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Gold Manipulation: The “London Bias,” 1970-2014

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Comment

Below is one of the charts that I used in my presentation at the Casey Research conference in San Antonio, Texas last September—and I thought it time for a revisit.

It's based on an interesting piece of research (http://www.skoptionstrading.com/updates/2010/8/27/proposing-an-overnight-gold-fund.html) by Sam and Bob Kirtly at SK Options Trading in Wellington, New Zealand way back on

August 27, 2010.

All data on this chart are from the LBMA—the London Bullion Market Association (http://www.lbma.org.uk/)—and I thank Nick Laird for generating it and adding all the extra data and dialogue boxes.

The chart runs from January 1970 until September 2014—almost 45 years.

The yellow line is the gold price—and it's slaved to the left Y axis. The blue line is the value of a theoretical $100 investment made on January 2, 1970—and that's slaved to the right Y axis.

The four dialogue boxes with the red words/numbers represent the gold price at four crucial points during the last 45 years.

In theory and without considering commissions, what this chart shows in plain English is that if you invested $100 at the London a.m. gold fix on January 2, 1970, sold your position at the London p.m. gold fix the same day, then reinvested the proceeds the next day at the London a.m. fix and sold at the p.m. fix once again—and did that every business day for 45 years in a row—you'd have had the magnificent sum of $12.13 in your trading account at the close of business on February 27, 2015.

This is what I call the "London bias"—and for most of the last 45 years, it's been negative regardless of the gold price trend indicated by the Y axis.

The bias was positive from January 4, 1971 to January 2, 1975 because the $100 initial "investment" you made was worth a bit north of $330 on January 2, 1975. During that time, the price rose from a low of $37.70 to $179.40—a gain of 375%.

All that changed from January 2, 1975 going forward and with the exception of only a couple of years between 1975 and 1980, the yearly London price bias in gold has been negative ever since—for more than two generations.

In other words, since January 2, 1975—and with the very odd exception in the interim—the gold price has closed for a **loss** between the London a.m. and p.m. gold fixes for 40 years in a row regardless of what was happening in the overall gold market.

Note that between January 2, 1975 and January 21, 1980, the gold price rose from $179.40 to $878.50—a gain of another 389%. However, during that time, your $100 investment **declined** in value from just over $330 to just over $300.

Also note on this chart that during the biggest gold bull market in history between 1999 and 2011, the "London bias" continued to be negative, as the gold price closed down every year between the fixes.

The Friday before the Washington Agreement on Gold (http://en.wikipedia.org/w/index.php?title=Washington_Agreement_on_Gold&oldid=611468722) was signed on September 26, 1999, the gold price was at $265.70 per ounce. At its high tick on September 5, 2011, the gold price hit $1,896.50 per ounce. That bull market, before it got cut off at the knees, ran the gold price up 613% percent.

During that time period, your theoretical $100 investment fell from a hair under $60 all the way down to about $17 on the day that gold peaked.

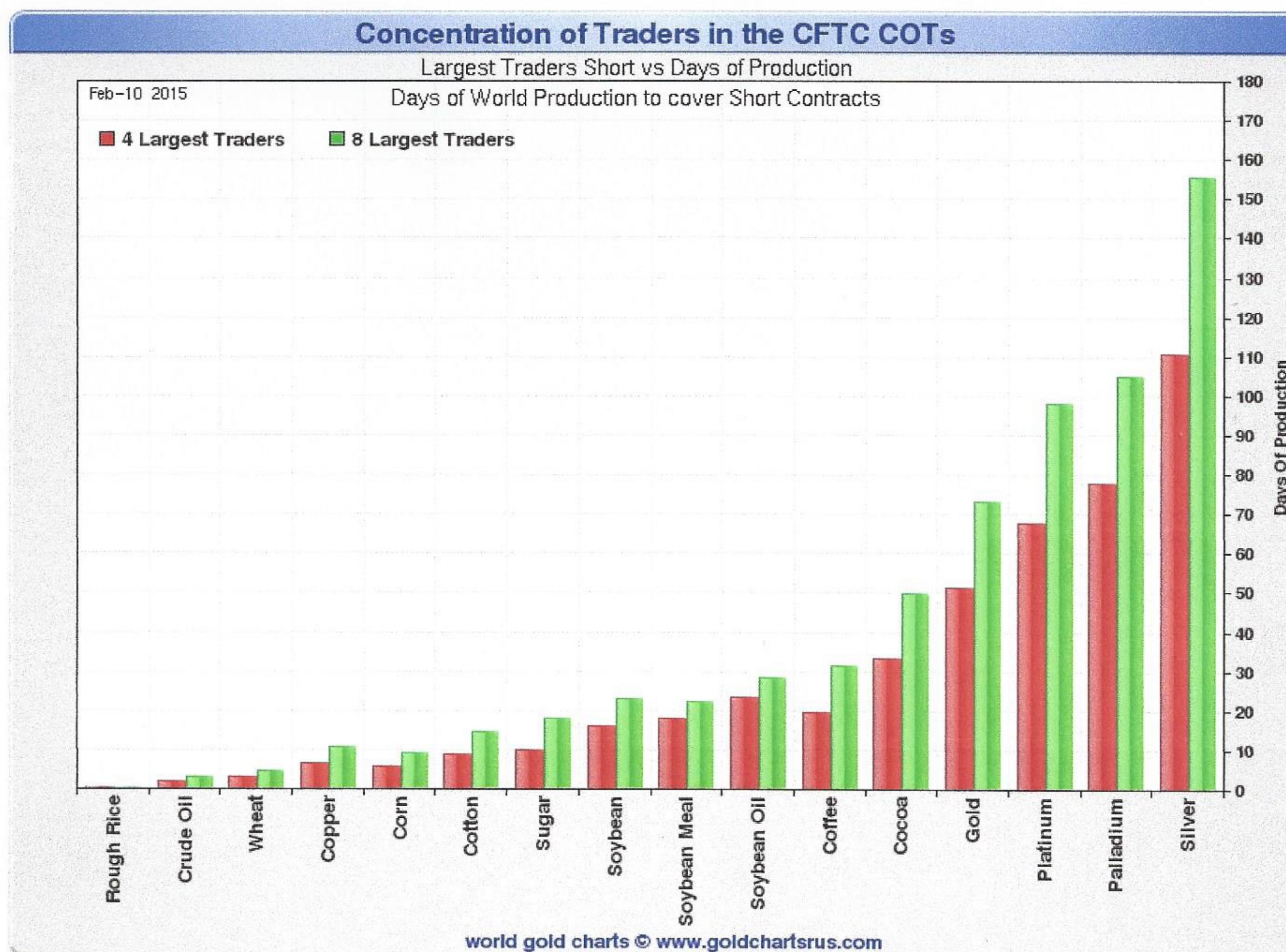
How is that possible in a free market, you might ask. Well, the answer is that it ain't.

There is nothing free market about this chart. What it clearly shows is a carefully planned and executed price-suppression scheme in the gold market. The overt market price suppression of the 1960s during the days of the London Gold Pool (http://en.wikipedia.org/w/index.php?title=London_Gold_Pool&oldid=649129632) turned into the covert price-suppression scheme you see here. For those looking for the proverbial smoking gun of the gold price management scheme, it's staring them in the face in this one chart.

And without doubt, it was—and still is—being carried out by the covert and collusive actions of organizations such as the Bank for International Settlements, the Federal Reserve, the Exchange Stabilization Fund, and the US Treasury Department. I'm sure it would be safe to include, at times, the central banks of England, France, Germany, and perhaps Switzerland. In recent years, it may also have come to include the People's Bank of China.

Subsequent to me writing this article but before its publication, Ronan Manly over at *BullionStar* (http://bullionstar.com/) authored an essay titled *The Bank of England and the London Gold Fixings in the 1980s* (https://www.bullionstar.com/blogs/ronan-manly/bank-england-london-gold-fixing-1980s/). It showed up on that Internet site on February 28, 2015—and is **certainly a must read** in conjunction with the data shown on the above chart. One thing he pointed out to me was that according to his source (which I've subsequently seen), the Comex began trading gold futures contracts for the first time on December 31, 1974—one trading day before the London bias turned negative more or less permanently.

The participants involved in the precious metal price-suppression scheme can be observed in real time in the **"Days of World Production to Cover COMEX Short Positions"** chart that Nick Laird generates from the weekly **Commitment of Traders Report** (http://www.cftc.gov/dea/futures/deacmxlf.htm) produced by the CFTC—the very regulatory body that's supposed to prevent this sort of price-management scheme from occurring in the first place. Here it is.



Almost with no exception other than cocoa once in a while, the short positions of the Big 4 and Big 8 Comex traders in the precious metal futures market have occupied the last four positions on the extreme right-hand side of this chart ever since I stumbled across it about 15 years ago. And as you can also tell from this chart, the price-suppression scheme in the other three precious metals—particularly silver—is even more egregious than it is in gold.

The short positions of the largest four and eight traders are shown for each physically traded commodity on the Comex—and it's safe to assume that these big traders, especially in the four precious metals, are composed mainly of US and foreign banks as per the monthly ***Bank Participation Report*** *(http://www.cftc.gov/MarketReports/BankParticipationReports/index.htm)*. As for which banks they might be, one doesn't have to look much further than the current market-making members (http://www.lbma.org.uk/membership) of the LBMA. The rest of the Big 8 would be mostly comprised of the largest brokerage houses in the Western world. And as I've pointed out already, the People's Bank of China may also be involved to some extent as well.

The five-year chart posted below (based on LBMA data) of the daily average gold price on a two-minute tick basis for the last five years shows the negative bias between the London a.m. and p.m. fixes more clearly. But in actual fact, the negative bias is much worse than that, because it really begins about an hour or so **before** the 8:00 a.m. GMT London open—and many hours before the morning gold fix. I know this to be true on a longer-term basis as well because I've been following this chart ever since German gold researcher and GATA consultant Dimitri Speck first posted it on the Internet almost 15 years ago. This is Nick Laird's version of the same thing.

(It should be noted that this "London bias" has all but vanished during the last 18 months. That trading pattern began to change even before Barclays got fined £26 million (http://www.reuters.com/article/2014/05/23/us-barclays-regulations-gold-idUSBREA4M06620140523) in May 2014 because one of its traders got caught "banging" the London p.m. gold fix back sometime in 2012. Maybe the high-frequency traders and their algorithms have taken over where the bias left off? But having said all of that, the bias in question just reappeared in February in both gold and silver.)

As I've been saying since the outset, the individual London gold fixes—either a.m. or p.m.—are not and never have been the issue as far as gold price management at the "fixes" has been concerned. It's the **negative bias** in the time period **between** the a.m. and p.m. fixes that's the issue—and the last chart shows that the negative bias actually encompasses a far longer time period on a daily basis than the intra-fix time period itself.

If someone would care to offer a different interpretation of the above data, I'm sure the gold world in particular—and the precious metal world in general—would love to hear it.

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