



HERALD SUN

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More bull

than bullion

If everyone demanded their gold at the same time, there is no prospect of them getting it

WHEN it comes to investment conspiracies, gold is always up there with the best of them.

But as Mel Gibson's portrayal of unstable taxi driver Jerry Fletcher in the movie *Conspiracy Theory* showed, there is always that intriguing possibility that those who appear crazy enough to think people are out to get them could be telling the truth.

Certainly the gold bugs are coming out of the woodwork to bite at the moment after some compelling recent testimony to the US Commodity Futures Trading Commission (CFTC) was followed by a mysterious hit-and-run car crash and some equally strange internet outages.

The subject of the hit-and-run car crash — London metals trader Andrew Maguire — thankfully survived the accident but his evidence and that of Gold Anti-Trust Action (GATA) committee member Adrian Douglas has been given extra credence thanks to the conspiratorial events that followed.

Maguire provided detailed accounts of what he called rigged trading in the silver market to the CFTC in a series of emails before he and his wife had their close encounter with a hit-run driver.

GATA's basic position is that the price of gold and silver is being kept artificially low through massive short positions held by large bullion traders including JP Morgan and Goldman Sachs.

Other traders have scoffed at such a suggestion, saying that the short positions are simply hedges used by large bullion traders to protect the value of their long-term gold holdings in the case of a price downturn.

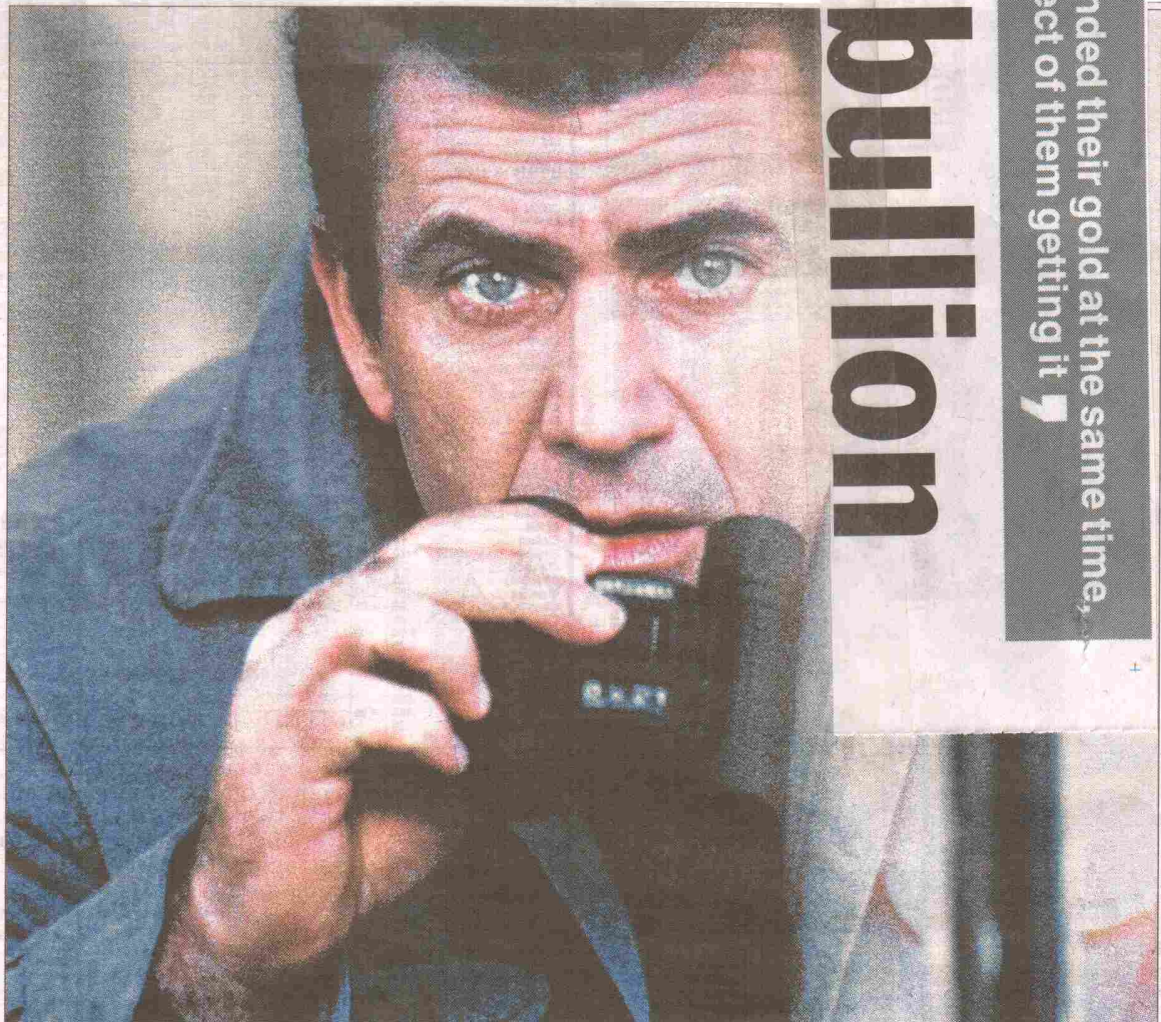
However, the claim that has really taken hold after the hearings — and which coincides with a hefty rise in the gold price — is that much of the trade in gold around the world is "paper gold" that is not backed by actual bullion.

Adrian Douglas claimed that the London Bullion Market Association (LBMA) "physical market" in gold is indeed nothing of the kind, with most of the trade backed by paper rather than genuine gold bars.

He went so far as to label the world's largest gold trading centre a giant Ponzi scheme, with trades backed by a "fractional reserve" amount of gold which left every 100 ounces of the precious metal backed by just one ounce or less of the real thing.

The point being that, if everyone demanded the physical gold backing their piece of paper at the same time, there is no prospect of them getting it.

Douglas further claimed that the explosion of gold trading in recent years now totally dwarfed the amount of the precious metal



Gold class: Mel Gibson's justified paranoia in *Conspiracy Theory* could be imitating real life for the LBMA.



available in vaults or produced by the world's gold mines.

He put the value of the gold trades on the LBMA at \$US5.4 trillion a year, or half the size of the US economy with a net 30 million ounces of gold being traded each day.

Other traders at the hearing agreed with Douglas that there was not

enough gold in the world to back up trades in the misleadingly named physical market but justified "paper" trading on the basis that it has been going on for years and is a way of measuring the psychology of the gold market rather than demand and supply of the metal.

One trader — CME's John Lothian — said those peddling the idea of gold and silver markets being rigged to keep prices low were "nothing more than politically opportunistic rent seekers".

"They are parasites on the body public profiting from selling fear and seeking political change that will benefit their world view and related market position."

Most of those trading the world gold market would probably agree with him but it is intriguing to ponder the consequences if — like Mel Gibson's Jerry Fletcher before them — someone really is out to get Adrian Douglas and Andrew Macguire.