Chris Powell: There are no markets anymore, just interventions

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GATA Goes to Washington -- Anybody Seen Our Gold?
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Groucho Marx made a small fortune in vaudeville and then lost it all in the stock market crash of 1929. His sense of humor was no help to him then. One day in the early 1930s he was sitting in a bar with his friend Morrie, and Morrie was trying to console him.

"Yes," Morrie told Groucho, "we've lost a lot of money and it hurts, but we’ve still got our health and our lives ahead of us, and some people don’t even have that. Take my cousin Fred. He's much worse off than we are but he’s pressing on as best he can. Fred lost his leg in a carriage accident when he was 5. His parents were killed in a tenement fire when he was 12. His wife ran off with his best friend when he was 27. And then he had diabetes at 29."

Groucho was not to be consoled; he had lost too much money in the crash. He snarled back at Morrie: "Diabetes at 29? That's *nothing.* I had Radio at 104."

We investors in the precious metals have taken some hard blows lately, if not quite as hard as the blows taken by, say, investors in Bear Stearns. But we've taken such blows regularly over the last decade and still have come out ahead, so we should be able to put things in perspective.

It may be a little easier for those of us in the Gold Anti-Trust Action Committee. The committee was founded in 1999 to expose manipulation of the gold market and the rigging of related markets. From the start we were ridiculed as "conspiracy nuts." But hardly a day goes by now without evidence of official market rigging showing up in even the establishment news media.

We in GATA haven't minded the "nuts" part that much. But we're actually public record nuts.

For the scheme to suppress the price of gold is increasingly a matter of ordinary public record.

It was a matter of public record in January 1995, when the Federal Reserve's general counsel, J. Virgil Mattingly, told the Federal Open Market Committee, according to the committee's minutes, that the U.S. Treasury Department's Exchange Stabilization Fund had undertaken "gold swaps." Those minutes are still posted at the Fed's Internet site:

http://www.federalreserve.gov/monetarypolicy/files/FOMC19950201meeting.p...

It was a matter of public record in July 1998, six months before GATA was formed, when Federal Reserve Chairman Alan Greenspan told Congress: "Central banks stand ready to lease gold in increasing quantities should the price rise." That is, Greenspan himself contradicted the usual central bank explanation for leasing gold -- supposedly to earn a little interest on a dead asset -- and admitted that gold leasing was all about suppressing the price. Greenspan's admission is still posted at the Fed’s Internet site:

http://www.federalreserve.gov/boarddocs/testimony/1998/19980724.htm

Incidentally, while we gold bugs love to cite Greenspan's testimony from July 1998 because of its reference to gold leasing, that testimony was mainly about something else, for which it is far more important today. For with that testimony Greenspan persuaded Congress not to regulate the sort of financial derivatives that lately have devastated the world financial system.

The Washington Agreement on Gold, made by the European central banks in 1999, was another admission -- no, a *proclamation* that central banks were working together to control the gold price. The central banks in the Washington Agreement claimed that, by restricting their gold sales and leasing, they meant to prevent the gold price from falling too hard. But even if you believed that explanation, it was still collusive intervention in the gold market. You can find the Washington Agreement at the World Gold Council's Internet site:

http://www.reserveasset.gold.org/central_bank_agreements/cbga1/

Barrick Gold, then the largest gold-mining company in the world, confessed to the gold price suppression scheme in U.S. District Court in New Orleans on February 28, 2003. On that date Barrick filed a motion to dismiss Blanchard & Co.'s anti-trust lawsuit against Barrick and its bullion banker, JPMorganChase, for rigging the gold market.

Barrick's motion said that in borrowing gold from central banks and selling it, the company had become the agent of the central banks in the gold market, and, as the agent of the central banks, Barrick should share their sovereign immunity and be exempt from suit. Barrick's confession to the gold price suppression scheme is posted here:

http://www.gata.org/files/BarrickConfessionMotionToDismiss.pdf

The Reserve Bank of Australia confessed to the gold price suppression scheme in its annual report for 2003. "Foreign currency reserve assets and gold," the RBA's report said, "are held primarily to support intervention in the foreign exchange market." The RBA's report is still posted on the Internet at the central bank's site:

http://www.rba.gov.au/PublicationsAndResearch/RBAAnnualReports/2003/Pdf/...

Maybe the most brazen admission of the Western central bank scheme to suppress the gold price was made by the head of the monetary and economic department of the Bank for International Settlements, William S. White, in a speech to a BIS conference in Basel, Switzerland, in June 2005.

There are five main purposes of central bank cooperation, White announced, and one of them is "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." White's speech is posted at GATA's Internet site here:

http://www.gata.org/node/4279

Last October the editor of the Freemarket Gold & Money Report and the founder of GoldMoney, James Turk, a longtime consultant to GATA who will be speaking at this conference, revealed some U.S. Treasury Department reports showing that since May last year the U.S. gold reserve has been mobilized for leasing to suppress the gold price. Those records are available on GATA's Internet site:

http://www.gata.org/node/5637

In complaining about the manipulation of the gold market, GATA has not been called "conspiracy nuts" by everyone. We have gained a good deal of institutional support over the years.

First came Sprott Asset Management in Toronto, our main sponsor for this conference. In 2004 Sprott issued a comprehensive report supporting GATA. The report was written by this conference's keynote speaker, Sprott's chief investment strategist, John Embry, and his assistant, Andrew Hepburn, and was titled "Not Free, Not Fair -- the Long-Term Manipulation of the Gold Price." It remains available at the Sprott Internet site here:

http://www.sprott.com/docs/PressReleases/20_not_free_not_fair.pdf

Then in 2006 the Cheuvreux brokerage house of Credit Agricole, the major French bank, issued its own report confirming GATA's findings of manipulation in the gold market. The Cheuvreux report was titled "Remonetization of Gold: Start Hoarding," and you can find it at GATA's Internet site:

http://www.gata.org/files/CheuvreuxGoldReport.pdf

And in September last year Citigroup -- yes, Citigroup, a pillar of the American financial establishment -- joined the conspiracy nuts. It published a report titled "Gold: Riding the Reflationary Rescue," written by its analysts John H. Hill and Graham Wark, declaring: "Gold undoubtedly faced headwinds this year from resurgent central bank selling, which was clearly timed to cap the gold price." You can find the Citigroup report at GATA's Internet site here:

http://www.gata.org/files/CitigroupGoldReport092107.pdf

Even those authorities who don't want to run afoul of government institutions that with a few computer keystrokes can create virtually infinite amounts of money may have to admit the opportunity for central banks to manipulate the gold market. For it is widely acknowledged that annual world gold production is about 2,400 tonnes, that annual net world gold demand is about 3,400 tonnes, that gold production is falling as demand is rising, and that the thousand-tonne gap between production and net demand is being filled mainly by central bank dishoarding and leasing. What do you suppose the gold price would be if central banks were not supplying more than a quarter of annual demand?

Just prior to the smashing down of the gold price in March, the gold lease rate turned negative. That is, the usual miniscule interest rate charged on borrowed gold was not enough incentive for bullion banks to keep borrowing gold from central banks and keep selling it into the market. No, central banks began to pay bullion banks to short gold. (Remember this the next time you hear assertions that central banks lease gold to make money from a "dead asset.")

So a bigger question today is not whether central banks and their agents manipulate the gold market -- even Citigroup sees it now -- but why this should ever have been a mystery or a controversy in the first place. For the manipulation of the gold market by central banks is only the most basic economic history.

That's what the gold standard was about -- governments fixing the price of gold to a precise value in their currencies, a price at which governments would exchange their currencies for gold, currencies that were backed by gold.

Though the gold standard was abandoned amid the Great Depression, that was not the end of government efforts to control the gold price. The United States and Great Britain attempted to hold the price at $35 per ounce throughout the 1960s in a public arrangement of dishoarding that came to be known as the London Gold Pool. The London Gold Pool was overwhelmed by demand and was shut down abruptly in April 1968.

Since then there have been sporadic selling of gold by central banks and, increasingly, leasing of gold by central banks, even as the gold price has continued to rise.

That the London Gold Pool was a scheme to manipulate the gold price is not denied even as the purposes of the more recent selling and leasing by central banks may be disputed.

But it is all much bigger than that. Gold is only part of it.

For market intervention is exactly why central banking was *invented.* Intervening in markets is what central banks *do.* They have *no other purpose.*

Central banks admit intervening daily, even hourly, in the currency markets, buying and selling their own currencies and those of other governments to maintain exchange rates at what they consider politically desirable levels. Central banks admit doing the same in the government bond markets. Now there is even evidence that the Federal Reserve and Treasury Department have been intervening frequently in the U.S. stock markets since the crash of 1987.

You don't have to settle for rumors about the "Plunge Protection Team," also known as the President's Working Group on Financial Markets. Again you can just look at the public record.

The Federal Reserve injects money into the stock and bond markets every day, on the public record, through what are called repurchase agreements the Fed makes with the major New York financial houses, its so-called primary dealers. The financial houses become the Fed's agents in directing that money into the markets.

As of this week the money that has been deployed into the stock, bond, and derivatives markets by the Fed through the repo pool stood at about $360 billion. Last October the repo pool was only $160 billion. In only six months the money in the repo pool has far more than doubled.

Three hundred sixty billion dollars are plenty for pushing all sorts of markets around or propping them up. Indeed, market manipulation is the only purpose of the repo pool.

Now central banks are trying to scare the gold market with the plan of the International Monetary Fund to sell 400 tonnes of gold in the name of rotating into supposedly superior investments, like government bonds -- as if anything else with so little risk could match gold's increase in value in dollar terms, 300 percent over the last 10 years, an average of 30 percent per year. But if you look closely, you will find that the IMF says its gold sales are only to substitute for any unfilled quotas in the Western central bank agreement on gold sales, the Washington Agreement, and so are not to add to the annual dishoarding of official-sector gold. And if you look even closer, you may begin to wonder whether the IMF even has any gold at all.

This month I wrote to the managing director of the IMF, Dominque Strauss-Kahn, with five questions about the IMF's gold. I copied the letter to the IMF's press office by e-mail, and quickly began to get some answers from one of its press officers, Conny Lotze.

My first question was: "Your Internet site says the IMF holds 3,217 metric tons of gold 'at designated depositories.' Which depositories are these?"

Conny Lotze of the IMF replied, but not specifically. She wrote: "The fund's gold is distributed across a number of official depositories," noting that the IMF's rules designate the United States, Britain, France, and India as IMF depositories.

My second question was: "If you'd prefer not to identify the depositories for security reasons, could you at least identify the national and private custodians of the IMF's gold and the amounts of IMF gold held by each?"

Conny Lotze replied, again not very specifically: "All of the designated depositories are official."

My third question was: "Is the IMF's gold at these depositories allocated -- that is, specifically identified as belonging to the IMF -- or is it merged with other gold in storage at these depositories?"

Conny Lotze replied, still not very specifically: "The fund's gold is properly accounted for at all its depositories."

My fourth question was: "Do the IMF's member countries count the IMF's gold as part of their own national reserves, or do they count and identify the IMF's gold separately?"

Conny Lotze replied a bit ambiguously: "Members do not include IMF gold within their reserves because it is an asset of the IMF. Members include their reserve position in the fund in their international reserves."

This sounded to me as if the IMF members are still counting as their own the gold that supposedly belongs to the IMF -- that the IMF members are just listing the gold assets in another column on their own books.

My fifth question to the IMF was: "Does the IMF have assurances from the depositories that its gold is not leased or swapped or otherwise encumbered? If so, what are these assurances?"

Conny Lotze replied: "Under the fund's Articles of Agreement it is not authorized to engage in these transactions in gold."

But I had not asked if *the IMF itself* was swapping or leasing gold. I had asked whether *the custodians* of the IMF's gold were swapping or leasing it.

This prompted me to raise one more question for Conny Lotze. I wrote her: "Is there any audit of the IMF's gold that is available to the public? I ask because, if the amount of IMF gold held by each depository nation is not public information, there doesn't seem to be much documentation for the IMF's gold, nor any documentation for the assurance that its custody is just fine. Without any details or documentation, the IMF's answer seems to be simply that it should be trusted -- that it has the gold it says it has, somewhere."

And Conny Lotze ... well, that was 10 days ago, and she has not answered that question yet, and I don't think she is going to. For I'm beginning to find that the only thing that offends a government officer more than a four-letter word is that five-letter word: A-U-D-I-T.

That the International Monetary Fund apparently refuses to account for the gold it claims to have should be potential news for the financial media. We hope they will pursue that issue before they next attempt to scare the gold market with stories about IMF gold sales.

But GATA may have somewhat bigger news than that today.

Last week GATA's Washington law firm, William J. Olson P.C. of McLean, Virginia, received a letter from the Federal Reserve in response to the freedom-of-information request we sent to the Fed and the Treasury back in December, seeking access to all documents in their possession that mention "gold swaps." The Fed's letter confirms that it has such documents and says that some of them will be made available to us but others will not be made available or will be redacted because they contain, among other things, "trade secrets" and "privileged or confidential" memorandums or letters. By telephone the Fed has told our law firm that about 400 pages are being reviewed for release to us.

Right now we can only speculate about these documents, but the Fed's letter does admit something important: that the U.S. government knows things about gold that it does not want the public to know, that the U.S. government has secrets about gold, and that these secrets involve the gold market, not the mere location of U.S. government gold reserves.

Maybe the financial media should pursue these issues too. For what is there to hide about the U.S. gold reserves unless it involves market manipulation?

But since even Citigroup acknowledges it now, it should be no secret that the price of gold has been manipulated through the strategic dishoarding of gold by central banks and their sale of gold futures and options at strategic moments. So the biggest question of all may be why central banks manipulate the gold price and what this means for investors.

Gold has been manipulated by central banks because it is a currency that competes with their own currencies, a currency whose price helps set the price of government currencies and helps determine interest rates. More than that, gold is the ticket out of the central bank system, the escape from coercive central bank and government power. As an independent currency, a currency to which investors can resort when they are dissatisfied with government currencies, gold carries the enormous power to discipline governments, to call them to account for their inflation of the money supply and to warn the world against it. Because gold is the vehicle of escape from the central bank system, the manipulation of the gold market is the manipulation that makes possible all other market manipulation by government.

In recent months central bankers often have complained about what they call "imbalances" in the international financial system. That is, certain countries, particularly in Asia, run big trade surpluses, while other countries, especially the United States, run big trade deficits and consume far more than they produce, living off the rest of the world. These complaints by the central bankers about "imbalances" are brazenly hypocritical, since these imbalances have been caused by the central banks themselves, their constant interventions in the currency, bond, commodity, and derivatives markets to prevent those markets from coming into balance through ordinary market action lest certain political interests be disturbed.

Yes, when markets balance themselves they often do it brutally, causing great damage to many of their participants. The United States enacted a central banking system in 1913 because for the almost 150 years before then the country went through a catastrophic deflation every decade or so. Central banking was created in the name of preventing those catastrophic deflations.

The problem with central banking has been mainly the old problem of power -- it corrupts.

Central bankers are supposed to be more capable of restraint than ordinary politicians, and maybe some are, but they are not always or even often capable of the *necessary* restraint. One market intervention encourages another and another and increases the political pressure to keep intervening to benefit special interests rather than the general interest -- to benefit especially the financial interests, the banking and investment banking industries. These interventions, subsidies to special interests, increasingly are needed to prevent the previous imbalances from imploding.

And so we have come to an era of daily market interventions by central banks -- so much so that the main purpose of central banking now is *to prevent ordinary markets from happening at all.*

Central banking controls the value of all labor, services, and real goods, and yet it is conducted almost entirely in secret -- because, in choosing winners and losers in the economy, advancing infinite amounts of money to some participants in the markets but not to others, administering the ultimate patronage, central banking cannot survive scrutiny.

Yet the secrecy of central banking now is taken for granted even in nominally democratic countries.

Maybe the Federal Reserve's intervention to rescue Bear Stearns through the Fed's de-facto subsidiary, JPMorganChase, has been grotesque enough to prompt some devastating public inquiries by Congress and the news media. But what a hundred years ago in the United States was called the Money Power is so ascendant today that it sometimes even boasts of its privilege. What other agency of a democratic government could get away with the principle that was articulated on national television in 1994 by the vice chairman of the Federal Reserve, Alan Blinder? Blinder declared: "The last duty of a central banker is to tell the public the truth."

The truth as GATA sees it is this:

First, gold is the secret knowledge of the financial universe, but it is becoming an open secret. That is GATA's work -- to bust the secret open. We will continue to use freedom-of-information law against the Fed and the Treasury Department about their policies toward gold and the disposition of the U.S. gold reserves. Of course central banks can no more afford to account fully for their gold reserves than the Fed and JPMorganChase can afford to disclose details of their negotiations for the rescue of Bear Stearns. Indeed, the disposition of Western central bank gold reserves is a secret more closely guarded than the blueprints for the manufacture of nuclear weapons.

Second, all technical analysis of markets now is faulty if it fails to account for government intervention.

And third, that intervention against gold is failing because of overuse, exposure, exhaustion of Western central bank gold reserves -- we estimate that the Western central banks have in their vaults only about half the 32,000 tonnes they claim to have -- and the resentment of the developing world, which is starting to figure out how it has been expropriated by the dollar system, a system in which people create real goods and send them to the United States in exchange for mere colored paper and electrons.

The Western central banks are attempting a controlled retreat with gold, bleeding out their reserves so that gold's ascent and the dollar's decline may be less shocking. But GATA believes that the central banks may have to retreat farther than anyone dreams: that when the central banks are overrun in the gold market, as they were overrun in 1968, and the market begins to reflect the ratio between gold supply and the explosion of the world money supply of the last few decades -- as the market begins to perceive the difference between the real and the unreal -- there may not be enough zeroes to put behind the gold price.

Not quite a hundred years ago Rudyard Kipling wrote a poem that foresaw the decline of his country's empire and attributed it to a loss of the old virtues, the virtues that were listed at the top of the pages in the special notebooks, called "copybooks," that were given to British schoolchildren -- virtues like honesty, fair dealing, Ten Commandments-type stuff. The name of Kipling's poem is "The Gods of the Copybook Headings," and its conclusion is a warning to the empire that succeeded the one he was living in:

Then the Gods of the Market tumbled,
And their smooth-tongued wizards withdrew
And the hearts of the meanest were humbled
And began to believe it was true
That All is not Gold that Glitters,
And Two and Two make Four,
And the Gods of the Copybook Headings
Limped up to explain it once more.

As it will be in the future,
It was at the birth of Man.
There are only four things certain
Since Social Progress began:
That the Dog returns to his Vomit
And the Sow returns to her Mire,
And the burnt Fool's bandaged finger
Goes wabbling back to the Fire;

And that after this is accomplished,
And the brave new world begins,
When all men are paid for existing
And no man must pay for his sins,
As surely as Water will wet us,
As surely as Fire will burn,
The Gods of the Copybook Headings
With terror and slaughter return.

I quoted that much of Kipling at Doug Casey's conference in Arizona last month and when I got to the part about terror and slaughter returning, all I could conclude with was "Have a nice day." I was a little ashamed of that this week as I walked with my daughter to the Lincoln Memorial just across the river here and stood on the portico where Martin Luther King stood 45 years ago as he spoke of renewing Lincoln's pursuit of liberating humanity. "Let us have faith that *right* makes *might*," Lincoln said, "and, in that faith, let us, to the end, dare to do our duty as we understand it."

GATA has the faith that right *will* make might and thanks you all for coming here to help us with our duty.

http://www.gata.org/node/6242