the country of its best asset while only clearing about 7 per cent of its $US1.6 trillion debt.

But when cattle are in the mood to stampede, common sense goes out of the window.

April 12 was a Friday. After the Asian markets closed, the London bullion market's afternoon fix was at $US1535: then London began closing for the weekend.

In New York, as Comex opened, somebody (reportedly **Merrill Lynch**) shorted $US6 billion of gold. That was an enormous 4 million ounces or about 110 tonnes, which pushed gold below $US1550.

The next 35 minutes saw short sales totalling $US15 billion (another 10 million ounces or 275 tonnes). These short sales belted gold below the critical support level of $US1525, where there were heavy stop-loss orders.

As the stop-losses triggered a fresh wave of selling, the screens for the London market froze. That meant buyers were frozen out of the market. Worse, traders who held physical or paper gold on margin could not fight the shorts by buying. As it was Friday afternoon, they were facing margin calls across the weekend. Their only choice was to short the June gold contract on Comex and pray.

While compiling this column, Pierpont searched the London Bullion Market Association website for confirmation that the screen freeze had happened. There was no mention of it.

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However, market commentator **Bill Downey** claimed in his newsletter that he was in contact with a big physical trader when the freeze occurred and the trader was shut out.

Several newsletters have hinted darkly that big short-sellers manipulated the freeze. Pierpont does not believe that evil shorters invaded the London computer room with screwdrivers and disabled the screens. However, the shorters would have known since a previous freeze in December that under heavy enough volume, the London market could be knocked out. Pierpont cannot say the London screens were frozen deliberately, but the timing was highly beneficial for the shorters.

Monday April 15 was the real blood bath. By the London afternoon fix gold was $US1380 – down $US155 in three trading days. The gold price has fallen by a similar percentage before, but never so quickly. On Comex gold fell to $US1335 before closing at $US1350.

The corrective was a huge upsurge in physical buying in Asia. In Beijing and Shanghai, gold merchants sold out and resorted to taking cash from customers and promising delivery in a fortnight. Gold merchants in Hong Kong and Bangkok were similarly swamped, as was the Perth Mint. Pierpont can find few reports of this Asian (and Perth) buying in the Australian press.

On April 23, Goldman Sachs called off its short recommendation while the price was around $US1420. Veteran mining analyst **Keith Goode** said Goldman made its original short call because holdings of exchange traded funds (ETFs) were falling, Cyprus might sell its reserves and the US Federal Reserve was considering slowing its printing of US dollars.

Keith pointed out that when Goldman reversed its stance, the holdings of ETFs were falling even faster. He said: "There has been speculation as to whether Goldmans were exposed with a short position and/or had a material buy order to fill, and once that had been done, went back to their original bullish gold view."

What this rally illustrated was a huge disconnect between the derivative and physical markets. Pierpont would be fascinated to know exactly who bought and sold in the April battle, but can make some generalisations. The buyers of physical gold are many central banks and the huge retail markets of Asia and the Middle East. The sellers – on recent evidence – are big investment banks and, according to whispers, the Federal Reserve. However, the sellers work in the paper (derivative) markets, which are heavily geared.

For example, London is supposed to be a physical gold market because you can buy gold from the bullion banks. But unless the buyer insists, he doesn't get physical gold. Instead, he gets a piece of paper entitling him to that much gold. When he turns up at the bank to collect, the bank reserves the right to settle in cash.

So the bullion banks are really selling paper instead of gold and the paper may represent 10 times the amount of gold they have in stock.

Comex warehouses hold two kinds of gold, registered and eligible. Registered gold is available to settle futures contracts. Eligible gold has been bought by a client who has the serial numbers of his bars, and cannot be used for delivery.

On April 11 Comex warehouses held 286 tonnes in April, or about three-quarters of the 385 tonnes sold in the first 40 minutes on April 12. Only about 170 tonnes was registered.

Manifestly, at least some of the shorters were selling gold they didn't have. The pattern of selling also shows it was an attempt to manipulate the price.

If Pierpont had 100 tonnes of gold (don't tell anybody, but it's not quite that much) how would he sell it genuinely? Pierpont would sell discreetly in small parcels, trying to get as high a price as he could. What wouldn't he do? He wouldn't dump it on the market in huge chunks and thereby crush the price down.

The very nature of the April selling therefore indicates it was an attempt to drive down the price rather than genuine sales. And on the volumes, probably more than one party was involved.

Another great (but relatively unpublicised) bear raid occurred on May 20, when paper representing some 700 tonnes turned over on Comex. The price was driven from $US1397 to $US1336 before strong buying pushed it back to $US1384.

Putting this into context, the world's mines produce some 2700 tonnes of gold a year. China and India reportedly buy 2000 tonnes between them, although those amounts may have changed dramatically in April. Together with strong retail demand in Asia and the Middle East, this means physical gold is draining out of the US and Europe into Asia.

The big picture is that the USA and the European Union are printing money in astronomical quantities in an effort to solve their economic problems. The rising gold price has been an implicit devaluation of the $US and the euro. So the Fed and the European Central Bank have strong motives to push the gold price down and make their own currencies (and economic performances) look better.

The most noted sceptic has been Germany, which demanded the return of 1536 tonnes of its physical gold (40 per cent of its reserves) from storage in Fort Knox. The Fed has told the Germans they will have to wait seven years for the return and meantime they're not even allowed to examine the vault and make sure it's all there. So Pierpont can only presume it's not.

David Evans, chief executive of **Gold Nerds**, last month put a question to the Resources & Energy Symposium at Broken Hill. He asked: "Suppose a bunch of white-collar psychopaths ran our financial system. Why wouldn't they manipulate it if it was to their advantage?" A rhetorical question, obviously.

The way Pierpont reads the game, Comex and London are setting the world gold price on a paper basis, with relatively little physical gold to back their positions. On the other side, the Asian economic powerhouses are increasing their stocks big time to the point where there is some talk of China bestowing some gold backing on the yuan. In the medium to long term, Pierpont would back the Asians to win this war, but in the short term the US is printing trillions of dollars, so has plenty of cash to push the price down.

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$US15 billion
The amount of short-selling of gold in just 35 minutes on April 12. These short sales belted gold below the critical support level of $US1525, where there were heavy stop-loss orders.

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