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Book Author(s): Willem Middelkoop

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Chapter 5 – The War on Gold

Deregulation of the financial sector has caused a financial crisis that can only be managed by fraud. Civil damages might be paid, but to halt the fraud itself would mean the collapse of the financial system. Those in charge of the system would prefer the collapse to come from outside, such as from a collapse in the value of the dollar that could be blamed on foreigners, because an outside cause gives them something to blame other than themselves.

– Paul Craig Roberts, Assistant Secretary of the Treasury for Economic Policy under President Reagan (2012)

Why then, is gold the unmentionable four letter word of economics? The answer is threefold; A misunderstanding of the role of money; a misreading of history; and finally, visceral revulsion to the notion that a metal can do a better job of guiding monetary policy than a gaggle of finance ministers, central bankers and well-degreed economists.

– Malcolm Forbes, Forbes Magazine (2002)

Gold has long been viewed by many as a barbarous relic and demonetizing it and phasing it out of the system completely seems to have a good deal of appeal in some quarters.

– Fed-Banker Alfred Hayes, speech for IMF at Economic Club in New York, 31 August 1975

Policymakers are finding it tempting to pursue ‘financial repression’ - suppressing market prices that they don’t like.

– Kevin M. Warsh, former banker of the Fed (2012)

INTRO

The days of the dollar as a world reserve currency are numbered, which explains why gold is making a remarkable comeback and why a flight to hard assets including farm land and old masters has started. Every year, more and more physical gold is moving from vaults in the West to the East as a symbol of a change in the world power balance.

The US wants its dollar system to prevail for as long as possible. It therefore has every vested interest in preventing a 'rush out of dollars towards gold'. By selling (paper) gold, bankers have been trying in the last few decades to keep the price of gold under control. This war on gold has been going on for almost one hundred years,[201] but as I will explain in the following chapters, it gained traction in the 1960s with the forming of the London Gold Pool. Just like the London Gold Pool failed in 1969, the current manipulation scheme of gold (and silver prices) cannot be maintained for much longer. After a decoupling of paper and physical gold prices in the next few years we will see the gold price rise to its 'full potential'.

[201] It is no coincidence that a book on this topic by the Swiss ex-banker Ferdinand Lips is entitled *Gold Wars*. His book builds upon the research compiled in the pioneering book *War on Gold* by the well-known American researcher Antony Sutton, which came out in 1976.

62. The essence of the war on gold

The war on gold is, in essence, an endeavor to support the dollar. But this is certainly not the only motivation.

According to a number of studies, the level of the gold price and the general public's expectations of inflation are highly correlated. Central bankers work hard to influence inflation expectations. Any Fed/ECB speech is guaranteed to include this expression. A recent Google search on the subject resulted in over 21 million hits.[202] The reasoning behind this can be easily surmised: when people assume that inflation will stay low, they act accordingly and will not be tempted to buy 'hard assets'. A 1988 study by Summers and Barsky confirmed that the price of gold and interest rates are highly correlated as well, with a lower gold price leading to lower interest rates.[203]

The survival of our current financial system depends on people preferring fiat money over gold. After the dollar was taken off the gold standard, bankers have tried to demonetize gold. One of the arguments they use to deter investors from buying gold and silver is that these metals do not deliver a direct return such as interest or dividends. But interest and dividend are payments to compensate for counterparty risk – the risk that your counterparty is unable to live up to its obligations.

[202] https://www.google.nl/?gws_rd=cr&ei=4e4zUrOGE4m10wXt3YDIDQ#q='inflation+expectations'

[203] Gibson's Paradox and the Gold Standard http://www.gata.org/files/gibson.pdf

63. Do central banks fear a flight to gold?

If investing in gold undermines our current fiat money system, then central banks have every reason to fear a flight to gold. And apparently they do. I will delve here into examples of the war against gold waged by the Dutch central bank, but similar examples can be found in other countries.

In 2011, a case was brought to court by a small Dutch pension fund, the 'Pensioenfonds Verenigde Glasfabrieken' ('United Glass Factories Pension Fund') against the Dutch central bank (DNB). The pension fund had invested 13% of its assets in physical gold in order to protect its assets from the economic fall-out of the credit crisis, but the DNB had ordered the fund to sell its gold positions. According to documents presented to the court, the DNB was of the opinion that these investments carried too much risk. What makes this statement remarkable is that the DNB has never objected to institutional investors holding too many subprime loans or Greek government bonds in their portfolios. In the end, the DNB lost the court case twice and had to pay compensation to the pension fund.

In another example, investment funds wanting to operate under the international UCITS license are forbidden from being investors in physical gold. This is the only exception made.[204] And Dutch financial entities wanting to take advantage of a special fiscal status known as VBI are allowed to invest in almost any financial asset except physical gold.

The war is being fought not only by central banks but also by commercial financial institutions. Since 2000, most Dutch banks have stopped sales of physical gold to clients. Most of them have also put an end to services enabling clients to store gold in small bank vaults.

In 2013, both ABN AMRO and RBS cancelled gold accounts that allowed investors to redeem their value in physical gold. In

[204] https://www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111125006

a letter to clients, ABN AMRO explained that it had changed its precious metals custodian rules and the bank would ‘no longer allow physical delivery’, only paper settlement.[205]

And US banks are only allowed to advise investors to buy gold shares when they have a gold analyst on their payroll.

As demonstrated, in today’s world of finance, it is not that difficult to find numerous examples of central banks and commercial banks working hard to keep investors away from physical gold investments.

[205] http://www.zerohedge.com/news/2013-03-24/another-gold-shortage-abn-halt-physical-gold-delivery

64. Was private ownership of gold ever prohibited?

After the Wall Street crash of 1929, the US economy fell into a deep recession. Four years later, many American banks had collapsed, triggering multiple bank runs. The survival of the financial system was at stake.

To turn the economic tide, President Roosevelt presented an economic recovery plan called 'the New Deal'. The plan included a 'Gold Reserve Act', passed by Congress at the end of January 1934, which empowered the federal government to confiscate all of the Fed's gold and bring it under the US Department of the Treasury. This was a disappointment for most Wall Street bankers who, back in 1913, had taken over not only the monopoly on printing dollars from the Treasury Department but also the entire national gold supply.

At the same time, the dollar was devalued by 69% by raising the exchange rate for gold from $ 20.67 to $ 35 per ounce. With this, the value of the gold that had arrived at the Treasury Department rose by almost $ 3 billion in one day. The dollar's devaluation against gold had an almost immediate effect on the economy. The sale of American products abroad rose, because of the declining value of the dollar. This resulted in increasing industrial production and money supply, while unemployment declined.

Roosevelt also made use of his special presidential authority to issue Executive Order 6102. This prohibited civilians from possessing gold, gold coins or gold certificates. Anyone caught 'hoarding' gold was to be fined $ 10,000 (the equivalent of $ 180,000 today). Several cases of forced gold confiscation were documented. Americans were allowed to keep five ounces of gold at 1933 prices and gold in the form of rare coins. This law remained in force until 1974. Less well known is the fact that all US silver was nationalized at a price of 50 cents per ounce in February 1937.[206]

[206] Business Week, 27 February 1937.

Another executive order commanded American gold mines to sell their production to the Treasury Department and prohibited the export of gold. In Europe, there has never been a ban on possessing gold. But most countries do have legislation in place allowing governments to ban the possession of gold and/or silver.[207]

[207] Emergency Law on Financial Movement, Article 26 (25 May1978).

65. When did the war on gold start?

The first evidence of US meddling in the gold market can be found as early as 1925 when the Fed falsified information regarding the Bank of England's possession of gold in order to influence interest rate levels. [208] However, the war on gold only really took off in the 1960s when trust in the dollar started to fray. Geopolitical conflicts such as the building of the Berlin Wall, the Cuban Missile Crisis and the escalation of violence in Vietnam led to increasing military spending by the US, which in turn resulted in growing US budget deficits. Amid growing concerns in other countries about the value of their dollar reserves as well as signs that they were beginning to accumulate gold, the CIA published a memorandum that presented 'key high-level gold-related deliberations by the then-administration'.[209]

The US strategy is clearly outlined:

- We (the US) lose influence in world affairs whenever:
  – The dollar is weak in exchange markets;
  – There is a major outflow of gold; and/or
- We are obliged to pressure countries into holding dollars.
- To contain these pressures our strategy is:
  – To isolate official from private gold markets by obtaining a pledge from central banks that they will neither buy nor sell gold except to each other;
  – To bring South Africa to sell its current production of gold in the private market, and thus keep the private price down.

An earlier memorandum from 1961 entitled 'US Foreign Exchange Operations: Needs and Methods' described a detailed plan to

[208] http://www.gata.org/node/8327

[209] Read full document here http://www.zerohedge.com/article/cia-chimes-gold-control-highlights-historical-gold-foreign-holdings-shortfunding

manipulate the currency and gold markets via structural interventions in order to support the dollar and maintain the gold price at $ 35 per ounce.[210] It was vital for the US to ‘manage’ the gold market; otherwise, countries could exchange their surplus dollars for gold and then sell these ounces on the free gold market for a higher price.

[210] http://fraser.stlouisfed.org/docs/historical/martin/23_06_19610405.pdf

66. How was the gold price managed?

During meetings of the central bank presidents at the BIS in 1961, it was agreed that a pool of $ 270 million in gold would be made available by the eight participating countries. This so-called 'London Gold Pool'[211] was focused on preventing the gold price from rising above $ 35 per ounce by selling official gold holdings from the central banks gold vaults.

The idea was that if investors attempted to flee to the safe haven of gold, the London Gold Pool would dump gold onto the market in order to keep the gold price from rising. During the Cuban Missile Crisis in 1962, for instance, at least $ 60 million in gold was sold between 22 and 24 October.[212] The IMF provided extra gold to be sold on the market when needed.

Contributions to the London Gold Pool per participating country[213]

US	$ 135 million	(120 tonnes)
Germany	$ 30 million	(27 tonnes)
England	$ 25 million	(22 tonnes)
Italy	$ 25 million	(22 tonnes)
France	$ 25 million	(22 tonnes)
Switzerland	$ 10 million	(9 tonnes)
The Netherlands	$ 10 million	(9 tonnes)
Belgium	$ 10 million	(9 tonnes)
Total	$ 270 million	

The participating countries also had to declare that they would not buy gold in the open market from countries such as Russia or South Africa. In true BIS fashion, these agreements were not put on paper, thereby ensuring complete secrecy.[214].

[211] Ferdinand Lips, *Gold Wars* (2002).

[212] Ibid.

[213] The UK lost 1800 tonnes between 1960 and 1971 and its gold holdings decreased from almost 2500 tonnes in 1960 to just over 310 metric tonnes at the end of 2013

[214] This agreement was disclosed by Charles A. Coombs, who was responsible for gold transactions at that time, in his strikingly open biography, (1960).

In 2010, a number of previously secret US telex reports from 1968 were made public by Wikileaks.[215] These messages describe what had to be done in order to keep the gold price under control. The aim was to convince investors that it was completely pointless to speculate on a rise in the price of gold. One of the reports mentions a propaganda campaign to convince the public that the central banks would remain 'the masters of gold'. Despite these efforts, in March 1968, the London Gold Pool was disbanded because France would no longer cooperate. The London gold market remained closed for two weeks. In other gold markets around the world, gold immediately rose 25% in value.

France even stepped out of the command structure of the NATO.[216] This was a remarkable step considering the danger that the Soviet Union posed to the European continent during the Cold War. It clearly shows France was distancing itself more and more from the US.

The end of the London Gold Pool was the starting shot of a 'bull market' in gold which would last for 13 years and which would see the gold price increasing by over 2,500%.

[215] http://www.zerohedge.com/article/declassified-state-dept-data-highlights-global-high-level-arrangement-remain-masters-gold

[216] http://www.dailymail.co.uk/news/article-1161642/As-France-rejoins-NATO-humorous-reminder-missed-them.html

67. The IMF's role in the war on gold

In response to the 'gold shortage' during the years of the London Gold Pool, in 1963 the IMF created a new form of international reserve assets called special drawing rights (SDR). These were created out of thin air and were designed to take over the dollar's role as a world reserve currency when needed.[217] Because SDRs were created out of nothing, they soon received the nickname 'paper gold'.

Since 1975, the Americans have worked with the IMF time and again to try to control the gold market by unloading tons of gold. Below are some examples of IMF gold transactions, made during times of stress in physical gold markets.[218] (All quotes are from the IMF website):

1970–1971
To support the dollar: 'The IMF sold gold to member countries in amounts roughly corresponding to those purchased from South Africa during this period.'

1966–1972
To save the dollar: 'In order to generate income to offset operational deficits, some IMF gold was sold to the United States and the proceeds invested in US government securities.'

[217] The IMF initially defined the SDR in terms of a fixed amount of gold, then equal to one dollar, and allocated 9.3 billion SDRs between 1970 and 1972 in proportion to member countries' quotas in the IMF. The IMF redefined the SDR as a weighted average of the US dollar, the British pound, the Japanese yen, and the currencies that eventually comprised the euro and made a second allocation of 21.4 billion SDRs between 1979 and 1981. Nevertheless, the SDR quickly devolved for the most part into a unit of account that was primarily used on the IMF's books. SDRs can be converted into whatever currency a borrower requires at exchange rates based on a weighted basket of international currencies. The IMF has typically lent to countries using funds denominated in SDRs.

[218] http://www.imf.org/external/np/exr/facts/gold.htm

1976–1980

To dampen explosion of gold price: 'The IMF sold approximately one-third, 50 million ounces, of its then-existing gold holdings following an agreement by its member countries to reduce the role of gold in the international monetary system.'

1999–2000

To meet substantial Y2K-demand: 'In December 1999, the Executive Board authorized off-market transactions in gold of up to 14 million ounces.'

2009

To meet huge post-Lehman demand and when gold broke the $ 1,000 level: 'On September 18, 2009, the Executive Board approved the sale of 400 tons of gold which amounted to one-eighth of the Fund's total holdings of gold at that time.'[219]

A 1999 press release from the IMF communications department 'spinned' the gold sales with the text; 'to help finance the IMF's participation in the Heavily Indebted Poor Countries (HIPC) Initiative'.

When the IMF sold another 200 tonnes of gold in 2012,[220] it communicated that at least 90% of the profits would be made available for the Poverty Reduction and Growth Trust (PRGT).[221]

[219] http://www.imf.org/external/np/sec/pr/2009/pr09310.htm
[220] http://www.imf.org/external/np/sec/pr/2012/pr1256.htm
[221] http://www.imf.org/external/np/exr/facts/gold.htm

68. How did the IMF amass its gold reserves?

The IMF received most of its gold from member countries, which had to pay 25% of their funding quotas to the IMF in physical bullion. This was because gold played a central role in the international monetary system until the collapse of the Bretton Woods agreements in 1971. Seven years later, the IMF fundamentally changed the role of gold in the international monetary system by eliminating its use as the common denominator of the post-World War II exchange rate system and ended its obligatory use in transactions between the IMF and its member countries.

For years, gold analysts have wondered whether a form of double counting of national and IMF gold reserves had occurred. In a reaction, the IMF stated in 2009: 'Members do not include IMF gold within their own reserves because it is an asset of the IMF. Members include their reserve position in the fund in their international reserves.'[222] This means that the value of IMF gold positions can be found on the balance sheets of both the IMF and member countries.

An analyst who studied this subject extensively published his findings on his blog:[223]

> Between 1958 and 1959 there was a first major increase in IMF gold since 1945. This boosted institutional gold holdings by 797 tons. At the same time, central bank holdings – the supposed source of this gold – fell by just 48 tons… the IMF owns the gold and doesn't lend it (out), but because it's held under earmark for members, the members themselves can lend it (and include it in their own stated gold reserves).

[222] http://arch09.goldtent.net/2009/04/03/find-the-imf-goldstolen-from-nearby-castle-sorry/

[223] http://theostrichhead.typepad.com/index/2010/04/imf-gold-holdings-why-mine-the-stuff-when-your-accountants-can-create-it.html

Another acknowledgement of the double counting can be found in an IMF paper from 2006.[224]

> RESTEG[225] agreed that double counting issues may arise for both allocated and unallocated gold from outright sales of gold acquired through gold swaps/loans. Some suggested that a solution to this double counting needs to be considered, although some noted that such double counting is not a new issue.[226]

Centralbanking.com, a website specialized in central banking news, published a story on this subject under the title 'IMF admits double counting gold'.[227]

[224] http://www.imf.org/external/np/sta/bop/pdf/resteg11.pdf

[225] RESTEG stands for reserve assets technical expert group, the IMF committee on balance of payment statistics.

[226] As a consequence, experts on double counting estimate that half of the 30,000 tonnes of official total gold reserves could in fact have already been lent out and sold by national central banks.

[227] http://www.centralbanking.com/central-banking/news/1407346/imf-admits-double-counting-gold

69. Are there more cases of double counting in the US?

In the US national gold reserves can be found on two different balance sheets.[228] When Wall Street bankers founded the Fed in 1913, they not only took over the monopoly to print dollars from the government, they also 'confiscated' the national gold reserves, which ended up on the Fed's balance sheet. President Roosevelt nationalized gold in 1933, and transferred the Fed's gold reserves back to the US Treasury Department. However, the Treasury issued gold certificates to the Reserve Banks,[229] therefore this gold also still appears on the Federal Reserve balance sheet.[230]

Former Republican senator Ron Paul inquired in 2011 whether these 'gold vouchers' issued to the Federal Reserve banks give them the authority to demand and receive gold from the Treasury Department. The General Counsel of the Fed, Scott Alvarez, summoned by the US Congress, would only confirm that the 'gold certificates' were accounting documents and were part of the banks' balance sheets.[231]

More examples can be found in the world of paper gold and gold trackers. Exchange Traded Funds, or ETFs, have become significant players in the gold and silver markets. An ETF follows an underlying index or value as accurately as possible. These funds have become popular because they are tradeable just like shares but at much lower costs. Since 1993, more than 700 ETFs have been introduced which follow all sorts of indices and commodities.[232]

[228] http://www.federalreserve.gov/releases/h41/current/

[229] http://www.coinweek.com/bullion-report/fed-releases-document-proving-it-has-lied-about-gold-swaps-and-gold-price-manipulation/

[230] If there were to be a revaluation of gold, the certificates would also be revalued upwards.

[231] http://www.globalresearch.ca/us-gold-reserve-audit-show/5326810

[232] http://www.nyse.com/pdfs/ETFs7109.pdf

Gold ETFs are supposed to be fully backed by gold bars, as stated in their prospectus. A gold ETF therefore follows the price of gold with physical gold as security. However, there are many who doubt whether ETFs actually possess physical gold. As reported by Forbes magazine in 2011:

> Skeptics have raised doubts over the trust's management of its physical gold, with questions over how much is actually held. HSBC, the custodian, is very secretive regarding its vault. Earlier this year, CNBC's Bob Pisani was allowed to see the vault only after surrendering his cell phone and taken in a van with blacked out windows to an undisclosed location. Once in the vault, Pisani held up a gold bar and explained they were all numbered and registered. Astutely, Zerohedge noted the bar Pisani held up was missing from the current bar list, fueling further speculation and skepticism.

Another analyst discovered that the serial number of the same 'unique' gold bar held up by Pisani could be found on a list of another gold ETF.

70. How often have US gold reserves in Fort Knox been audited?

In 1933, after President Roosevelt forced Americans to sell their gold to the US Treasury, a larger storage space was needed for the government's gold reserves. New vaults were constructed for this purpose in Fort Knox, Kentucky. The Fort Knox vaults now house some 4,500 metric tons of gold bullion, roughly 3% of all the gold ever refined. This the second largest depository in the United States. The largest is in Manhattan and is the underground vault of the Federal Reserve Bank of New York, which holds some 7,000 metric tons, some in trust for foreign nations.

A few random audits of the gold in Fort Knox were carried out between 1974 and 1986,[233] but doubts about the US gold reserves have continued to grow. Former Congressman Ron Paul, who was a Republican presidential candidate in 2012 and chairman of the US House Financial Services Subcommittee on Domestic Monetary Policy, has questioned the US Treasury about the gold reserves for years. He even called for an audit of the gold reserves in 2011, but his request was denied.[234] The Treasury Department did release the results of an audit on the Treasury's gold holdings stored at the New York Fed in 2010, but the official gold reserves in Fort Knox have never been audited.[235]

In 1981, a number of newspaper reports surfaced about missing Fort Knox gold. An article by the British *Sunday Express* entitled 'United States Probes Fort Knox Robbery' focuses on some 165.1 million ounces of gold which the United States allegedly lost between 1961 and 1971. The newspaper quotes Dr. Peter Beter, a financial adviser to the late President John Kennedy, who believes the theft occurred in the late 1960s when the United

[233] http://www.globalresearch.ca/us-gold-reserve-audit-show/5326810

[234] http://money.cnn.com/2011/06/24/news/economy/ron_paul_gold_audit/

[235] For security reasons, no visitors are allowed inside the depository grounds. The only exception was an inspection by members of the US Congress and the news media on 23 September 1974.

States transferred 233 million ounces from Fort Knox to the Federal Reserve Bank in New York and London's Bank of England. According to the article, 23.1 million ounces were accounted for at the Federal Reserve Bank while another 45.2 million ounces arrived safely in England. The destination of the remaining 165.1 million ounces is unknown, and Dr. Beter stated that attempts to learn what happened have been 'stonewalled' by Treasury officials.

The official reaction from Jerry Nisenson, Deputy Director of Gold Market Activities at the Treasury Department, was strange to say the least: 'We have investigated the claims of Dr. Beter and his supporters and we contend that the gold was not stolen. There is no cover-up. They have misinterpreted our books. The gold was being refined into better quality gold and those ounces just went up the chimney.' The possibility of irregularities at the US Assay Office in New York, through which all the gold was shipped, was also noted in an item in Money Magazine in January 1980.

The discovery of some gold-plated tungsten[236] bars only increased rumours about gold bars being changed into 'fake gold bars'.

As the US government refuses to allow an audit of Fort Knox, even after repeated requests from one of its senators, these kinds of rumours are bound to continue circulating.[237]

[236] Tungsten has nearly the same weight as gold.

[237] http://fofoa.blogspot.nl/2009/11/is-dollar-good-as-tungsten.htm

71. Did the game plan change after 1980?

In his book *Deception and Abuse at the Fed*, Robert D. Auerbach explains how the Fed even misleads Congress about its monetary policies. While the Fed is obliged by law to record its FOMC meetings, it had claimed for years that no transcripts exist. Eventually the truth came out that Chairman Alan Greenspan had instructed all tapes and accounts to be destroyed. Only transcripts since the end of the 1970s have been archived.

From the transcript of a March 1978 meeting, we know that the manipulation of the gold price was a point of discussion.[238] During the meeting, then Fed Chairman Miller pointed out that it was not even necessary to sell gold in order to bring the price down. According to him, it was enough to bring out a statement that the Fed was intending to sell gold.

This form of 'expectation management' has since become more the rule than the exception. Time and again, it has been communicated through press communiqués that the Fed or the IMF was considering selling gold, and time and again we have seen the gold price fall as a result.

Even as faith in the dollar was restored during the 1980s, the Fed understood that it had to continue fighting gold. In March 1993, the Federal Reserve board discussed how inflation expectations are influenced by the price of gold. When people doubt the value of fiat money, they tend to seek refuge in gold, which drives the price up. This scenario has since become reality following the fall of Lehman Brothers. Chairman Alan Greenspan suggested the US Treasury could sell a small portion of US gold reserves. The transcript runs as follows:

> Board member Angel: The price of gold is largely determined by what people who do not have trust in fiat money system

[238] http://www.federalreserve.gov/monetarypolicy/files/FOMC19930518meeting.pdf

> want to use for an escape out of any currency, and they want to gain security through owning gold…
>
> Greenspan: I have one other issue I'd like to throw on the table. I hesitate to do it, but let me tell you some of the issues that are involved here. If we are dealing with psychology, then the thermometers one uses to measure it have an effect. I was raising the question on the side with Governor Mullins of what would happen if the Treasury sold a little gold in this market. There's an interesting question here because if the gold price broke in that context, the thermometer would not be just a measuring tool. It would basically affect the underlying psychology.

Greenspan explained that a drop in the gold price would lower inflation expectations. He wanted to change the dynamics of the gold price so that it would no longer be an alarm bell for inflation.

Because the US Treasury is not legally allowed to sell its gold reserves, the Fed decided in 1995 to examine whether it was possible to set up a special construction whereby so-called 'gold swaps' could bring in gold from the gold reserves of Western central banks.

In this construction, the gold would be 'swapped' with the Fed, which would then be sold by Wall Street banks in order to keep prices down. Because of the 'swap agreement', the gold is officially only lent out, so Western central banks could keep it on their balance sheets as 'gold receivables'.

It was a wonderful plan. The Fed started informing foreign central bankers that they expected the gold price to decline further, and large quantities of central banks' gold became available to sell in the open market. Logistically this was an easy operation, since the New York Fed vaults had the largest collection of foreign gold holdings. Since the 1930s, many Western countries had chosen to store their gold safely in the US out of fears of a German or Soviet invasion.

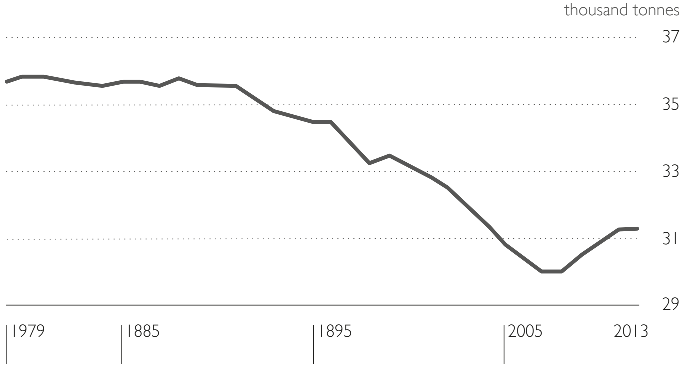
A number of European banks were ready to provide gold to help the Fed. In a Congress hearing in 1998, Greenspan remarked:

'Central banks stand ready to lend out enough gold if the gold price rises.'[239]

Vast amounts of gold were sold in this way at the end of the 1990s. An estimated 1,000 tonnes of physical gold were dumped each year. Since yearly worldwide gold mine production at the time was just over 2,000 tonnes, the gold price kept on dropping until it almost touched a 20-year bottom of $ 250 an ounce in 1999.

The annual reports of many central banks show the results of these gold swaps. Reports published by the Dutch central (DNB) reveal an entry labeled 'gold and gold receivables', whereas in the 1980s, only 'gold' is mentioned as an entry.

Central bank gold reserves



Source: Casey Research

[239] United States of America Congressional Records.

72. Didn't the British help by unloading gold in 1999?

Between 1999 and 2002, the UK embarked on an aggressive selling of its gold reserves, when gold prices were at their lowest in 20 years. Prior to starting, the Chancellor of the Exchequer, Gordon Brown, announced that the UK would be selling more than half of its gold reserves in a series of auctions in order to diversify the assets of the UK's reserves.

The markets' reaction was one of shock, because sales of gold reserves by governments had until then always taken place without any advance warning to investors. Brown was following the Fed's strategy of inducing a fall in the gold price via an announcement of possible sales. Brown's move was therefore not intended to receive the best price for its gold but rather to bring down the price of gold as low as possible. The advance notice of the sales drove the price of gold down by 10% just before the first auction on 6 July 1999. The UK eventually sold almost 400 tons of gold over 17 auctions in just three years, just as the gold market was bottoming out.

There has always been much speculation about the real reason for the British gold dumping, which greatly helped the US. As I explained earlier, a lower gold price supports the dollar as a world reserve currency. Demand for physical gold was relatively high in 1999 due to the signing of the Washington Agreement on Gold in September 1999. This agreement was made after several gold-producing (African) countries had protested against the ongoing dumping of gold during the 1990s. In the five-year agreement (1999-2004), European central banks agreed to limit their total gold sales to 400 tonnes per year.

This announcement triggered a sharp rise in the price of gold, from $ 260 to $ 330 per ounce within two weeks. Another reason for the high demand was fears concerning the Millennium Bug[240]

[240] In the late 1990s, reports appeared in the press about a possible collapse of complex banking networks because computer systems mostly use only two

which was associated with the rollover of the millennium (Y2K). To meet the significant Y2K-related demand, the IMF[241] also sold 14 million ounces in December 1999 (as mentioned earlier).

Gordon Brown's sale of the UK's gold reserves probably came about following a request from the US.[242] In 1999, some US banks that had gone 'short' gold, became mired in trouble when the gold prices moved up sharply that year. The situation was so bad that a bank collapse seemed imminent. The Telegraph reported in 2012:

> One globally significant US bank in particular is understood to have been heavily short on two tonnes of gold, enough to call into question its solvency if redemption occurred at the prevailing price. Goldman Sachs, which is not understood to have been significantly short on gold itself, is rumoured to have approached the Treasury to explain the situation through its then head of commodities Gavyn Davies, later chairman of the BBC and married to Sue Nye who ran Brown's private office.[243]

According to The Telegraph, the Chancellor then took the decision to bail them out by dumping Britain's gold. This forced down the price of gold and allowed the banks to buy back gold even at a profit, thus meeting their borrowing obligations.

According to Zerohedge,[244] the Governor of the Bank of England Eddie George told the following story to several people in a private conversation in September 1999:

digits instead of four for date programming. Many feared that systems would run aground because computer clocks would switch to 1900 instead of 2000.

[241] http://www.imf.org/external/np/exr/facts/gold.htm

[242] The US has since fully supported Mr. Brown's political career, particularly in his bid to become prime minister in 2007. Media reports from 2010 indicate that the decision to sell was made by Brown (Treasury) and was not welcomed by the Bank of England. (Zerohedge)

[243] The telegraph, november 27th, 2012.

[244] http://www.zerohedge.com/article/did-gordon-brown-sell-uks-gold-keep-aig-and-rothschild-solvent-more-disclosures-how-ny-fed-m

We looked into the abyss if the gold price rose further. A further rise would have taken down one or several trading houses, which might have taken down all the rest in their wake. At any cost we had to quell the gold price. It was very difficult to get gold under control but we have now succeeded. The US Fed was very active in getting the gold price down. So was the UK.

73. Further evidence of systematic gold price suppression

The central bank of Australia confirmed in 2003 that its gold reserves are mainly used to control the price of gold. In its 2003 annual report, the Reserve Bank of Australia stated: ‘Foreign currency reserve assets and gold are held primarily to support intervention in the foreign exchange market’.[245]

A top official of the BIS, William R. White, confirmed this line of thinking at a conference in 2005. In his opinion, there are five important tasks for central banks, one of which is to influence gold prices and other currencies. He described this as ‘the provision of international credits and joint efforts to influence asset prices (especially gold and foreign exchange) in circumstances where this might be thought useful.’[246]

Central banks have even used at least one gold mining company to help them keep the price of gold under control. This became apparent in a lawsuit started in 2003 by gold dealer Blanchard against producer Barrick Gold Corporation and JPMorganChase. Barrick confirmed it had borrowed gold from Western central banks through ‘swap agreements’ at the request of the Federal Reserve in order to sell this gold on the market.[247] Coincidentally, former President George Bush Senior was working as an advisor to Barrick in the period that these remarkable trades occurred.[248] In its defense, Barrick claimed that it was acting on orders from the Federal Reserve, positioning itself as a sort of agent acting on behalf of central banks.

[245] http://www.rba.gov.au/publications/annual-reports/rba/2003/pdf/2003-report.pdf

[246] William R. White, Basel 2005.

[247] http://www.gata.org/files/BarrickConfessionMotionToDismiss.pdf

[248] http://www.gata.org/files/BarrickConfessionMotionToDismiss.pdf

74. Recent methods to manipulate the gold price

The transition from open outcry (where traders stand in a trading pit and shout out orders) to electronic trading gave new opportunities for Wall Street (and the Fed) to control financial markets. Wall Street veteran lawyer Jim Rickards presented a paper in 2006 in which he explained how 'derivatives could be used to manipulate underlying physical markets such as oil, copper and gold'.[249] In his bestseller entitled *Currency Wars*, he explains how the prohibition of derivatives regulation in the Commodity Futures Modernization Act (2000) had 'opened the door to exponentially greater size and variety in these instruments that are now hidden off the balance sheets of the major banks, making them almost impossible to monitor'.

These changes made it much easier to manipulate financial markets, especially because prices for metals such as gold and silver are set by trading future contracts on the global markets. Because up to 99% of these transactions are conducted on behalf of speculators who do not aim for physical delivery and are content with paper profits, markets can be manipulated by selling large amounts of contracts in gold, silver or other commodities (on paper).

Especially since the start of the credit crisis, market participants have now and again been bombarding precious metal futures markets with a tsunami of sell orders. The price of gold was forced down by $ 200 during a two-day raid[250] in April 2013, and silver was sent 35% lower in three days in September 2011.

Another example was the decline in the silver price on 1 May 2011. On the previous Friday, the silver price had reached a record level of just over $ 50 an ounce. In technical terms, a double top was formed (in 1980 the silver price reached $ 50 as well). This made silver vulnerable to an attack by technical traders. The

[249] Jim Rickards, *Currency Wars* (2011)

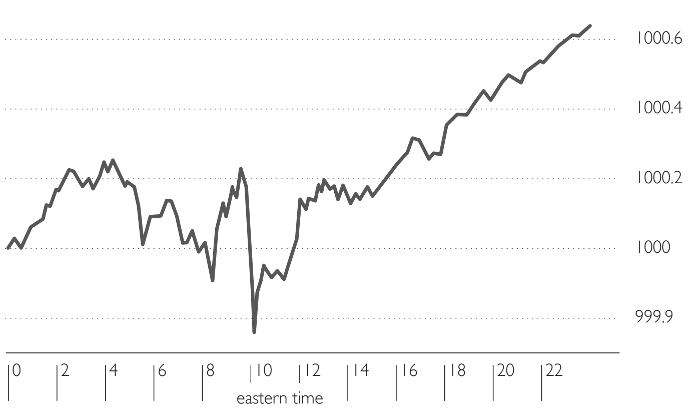
[250] According to a study by analyst Grant Williams, the chance of a two-day attack (a standard deviation move of that size on both days) is one in a billion.

raid started soon after midnight when futures trading in the digital gold and silver market began. Both the Japanese and UK financial markets were closed due to holidays. The normally meager market was now therefore extremely thin. Appearing as if out of ‘thin’ air, the market was soon swamped with (digital) selling orders.

In a study analyzing all intraday gold price changes between 2002 and 2012, the German analyst Dimitri Speck found that average gold prices fell consistently and significantly during New York trading hours.[251]

In 2011, the Deutsche Bank sent a proposal to its high-profile clients on how to profit from the ‘suppression of the gold price’. This is another indication that insiders are well aware of these malversations and even manage to profit from it.

Gold intraday average (2002-2012)



source: Dimitri Speck

[251] http://www.seasonal-charts.com/intraday_metalle_gold.html

75. More evidence of manipulation of precious metal markets

During a hearing by the US Commodity Futures Trading Commission (CFTC) at the end of 2009, professional silver trader Andrew Maguire came forward to recount how he had witnessed planned attacks on the price of silver. Maguire informed the commission he had overheard how traders used to boast how much money they made by manipulating gold and silver markets. In an email to CFTC commissioners Chilton and Ramirez, Maguire explains how Wall Street traders manipulated the precious metals markets especially around days with option expiries and important economic news announcements.

> From: Andrew Maguire
> Sent: Tuesday, January 26, 2010 12:51 PM
> To: Ramirez, Eliud [CFTC]
> Cc: Chilton, Bart [CFTC]
> Subject: Silver today
>
> Dear Mr. Ramirez:
>
> I thought you might be interested in looking into the silver trading today. It was a good example of how a single seller, when they hold such a concentrated position in the very small silver market, can instigate a selloff at will. These events trade to a regular pattern and we see orchestrated selling occur 100% of the time at options expiry, contract rollover, non-farm payrolls[252] (no matter if the news is bullish or bearish), and in a lesser way at the daily silver fix.

[252] Non-farm payrolls refers to the statistic provided each month by the US Bureau of Labor showing the change in employment excluding government and farm employees.

The CFTC commissioner Ramirez replied a day later:

> From: Ramirez, Eliud [CFTC]
> To: Andrew Maguire
> Sent: Wednesday, January 27, 2010 4:04 PM
> Subject: RE: Silver today
>
> Mr. Maguire,
>
> Thank you for this communication, and for taking the time to furnish the slides.

In January 2010, Maguire had even warned the CFTC about a coming attack, describing in detail how gold and silver prices would be hit the moment the non-farm payrolls number was made public. The hit occurred exactly as Maguire had predicted:

> From: Andrew Maguire
> To: Ramirez, Eliud [CFTC]
> Cc: BChilton [CFTC]
> Sent: Wednesday, February 03, 2010 3:18 PM
>
> Thought it may be helpful to your investigation if I gave you the heads up for a manipulative event signaled for Friday, 5th Feb. The non-farm payrolls number will be announced at 8.30 ET. There will be one of two scenarios occurring, and both will result in silver (and gold) being taken down with a wave of short selling designed to take out obvious support levels and trip stops below. While I will no doubt be able to profit from this upcoming trade, it is an example of just how easy it is to manipulate a market if a concentrated position is allowed by a very small group of traders.
>
> I am aware that physical buyers in large size are awaiting this event to scoop up as much 'discounted' gold and silver as possible. These are sophisticated entities, mainly foreign,

> who know how to play the short sellers and turn this paper gold into real delivered physical.

And another email by Maguire after the attack occurred:

> From: Andrew Maguire
> To: Ramirez, Eliud [CFTC]
> Cc: BChilton [CFTC]; GGensler [CFTC]
> Sent: Friday, February 05, 2010 3:37 PM
> Subject: Fw: Silver today.
>
> A final e-mail to confirm that the silver manipulation was a great success and played out EXACTLY to plan as predicted yesterday. How would this be possible if the silver market was not in the full control of the parties we discussed in our phone interview? I have honored my commitment not to publicize our discussions.
> I hope you took note of how and who added the short sales (I certainly have a copy) and I am certain you will find it is the same concentrated shorts who have been in full control since JPM took over the Bear Stearns position.

76. Investigations into manipulation in precious metals markets

Silver analyst Ted Butler has asked the US CFTC repeatedly over a period of 27 years to look into the possible manipulation of silver markets.[253] According to Butler, the CFTC 'has conducted three formal reviews into whether silver was manipulated in the last nine years alone'. In the first two, the agency concluded that no manipulation existed. Until 2008, the CFTC had on several occasions denied that manipulation in silver was taking place.[254]

Continuous complaints and several petitions by silver investors worldwide resulted in a third investigation into the silver market. In September 2008, the CFTC confirmed that its Division of Enforcement has been investigating 'complaints of misconduct in the silver market'.[255, 256] The investigation went on for more than five years. Although Butler was directly involved in bringing about all three reviews, he has never heard anything back from the CFTC and was never interviewed.

CFTC commissioner Bart Chilton has said on different occasions that he believed there had been 'fraudulent efforts' to 'deviously control' the silver price.[257] He also made some public comments about the large concentration on the short side of COMEX silver. These comments resulted in a civil class action lawsuit being filed against JPMorgan, who holds a majority of these positions.[258]

A New York judge dismissed the lawsuit at the end of December 2012.

[253] http://www.cftc.gov/index.htm 'Ensuring the integrity of the futures & options markets'
[254] http://www.bloomberg.com/news/2010-10-26/silver-market-faced-fraudulent-efforts-to-control-price-chilton-says.html
[255] http://wsf.typepad.com/wall-street-forecaster/2011/11/cftc-statement-regarding-enforcement-investigation-of-the-silver-markets.html
[256] http://www.cftc.gov/PressRoom/PressReleases/silvermarketstatement
[257] http://www.scribd.com/doc/65207178/11-09-12-FINAL-Consolidated-Class-Action-Complaint
[258] http://seekingalpha.com/article/234051-cftc-investigates-jpmorgan-hsbc-silver-market-manipulation-may-have-kept-prices-down

In March 2013, reports surfaced about another CFTC investigation into whether prices were being manipulated in the world's largest gold market.[259] The CFTC inquiry apparently now also involved the gold markets.

But after its five-year investigation into complaints of misconduct regarding silver prices, in 2013 the CFTC concluded there was no ground for claims of manipulation of the silver markets.

In september 2010, Zerohedge reported one of the two administrative judges for the CFTC has written and filed a 'Notice and Order' saying:

> There are two administrative law judges at the Commodity Futures Trading Commission: myself and the Honorable Bruce Levine. On Judge Levine's first week on the job, nearly twenty years ago, he came into my office and stated that he had promised Wendy Gramm, then Chairwoman of the Commission, that we would never rule in a Complainant's favor. A review of his rulings will confirm that he has fulfilled his vow. Jedge Levine, in the cynical guise of enforcing the rules, forces pro se complaints to run a hostile procedural gauntlet until they lose hope, and either withdraw their complaint or settle for a pittance, regardless of the merits of the case.

While Citigroup, UBS, JP Morgan, HSBC and RBS have been fined what amounts to $4.3 billion for currency exchange manipulations,[260] European regulators are still studying the manipulation of the gold price. But in one case a UBS precious-metals trader has already been charged with misconduct in Switzerland.[261]

[259] http://online.wsj.com/article/SB10001424127887324077704578358381575462340.html#printMode

[260] http://www.bloomberg.com/news/2014-11-12/banks-to-pay-3-3-billion-in-fx-manipulation-probe.html.

[261] http://www.bloomberg.com/news/2014-11-12/finma-s-ubs-foreign-exchange-settlement-includes-precious-metals.html.

77. Do regulators now want Wall Street to stop trading commodities?

The Federal Reserve announced in the summer of 2013 that 'it might reconsider its decade-old policy which has allowed investment banks to diversify and own certain unrelated businesses such as participation in the physical commodity markets'.[262] CFTC commissioner Bart Chilton remarked in the same week: 'I don't want banks owning warehouses, whether they have aluminum, gold, silver, or anything else in them.' These statements indicate the start of coordinated action by the Fed and the CFTC towards Wall Street banks active in commodities.

Around the same time, a letter from the CFTC to the Federal Reserve was leaked to the public by CNBC.[263] In the letter, the CFTC is 'urging the Fed to firmly draft the final Volcker Rule in a way that ensures banks can no longer speculate in commodity markets'. And Bloomberg reported on the same day that the CFTC had even sent letters to banks asking them 'not to destroy documents relating to warehouses registered by exchanges such as the London Metal Exchange (LME) or Chicago Mercantile Exchange (COMEX)'. We have increasing evidence, therefore, that regulators are starting to make a move in this area.

That same year, JPMorgan made a surprising announcement[264] that it had sold its office building at One Chase Manhattan Plaza to China's largest industrial group.[265] To precious metal watchers, this address is best known for its enormous precious metal vaults. The vaults are situated 80 feet below ground level at 33 Liberty Street. It used to contain up to 20% of the world's gold. Strangely

[262] http://www.bloomberg.com/news/2013-08-05/fed-should-reverse-commodity-trading-policy-cftc-s-chilton-says.html

[263] http://www.cnbc.com/id/100937811/print

[264] http://www.huffingtonpost.com/nathan-lewis/wheres-the-gold_b_216896.html

[265] http://www.bloomberg.com/news/2013-10-18/jpmorgan-selling-chase-manhattan-plaza-in-nyc-to-china-s-fosun.html

enough, the sale was realized shortly after reports surfaced[266] that almost all of JPMorgan's gold holdings had been withdrawn from its warehouse at Chase Manhattan Plaza.

Zerohedge discovered earlier that the JPMorgan vaults were situated right across from the Fed's own gold vault:

> ...we have learned that the world's largest private, and commercial, gold vault, that belonging once upon a time to Chase Manhattan, and now to JPMorgan Chase, is located, right across the street, and at the same level underground, resting just on top of the Manhattan bedrock, as the vault belonging to the New York Federal Reserve, which according to folklore is the official location of the biggest collection of sovereign, public gold in the world.

But the most stunning revelation was the fact that 'the Chase Plaza is linked to the (Fed) facility via tunnels'.[267]

The news[268] of JPMorgan's sale of its Chase Manhattan Plaza office came only weeks after the bank announced that it was 'pursuing strategic alternatives for its physical commodities business, including its holdings of commodities assets' and that 'it plans to get out of the business of owning and trading physical commodities ranging from metals to oil'. Both developments appear to be related. The fact that the Chinese company was allowed to buy the largest private gold vaults just across from the Fed's gold vaults in the heart of the financial district of Manhattan, is an indication that an agreement may have been made between China and the US about the storage of China's gold.

[266] http://sufiy.blogspot.co.uk/2013/07/jpm-gold-vault-chronicles-eligible-gold.html

[267] http://www.zerohedge.com/news/2013-03-02/why-jpmorgans-gold-vault-largest-world-located-next-new-york-fed

[268] http://www.zerohedge.com/news/2013-07-26/jpmorgan-exit-physical-commodity-business

78. Why has this gold manipulation not been reported on before?

This has all been reported before,[269] but the mainstream financial media have so far neglected to pick up this story. Since 2004, a considerable number of studies about the manipulation of gold and/or silver markets have been published.

1 – The famous Canadian investor Eric Sprott published an extensive study in 2004 called *Not Free, Not Fair – the Long-Term Manipulation of the Gold Price*[270] in which he discusses the manipulation of the gold price.

2 – In 2006, the London broker Cheuvreux, a part of Credit Agricole, published a report[271] in connection with 'the management' of the gold price under the title *Remonetization of Gold: Start Hoarding*. The authors concluded that by lending out gold, Western central banks possessed only half of the recorded 30,000 tonnes of global official gold reserves.

3 – A year later, Citigroup analysts John H. Hill and Graham Wark brought out their own report *Gold: Riding the Reflationary Rescue* in which they explain that gold 'undoubtedly faced headwinds this year from resurgent central bank selling, which was clearly timed to cap the gold price'. This selling, according to Citigroup, was clearly intended to prevent a further rise in the price of gold.[272]

These studies also disclose information about a a class-action lawsuit brought against Morgan Stanley in 2007,[273] for charging storage fees for precious metals, but the clients argued that the Wall Street bank neither bought nor stored the metals.

[269] http://www.mineweb.com/mineweb/content/en/mineweb-political-economy?oid=101525&sn=Detail

[270] http://www.sprott.com/media/105296/not-free-not-fair.pdf

[271] http://www.gata.org/files/CheuvreuxGoldReport.pdf

[272] http://www.gata.org/node/5568/

[273] http://uk.reuters.com/article/2007/06/12/morganstanley-suit-idUKN1228014520070612