Thunder Road report

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This issue:

Lock and load in Gold and Silver - escaping from Plato's Cave

FREE Martin Armstrong

Imprisoned for financial analysis

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Lock and load in Gold and Silver – escaping from Plato's Cave

Politicians and central bankers are throwing liberal quantities of tragedy and comedy into the usual mix of fear and greed in the markets. Any chance of free market adjustment in the case of Greece was strangled in favour of throwing more debt at the problem (as usual). Debt-ridden countries, who can ill afford it, are lending money to bankrupt Greece! The global debt mountain becomes increasingly obscene and precarious.

Source: Virginia Tech army cadet programme.

Back in the real world, there is increasing evidence that investors in gold and silver are converting paper claims into actual bullion and the "physical squeeze" is gathering pace. There is even anecdotal evidence of semi-refined metal by-passing bullion markets and going directly from the mines to investors due to loss of confidence in exchanges. The recent CFTC meeting on precious metals, conducted in public, saw first hand evidence of market rigging from an LBMA trader, but was greeted by almost complete silence from mainstream media in the UK/US. In the gold and silver markets it's going viral.

There was breaking news over the weekend (see below) that the US Department of Justice is considering an investigation into manipulation of the silver market. In the

UK, however, the FSA washed its hands of any responsibility for failure and/or criminal activity in the gold market.

We are in the third gold war since the Second World War – the US (and other western countries/ institutions, notably the IMF) lost the first one in the late-1960s to the French and the second one in the late-1970s to the Arab nations. In the report, I've used declassified documents from the US State Department to show how on those occasions the US authorities believed they could defy economic gravity right up until the moment when they were overtaken by events, how they falsified economic data to support the dollar and how they negotiated secret deals to stop other governments buying gold. Food for thought I think.

Monkey see, monkey see again, monkey do something different this time! This gold war has been fought covertly. High profile sales of physical gold have, for the most part, been replaced by sales of "paper gold" in the form of futures, OTC options and unallocated gold, etc. But the veil has been lifted and the whole charade is beginning to unravel. Instead of France or Arab nations, the 800lb gorilla is China, potentially a more formidable opponent. It's not just the Chinese government, now that gold and silver ownership is being promoted to the populace there.

BREAKING NEWS OVER THE HOLIDAY WEEKEND:

One of independent silver analyst Ted Butler's subscribers sent him a communication from the US Department of Justice's Antitrust Division saying that it will carefully consider launching an investigation into the manipulation of the silver market. Ted Butler speaking on King World News:

"I've been waiting for a long time for a market or an official organisation to step up to the plate and to look into this thing objectively and intensely and the information I've got is that the Justice Department is going to do just that...It's about time a major government organisation stepped up to end what has been a very serious crime in progress that has basically covered two decades."

If a formal investigation by the DOJ is forthcoming, it is potentially very bullish for the silver price and silver miners. Indirectly, it could also be positive for the gold sector which has suffered from an almost equal level of interference.

It's been a while since the last Thunder Road and I apologise for the delay. I embarked on a research project which I'm still not sure will see the light of day – my ambition got the better of me. The last Thunder Road was "Waiting for the Creditanstalt moment" referring to the event which triggered the second phase of the Great Depression. Back then, the failure of one Austrian bank caused a domino-like collapse through the banking system which spread throughout Europe and across the US. A number of people said they liked the front page photo:

There hasn't been a Creditanstalt moment so far in a PURE sense. However, Greece went bust and even the snail-like machinations of the rating agencies are starting to confirm the writing on the wall for the likes of Spain and Portugal. And what's the "solution" to prevent a formal Greek default - do we need to ask? Every central banker and politician's knee-jerk response – MORE DEBT (US$146bn). Free market adjustment is strangled yet again, banks holding Greek debt are bailed out and politicians claim "victory". Meanwhile we are supposed to believe that the budget deficit falls from 2009's 12.7% to less than the 3% "limit" by 2014. Despite swingeing deficit cuts, GDP contraction moderates and moves firmly into a growth phase from 2012 onwards. Right!

Now we have the likes of Spain and Portugal (and the US/UK) lending money to Greece via the ECB/IMF. We always have fear and greed but the run-of the-mill dualism in the financial markets is being supplemented by tragedy and comedy – and it's only going to get more extreme. And waiting for its cue to enter from stage left is the trillion(s) dollar debt addict par excellence, looming like a hideous Quasimodo getting ready to ring his bells – the US Federal government.

US debt crisis personified (but without the kind heart)

It's the worst culprit of them all but, unlike Greece, Spain and Portugal, where everybody's telling them to stop spending, the US is still determined to spend its way out of the mess. According to Jim Rogers:

"That's like saying to Tiger Woods, you get another girlfriend and you'll solve your problems, or five more girlfriends"

While I was away, I switched my portfolio around a little. In gold and silver, my core positions remain Goldcorp, Agnico Eagle, Silvercorp and Pan American Silver. The policy has been to focus on companies with strong combinations of solid production growth, low costs, sound balance sheets and track records of adding reserves. I've also chosen companies with assets in countries with low "perceived" political risk – with the possible exception of Silvercorp – which is China's largest silver producer.

I believe that there will be fortunes made (and some lost) in the junior gold and silver producers/exploration plays, but it's going to be like playing Russian roulette in reverse (if you see what I mean). The share prices of some of the juniors have started to move up and I've switched a bit of money out of my core positions into a couple of additional juniors. In gold, I added Seabridge and Great Quest Metals. As discussed later in this report, the biggest protagonists in the current gold war are the dark forces of the US government (as usual) and China. Seabridge has 7 projects including its KSM property in Canada. KSM is one of the largest undeveloped gold deposits in the world with proved and probable reserves of 940 tonnes of gold. This is expected to rise by another 7-10% this year taking these reserves to 1,006-1,034 tonnes. The company's strategy is to sell or partner its projects when they reach production stage. China's state-owned Minmetals Corporation has stated that it will look to acquire gold mines in Canada and Australia. You can imagine what

happens in my perfect world…! KSM would neatly double China's official gold reserves which currently stand at 1,054 tonnes.

I cut my exposure to the Food/Agriculture for the time being at a small loss. I still don't understand how China and India came through the last wheat season without a minor disaster at the very least - and higher world grain prices. We had the worst monsoon in India for 30 years and drought followed by bad weather at harvest time in China. But I was wrong in my timing and will look for another entry point. It may not be too long in coming. In big picture terms, I have some sympathy with Ned Schmidt's chilling view in his recent "Agri-Food Thoughts":

"While out this week shopping at your favorite food store, do something for one of your grandchildren. Use that fancy cell phone to take a few pictures of those food stores. Be sure to get several of the store fronts with people entering. With those pictures you may be able to convince your disbelieving descendants that a time did exist when grocery stores did not have armed guards."

Some great moments on CNBC in my opinion have been the money honey, Maria Bartiromo, interviewing Jim Rogers on the subject of agriculture:

"Farmers are going to be the most successful sector (sic) in the world for the next 20 or 30 years. We've all made mistakes, particularly on Wall Street. The power is shifting from the money shufflers to the people who produce real things. This has happened often in history, it's happening again. Get yourself a tractor, Maria."

Maria could probably buy a combine harvester with her annual clothing allowance. Here's another one:

"Maria, become a farmer, that's what you should do. I've been trying to get you to become a farmer. Go learn to drive a tractor…You'll be in the agricultural pits in Chicago, that'll be the time to sell agriculture."

Next time I'll need a different investment vehicle than the Power Shares Agriculture Fund ETF (25% each in corn, wheat, soybeans and sugar) where you get hit on the rollovers in the futures market. Work in progress.

I've likened the economic journey that central bankers and politicians are "leading" us on to the journey up river with Colonel Willard in the film Apocalypse Now. Things are getting so mixed up that I used some of the funds from selling the agriculture position to buy Citigroup shares back in February. This was in spite of my fear that it's technically insolvent (marking to market the loans and securities on its balance sheet) and indifferently managed. I could hardly believe it myself, as I said/emailed to a few portfolio managers after I started buying. The key to the Citigroup trade was threefold:

- The news on 16 February that famed hedge fund managers, George Soros and John Paulson, had both bought stakes in Citi during Q409 piqued my interest. Soros bought 95 million in Q4 and Paulson added a further 200 million. Citigroup's shares traded in the range US$3.20-5.00 during Q409 compared with US$3.42 when I started buying. I was particularly intrigued by Soros buying given the strength of his connections;
- Citigroup has a global footprint in financial markets – "one of the largest full service banks in the world" and "America's Global Bank" as it describes itself. The Death Star bank and Morgan Stanley have global footprints in investment banking but not in commercial banking. JPMorgan Chase has a global footprint in investment banking but doesn't have the same reach in commercial banking. Citigroup has 200m customer accounts in 140 countries. It's my view that Citigroup is considered "strategic" in terms of US interests. Having barely made it through the recent financial crisis, my sense is that the US authorities will apply the "whatever it takes" doctrine to getting Citibank back on its feet; and
- With the stock market rising, Citibank represented a high beta "hedge" (albeit a small one) to my larger positions in gold and silver.

Whether the company's umbrella logo is still appropriate or has been metaphorically shot to bits is questionable. The corporate motto is that "Citi never sleeps" although this obviously didn't apply to its management during 2004-08 (but I do like the oblique reference to the Wall Street movie). The current CEO, Vikram Pandit, was named CEO in December 2007 after Chuck Prince was fired following the earnings collapse in Q307.

Let's remind ourselves of Mr Pandit's standing more than a year after taking over in this feature from New York Magazine on 1 March 2009:

"In the preceding months, he has barely clung to his job, as Citigroup's board considered replacing him with a former media CEO and offered the government his head in exchange for the billions in bailout money. President Obama himself publicly rebuked him for ordering a new $50 million jet. Forced to break up Citigroup against his own strategic aims, he's taken so much government aid that one i-banker jokes that Citi has become 'the Wall Street version of the DMV'. The rank and file at Citi, their net worth destroyed, accuse him of cronyism and absentee leadership. He's become a virtual corporate eunuch, his options narrowed to nil, making a $1 salary as a public display of humility."

Eleven months later on 19 January 2010, the New York Times still didn't hold out much hope in a story titled "Pandit is running out of time to clean up Citigroup":

"For the last two years, Mr. Pandit has tried, with mixed success, to clean up the financial mess that is Citigroup. But some of his employees and shareholders are starting to lose patience. After many billions of dollars in losses, Mr. Pandit must deliver profits in 2010, or risk losing his job as chief executive, they say. The latest sobering news from Citigroup arrived Tuesday, when the company announced a $7.6 billion loss for the final three months of 2009. That quarterly hole more than swallowed all of Citigroup's recent earnings and left it $1.6 billion in the red for the year. Citigroup suffered more than most large banks from the financial crisis, and its troubles are far from over, analysts say. Insiders say morale is low. Some Citigroup investment bankers and traders are threatening to leave for more lucrative jobs elsewhere. Employees in Citi's giant consumer banking division say the bank seems rudderless."

Anyway, to my amazement Vikram Pandit seemed to rise phoenix-like from the ashes, literally in a matter of days. Suddenly, there was Mr Pandit talking bullishly in front of the Congressional Oversight Panel in Washington on the 4 March 2010. A week later he was telling investors at the "Citi 2010 Financial Services Conference" that the company should soon be able to deliver net income of US$20bn, albeit without giving a precise timeframe. Here are a few sound bites from that presentation:

"Citi is indeed today a fundamentally different company than it was two years ago"

"strong growth aspects"

"a singular focus on our clients with a unique ability to bring the world to them from our global network and product innovation."

"we have a solid financial foundation and we are well positioned to return to sustained profitability"

And my favourite, which was from the Q&A session:

"When you have the capital levels we have and the earnings power we think we're going to have, at some point down the road, we're going to have to figure out what to do with all this capital. And that gets to how are you going to put it to work? Of course no one today wants to talk anything about (sic) excess capital, but it is still out there so we're going to leave that one for you."

Stunning! I really felt for him knowing that he would have to cope with so much success. It seemed that Citigroup together with its 265,000 employees (many of them disgruntled) could be turned around on a sixpence. Forget oil tanker analogies! With the share price in the US$4.30s I bailed out as it all seemed too good to be true with just over a week to go before the Q1 results. That turned out to be a big mistake as the stock hit US$5.00 after Citi reported STUNNING Q1 results on 19 April 2010. Net income came in at

US$4.43bn EPS 15cents when the consensus estimate had been for BREAK EVEN. This put the annual run rate of net income at US$17.7bn – already within striking distance of Pandit's US$20bn forecast. Either I severely underestimated Mr Pandit or notwithstanding the steep yield curve, Citi is getting a little extra help from Uncle Sam (in the Treasury market?).

The Citi trade went against the grain for someone who has been a hardcore "hard asset" investor since 2005 and expects to be one for a few more years yet. What it represents for me is another indication of how surreal the markets have become. In the Apocalypse Now metaphor, maybe we've reached the Do Lung Bridge where things really start getting weird.

The Do Lung Bridge in Apocalypse Now

United Artists, Francis Ford Coppola 1979

Bill Gross of the PIMCO talks of the "New Normal" and he's obviously much more successful than me and writes well too. I agree with much of what he says but I don't think he goes far enough. For me it's more serious - "The Global End of Normal". The next few years are going to be incredibly challenging in my opinion, but so was the era before THE RENAISSANCE.

What's unfolding now is the result of the dynamic convergence of many issues including:

- ☯ Economic: the desperate attempt by those responsible for creating the greatest deflationary forces in centuries to offset them via the greatest inflationary forces in centuries. These forces are locked in a mortal combat;
- ☯ Natural resources and agriculture: peak oil approaching on the horizon, low food stocks, an increasingly volatile climate and growing pressure on fresh water supplies;
- ☯ Political: the emerging cycle of confrontation between citizens and governments (forecast by Martin Armstrong), e.g. growing dissatisfaction with the two-headed one party systems of the UK/US – look at the rise of Nick Clegg. We see civil unrest in Greece, increased exposure of shadow world government forums like Bilderberg, etc;
- ☯ Geo-political: The two wars in the Middle East, the mess in Pakistan (not helped by the collateral damage as the US fires Predator missiles in the direction of "suspected" terrorists), inevitable reprisals against the west in the west, Iran, the friction resulting from the decline in dominance of one super power and the rise of another, etc; and
- ☯ The endemic corruption in strategically important financial markets. For example the overwhelming evidence in the gold/silver markets, the lock down in the long end of the Treasury market, suspicions regarding control of the Brent-Forties cargoes in the oil market and all sorts of shenanigans in equity markets like "Hail Mary" rallies, high frequency trading, etc. This interference obstructs and delays the adjustment process and will make it correspondingly more savage.

The last point remains a heretical view for the majority. Having thought about this a lot, I think it upsets people's terms of reference – it is far more comfortable to continue believing that markets are free and fair. A quote du jour, used by Jim Willie and Michael Krieger recently, is from political writer, Michael Rivero:

"Most people prefer to believe their leaders are just and fair even in the face of evidence to the contrary, because most people do not want to admit they do not have the courage to do anything about it. Most propaganda is not designed to fool the critical thinker, but only to give moral cowards an excuse not to think at all"

An economist from the Death Star coined the phrase "BRICS" back in 2001. I coined the phrase "FAICS" (pronounced "Fakes") last Tuesday for "Fast Asleep Intelligent Citizens". But are there some winds of change blowing in?

In the last Thunder Road, I mentioned what was then the upcoming "pi date" in Martin Armstrong's model, i.e. 2010.29 or 16 April 2010, i.e. 3.14 years after the most recent peak in his 8.6 year cycle which occurred on 2007.15. On the last two occasions, the pi dates had occurred within one day of 9/11 and less than a month from the first bombing of the World Trade Center in 1993. This time we didn't have a 9/11 type incident, but we did get a shock news event which is reverberating across world markets – SEC allegations that Goldman Sachs and the "Fabulous Fab" committed fraud in selling CDOs.

This is a very interesting case although whether it has any long-term ramifications is uncertain. At this moment, what I'm interested in is the motivation for this case given the ridiculously close and well-documented links between GS and the upper echelons of the US establishment. For what it's worth, I think the alternative explanations are:

- It's nothing more than politics - the Obama Administration is seen as taking action against the bank which is most despised by the public. This could be a cleverly-timed move in the run up to the mid-term elections and is likely to help his weak approval ratings;
- It reflects a behind-the-scenes battle between different "factions" within the US shadow government;
- This is a "partial hangout" - a high profile wrist slap which goes some way to appeasing public opinion but stops at the tip of the iceberg going little/no further. Such a policy has been used before when the "heat is on". For example, the 1975 Rockefeller Commission's report on CIA activity in the United States which touched on the infamous "MK Ultra" experiments on US and Canadian citizens. This followed exposure by the NY Times - when newspapers were "news" papers. Much of the MK-Ultra programme was trauma (torture) and drugs-based. Under sufficient "strain", the brain's self-defence mechanism responds by splitting the personality into a series of "alters" (dissociated identities) and is often done systematically from a very young age. A true story of a "domestic" version of this process was dramatised in the movie "Sybil", starring Sally Field, in which the main character developed 16 separate identities. Have you ever wondered about the strange behaviour of Sirhan Sirhan and Mark David Chapman? The former can't remember the incident and the latter thought he was Holden Caulfield from "The Catcher in the Rye". IF we had to speculate whether a major sports star could have been the product of such a programme, we might wonder about the one whose father was a special forces operative, he grew up playing on military bases and the mental side of the sport is considered so important that many top professionals have their own psychologists. One of the tragedies of these victims is that they frequently experience psychological problems as they grow older. It would put a different slant on things and it's just possible he deserves some sympathy?
- The Obama Administration and the SEC have suddenly got "religion" and are embarking on a genuine effort to clean up the corrupt financial system.

So which of them is it? If the US authorities are really serious about a clean-up, we should expect a review the manipulation of the gold and silver markets – especially as an opportunity to do just that has been handed to them on a plate. Unveiled at the CFTC meeting on 25 March 2010 were first hand allegations of

market rigging. This could prove to be a watershed event in the unraveling of the corruption in the gold and silver markets and progress towards free and fair pricing.

Don't fret if you didn't hear about it because it was greeted by an almost blanket ban on coverage by the mainstream media in the UK/US. The hearing was conducted IN PUBLIC, was streamed live on the internet and media institutions are aware of what happened, but have remained silent. In the UK, we have a body called the Press Complaints Commission. I reviewed its "Editors' Code of Conduct" in which the overriding assumption is that journalists will overstep the mark in reporting, e.g. invading privacy, using harassment, etc, which seems ironic in this case.

WHAT ARE WE SUPPOSED TO DO WHEN THEY WON'T REPORT THE ------- NEWS?

Mainstream media covering the gold and silver markets

In the words of statesman and political theorist, Edmund Burke:

"…duty demands and requires that what is right should not only be made known, but made prevalent; that what is evil should not only be detected, but defeated. When the public man omits to put himself in a situation of doing his duty with effect it is an omission that frustrates the purposes of his trust almost as much as if he had formally betrayed it."

The context of this CFTC meeting was as follows:

- The CFTC is examining position limits in commodity futures contracts. In January, it proposed limits on energy contracts (crude oil, natural gas, heating oil and gasoline) with the intention of preventing "excessive concentration and speculation" in these markets. A cynic might argue that the regulatory framework is being used to limit positions on the long side in order to cap a key component of inflation when the purchasing power of paper currencies flags even further;
- The irony is that the CFTC has been sitting on an investigation into the silver market for well over a year following independent silver analyst, Ted Butler's "Smoking Gun" report from August 2008. Butler showed (using the CFTC's own data) that 2 US banks had net short positions equivalent to 25.4% of all outstanding contracts on the COMEX – equivalent to more than 20% of annual production of all the world's silver mines. In the oil market, this is even worse than being net short the entire annual production of Saudi Arabia and Iran. In gold, 3 US banks had net short positions equivalent to 20.1% of all outstanding contracts on the COMEX. It is conventional wisdom in these markets is that JPM is the biggest short in silver and HSBC in gold.

As most readers know, I've analysed the gold and silver markets in detail and concluded that the allegations of manipulation put forward by GATA (the Gold Anti-Trust Action Committee) and Ted Butler have merit – and that's putting it mildly.

In last October's Thunder Road, "Gold market – accident waiting to happen or crime scene?" I explained the fractional reserve nature of the gold market, i.e. that on average there is more than one paper claim to each gold bar conforming to "London Good Delivery" standard.

Thunder Road
report

15th October 2009

This issue:

Gold market - accident waiting to happen or crime scene? Don't shoot the messenger

Contact/additions to distribution:

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Gold market - accident waiting to happen or crime scene? Don't shoot the messenger

This report combines analysis of the gold market with the greatest story of hidden treasure in world history and (amazingly) most people have never even heard about it - although it has resurfaced on a couple of financial websites very recently. I would expect you to be cynical at first, as I was, but there is plenty of "primary evidence" which suggests it is true.

The motivation for writing this report is the fact that the gold market doesn't make sense. Basically, the numbers don't add up. This became apparent to me while I was writing the Gold War report at Redburn Partners in 2007. At the time, I was more interested in discussing the upcoming bust in the credit cycle and why gold and silver were the "go to" assets for investors. Since then, I've been meaning to write a piece interpreting the "official data" for the gold market.

How many "London Good Delivery" gold bars are there?

My analysis suggests that the data on the volume of gold traded, if put in its proper context, does not tally with my estimate of the amount of gold that is held in the form of bars which conform to "London Good Delivery" standard.

In my opinion, one of the following is true:

Having been shunned by the mainstream media for more than 10 years, the CFTC hearing provided GATA with an opportunity to argue its claims in an important public forum. In one of a series of coincidences since the CFTC hearings, the live internet feed of GATA's testimony, given by Chairman Bill Murphy, was the only one which was disrupted. Here are a couple of comments from GATA supporters:

"Bill, As you no doubt know, they killed the video feed the moment you came on. That's called a backhanded compliment…Obviously they are scared s...less of GATA. It does not speak very well of America." And:

"Bill, I am watching and listening to the CFTC hearing for a little over 3 hours and waiting for your testimony…Just about the time this guy (the previous speaker - Paul) should be finishing up, the audio and video goes out...I never got to hear your testimony…A short while later, I am able to restore audio and video. For three hours, I had no problem with the audio and video until your testimony came up."

The GATA testimony can at least be seen in the CFTC archives on its website. Following the GATA testimony, Commissioner Bart Chilton asked Bill Murphy the following question:

"Can you give the Commission some specific evidence, some specific examples of how you think that's (the manipulation) occurring, when you think that's occurring?"

GATA's evidence took an important new turn as Bill Murphy responded:

"Yes I can. I have eleven years worth of evidence and it all hangs together here. But somebody came to my attention two days ago of a whistleblower nature that we're going to hand to the press afterwards. It's very important for the American public to have this information."

Murphy continued by reading from the GATA press release (here) from that day of which part was as follows:

"On March 23, 2010 GATA Director Adrian Douglas was contacted by a whistleblower by the name of Andrew Maguire. Mr. Maguire, formerly of Goldman Sachs, is a metals trader in London. He has been told first hand by traders working for JPMorganChase that JPMorganChase manipulates the precious metals markets and they bragged how they make money doing so.

In November 2009 he contacted the CFTC enforcement division to report this criminal activity. He described in detail the way in which JPM signals to the market its intention to take down the precious metals. Traders recognize these signals and make money shorting the metals alongside JPM. He explained how there are routine market manipulations at the time of option expiry, Non-farm payroll data releases, and Comex contract rollover as well as other adhoc events. On February 3 he gave two days advance warning by email to Mr Eliud Ramirez, a senior investigator of the Enforcement Division, that the precious metals would be attacked upon the release of the non-farm payroll data on February 5. Then on February 5 as it played out exactly as predicted further emails were sent to Mr. Ramirez in real time while the manipulation was in progress."

After the CFTC hearing, the interviews which GATA had arranged with Bloomberg TV and Fox News were abruptly cancelled. GATA director, Adrian Douglas, commented:

"We believe that's because the story was just too hot for them to handle…but that doesn't make the story go away. It's too big for that."

Here are some of Andrew McGuire's exact words from his email exchanges with the CFTC (all of which can be read here):

"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 sent you a slide of a couple of past examples of just how this will play out.

Scenario 1. The news is bad (employment is worse). This will have a bullish effect on gold and silver as the U.S. dollar weakens and the precious metals draw bids, spiking them higher. This will be sold into within a very short time (1-5 mins) with thousands of new short contracts being added, overcoming any new bids and spiking the precious metals down hard, targeting key technical support levels.

Scenario 2. The news is good (employment is better than expected). This will result in a massive short position being instigated almost immediately with no move up. This will not initially be liquidation of long positions but will result in stops being triggered, again targeting key support levels.

Both scenarios will spell an attempt by the two main short holders to illegally drive the market down and reap very large profits. Locals such as myself will be "invited" on board, which will further add downward pressure.

The question I would expect you might ask is: Who is behind the sudden selling and is it the entity/entities holding a concentrated position? How is it possible for me to know what will occur days before it will happen?

Only if a market is manipulated could this possibly occur.

I would ask you watch the "market depth" live as this event occurs and tag who instigates the move. This would surely help you to pose questions to the parties involved.

This kind of 'not-for-profit selling' will end badly and risks the integrity of the COMEX and OTC markets."

After the silver price was hit on 5 February, here are a couple of excerpts from McGuire's three follow up emails to Eluid Ramirez from the CFTC Enforcement Division (cc: Bart Chilton and Gary Gensler):

"A final email 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 hope you took note of how and who added to the short sales (I certainly have a copy)…I feel sorry for all those not in this loop. A serious amount of money was made and lost today and in my opinion as a result of the CFTC's allowing by your own definition an illegal

concentrated and manipulative position to continue…Surely some discussions should have taken place between the parties by now. Obviously they feel they can act with impunity. If I can compile the data, then the CFTC should be able to too."

And:

"Now that gold is undergoing short covering, please look at the market depth right now in silver and evidence the large blocks in a thin market being put in the way of silver regaining the technical 15 level, which would cause a short covering rally and new longs being instigated. This is resulting in the gold-silver ratio being stretched to ridiculous levels…If this was long manipulation in, say, the energy market, the shoe would be on the other foot, I suspect."

And:

"My objective was to give you something in advance to watch, log and follow up in your market manipulation investigation…You will note the huge footprints left by the two concentrated large shorts were obvious and easily identifiable…Surely you must be somewhat mystified that a market move could be forecast with such accuracy if it was free trading. All you have to do is identify the large seller and if it is the concentrated short shown in the bank participation report, bring them to task for market manipulation. I have honored my commitment to assist you and keep any information we discuss private, however, if you are going to ignore my information I will deem that commitment to have expired."

In similar fashion to Andrew McGuire's prediction of gold and silver prices being hit on the publication of the non-farm payrolls data on 5 February 2010, I was chatting to a senior journalist at one of the world's two "leading" financial newspapers on Saturday morning, the 20 March 2010, at my eldest son's birthday party. We were discussing the gold market and I told him to expect the gold price to fall in the coming week ahead of the COMEX option expiry and the CFTC hearings which both took place on 25 March 2010. The gold price was taken down exactly as I predicted. Here is a letter sent to CFTC Commissioner, Bart Chilton, from UK metals trader, Richard Guthrie, in the wake of this incident:

Bart,
Following on from last week's hearing and the testimony of Bill Murphy and Andrew Maguire, you may find this chart rather revealing,

What is it they say? A picture tells a 1000 words,

If yourself or any of your colleagues still harbored any doubts on Mr Murphy's and Mr Maguire's allegations of manipulation leading up to key dates such as Option Expiry days then I'm sure this will help alleviate them,

If you recall I sent you a summary of the April Options outstanding some 4 days before option expiry (I have included the correspondence below), showing how much was at stake for the Option Call writers between the strike prices of $1100-$1150, The collapse in the price of the gold down going into this expiry saved those writers a lot of money!

It doesn't take a rocket scientist to expect a strong correlation on review of those that had exposure to the Options written, together with a summation on those who were selling aggressively into last week's option expiry,

Yours faithfully,
Richard Guthrie

The day after Andrew McGuire's testimony was made public at the CFTC hearing, he was involved in a "hit and run" car accident. As the New York Post reported:

"A London-based precious-metals trader who had accused JPMorgan Chase of manipulating the gold and silver markets was involved in a bizarre weekend car accident that triggered a police chase before the suspect was nabbed.

Andrew Maguire, a metals trader at the London Bullion Market Association, and his wife were traveling in their car when a second car coming out of a side street struck their vehicle. That car then hit two more vehicles before fleeing.

London cops using helicopters and patrol cars chased the hit-and-run driver before nabbing that person, whose name has not been released by authorities.

Maguire and his wife were released from the hospital yesterday. London police would not comment on the accident investigation."

The day after the CFTC hearing, King World News interviewed three GATA directors about the previous day's events. The King World News website was attacked after this interview was posted. The hosting company for the website reported:

"Your hosting account is the target of a distributed denial of service attack. To protect the network resources, we have temporarily placed your Web site behind a network filter. Once the attack has ended, service will be restored to normal. ... Computers were attacking your account."

Eric King commented:

"We are on one of the top grid server systems in the world, where traffic is not an issue, and this has never happened before. This was a case of an entity needing to silence the messenger."

The proprietor of runtogold.com, Trace Meyer, put a commentary on the CFTC hearing on his website only to have it attacked shortly afterwards. He commented:

"To handle spikes in traffic, I am on an expensive enterprise-level cloud server with a company that handles hosting for some of the big dogs, like Sony and Toyota, and my server got hammered. The site was down for 2 1/2 hours, from about noon to 2:30p PT on March 30. There were no issues with my hosting provider and it appears we have everything under control now. I have never had an issue like this before. Anyway, it looks like we have someone's attention. Keep yanking on that tail."

Following the CFTC hearings, Andrew McGuire gave an interview to King World News (here) on 30 March 2010. Eric King asked McGuire:

"Were you shocked when you weren't allowed to testify at the CFTC meeting?"

To which he replied:

"That is when I got so angry. Let me just differentiate it. Bart Chilton, I believe, wanted me to attend and I'm quite certain that Bart Chilton was disappointed that I was not invited. That was the point I then contacted Adrian Douglas (a GATA director, Paul). The reason I contacted him is that I felt I was betrayed by the CFTC."

Eric King then asked Adrian Douglas what his reaction was to being contacted by Andrew McGuire:

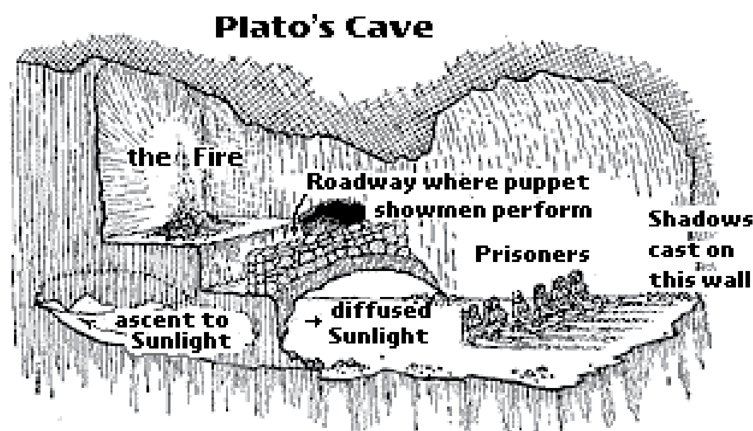
"It was music to my ears. As you know, we've been working on this for ten years, gathering evidence and being able to implicate the people who are manipulating these markets. And GATA's been criticised for a long time by saying 'If this is true, surely there would be a whistleblower who would come forward and say, well you're absolutely right, that's what happens'. But, of course, traders who are profiting from manipulated markets…have no vested interest in coming forward…I agree with Andrew that Bart Chilton is a modern day equivalent of Eliot Ness and he's trying to get to the bottom of this and stop it, but I think there are a lot of people in the CFTC who are trying to look the other way."

The vindication of GATA's stance reminded me of a comment from the "Trader Wizard", Bill Cara, a few months back:

"You know, the thing I love about GATA is that they've been right from day one and they haven't budged a bit. They've been abused, harassed, ridiculed, blacklisted, sworn at, scoffed at.....you name it. But they've stayed on message consistently, simply pointng out the facts again and again and again, knowing that as the world financial system started to crack, the truth would come out bit by bit until it was finally acknowledged that they were right all along. We're about half way through that process I reckon."

The gold market reminds me of the "Allegory of the Cave" in Plato's Republic, which was supposed to represent mankind's predicament in a macrocosmic sense.

Plato's Allegory of the Cave



It was written in the form of a dialogue between Plato's teacher, Socrates, and his brother, Glaucon:

Socrates: And now, I said, let me show in a figure how far our nature is enlightened or unenlightened: Behold! Human beings living in an underground cave, which has a mouth open towards the light and reaching all along the cave; here they have been from their childhood, and have their legs and necks chained so that they cannot move, and can only see before them, being prevented by the chains from turning round their heads. Above and behind them a fire is blazing at a distance, and between the fire and the prisoners there is a raised way; and you will see, if you look, a low wall built along the way, like the screen which marionette players have in front of them, over which they show the puppets.
Glaucon: I see.
Socrates: And do you see, I said, men passing along the wall carrying all sorts of vessels, and statues and figures of animals made of wood and stone and various materials, which appear over the wall? Some of them are talking, others silent.
Glaucon: You have shown me a strange image, and they are strange prisoners.
Socrates: Like ourselves, I replied; and they see only their own shadows, or the shadows of one another, which the fire throws on the opposite wall of the cave?
Glaucon: True, he said; how could they see anything but the shadows if they were never allowed to move their heads?

…

Socrates: To them, I said, the truth would be literally nothing but the shadows of the images.
Glaucon: That is certain.
Socrates: And now look again, and see what will naturally follow if the prisoners are released and disabused of their error. At first, when any of them is liberated and compelled suddenly to stand up and turn his neck round and walk and look towards the light, he will suffer sharp pains; the glare will distress him...and then conceive someone saying to him, that what he saw before was an illusion…And suppose once more, that he is reluctantly dragged up a steep and rugged ascent, and held fast until he's forced into the presence of the sun himself, is he not likely to be pained and irritated? When he approaches the light his eyes will be dazzled, and he will not be able to see anything at all of what are now called realities.
Glaucon: Not all in a moment, he said.
Socrates: He will need to grow accustomed to the sight of the upper world…Imagine once more, I said, such a one coming suddenly out of the sun to be replaced in his old situation; would he not be certain to have his eyes full of darkness?
Glaucon: To be sure, he said.
Socrates: And if there were a contest, and he had to compete in measuring the shadows with the prisoners who had never moved out of the cave, while his sight was still weak, and before his eyes had become steady (and the time which would be needed to acquire this new habit of sight might be very considerable) would he not be ridiculous? Men would say of him that up he went and down he came without his eyes; and that it was better not even to think of ascending; and if any one tried to loose another and lead him up to the light, let them only catch the offender, and they would put him to death.

Glaucon: No question, he said.

In his book "The Golden Thread", Joscelyn Godwin argues:

"The philosopher, for that is what he is now, is moved by compassion for his old friends still chained in the cave, and burns to dispel their illusions. He returns to the cave to tell them of his discovery. But far from welcoming him, jumping up, and escaping to the real world, they meet his report with disbelief, mockery, and hatred."

The passages mirror the events in the gold market during the last 10-15 years and the experiences of many who have sought to communicate the message of the investment case and the manipulation to the financial markets. The good news is that so many people are now escaping from the cave into the light, that it's getting hard for those left behind to dismiss their revelations without shaking off the chains and having a peak into the "upper world" themselves.

Here's Richard Russell of The Dow Theory Letter:

"The great bull market in gold is in its tenth year. The incredible thing about this bull market, is that it is still ignored by the media and by the public At the same time that it is hated by the central banks, although ironically, they are now actually buying gold. On top of that, the sovereign funds of the various nations are adding gold to their currency mix. Since the year 2000, the best asset class to be in was precious metals and gold. Yet, never was a huge bull market so ignored, so dismissed, and so disliked. Even today, after rising from 250 in 1999 to 1120 today, only a tiny fraction of Americans own so much as one single gold coin. Most Americans have never seen a gold coin. And I ask myself, how long can this go on?"

In the Thunder Road Report "Gold market – Accident waiting to happen or crime scene?", I concluded that one of the following was true:

Alternative 1:

On average there is more than one ownership claim on each gold bar conforming to London Good Delivery (LGD) standard on the pool of gold which acts as liquidity for the massive OTC gold trade based in London. Essentially, the market operates on a fractional reserve basis, but if a sufficient number of market participants become concerned about this and there is a stampede to take delivery of physical bullion, there is a risk of market failure. Such a process could be delayed by central banks lending gold to the market, although this would likely be obvious by a spike in gold lease rates, or by a much higher gold price in order to encourage holders to sell bullion. In this scenario, the gold price could SOAR at any time and the gold market, which is subject to little regulation, is basically an accident waiting to happen;

Or:

Alternative 2:

There is FAR more gold bullion held in private hands than is acknowledged by current industry estimates. It is the large amount of additional gold on top of known gold stocks which provides sufficient liquidity to support the high volumes traded through London. The most likely source for this gold dates back to the Japanese conquest of Asia from 1894-1945 when Japan is alleged to have looted the gold and valuables of 12 nations – it is best known as the story of Yamashita's Gold. If true, my analysis shows that particularly heavy volumes of this gold may have been laundered into the London market during 1986-90 and the mid/late 1990s. In this scenario, the continued evolution of the gold bull market could be more protracted, if supplies of this gold continue to enter the market periodically.

The reality is that both are true, or at least "were" true in the case of Yamashita's gold, slugs of which entered the gold market during the 1980s-1990s. Anyway, in the report I argued that the implications were serious enough to warrant an investigation of the gold market and I sent a copy of my report to the "Whistleblowing" contact email address on the FSA's (Financial Services Authority) website. Having not heard anything for almost three weeks, I followed up again and here are the transcripts of the exchange:

From: Paul Mylchreest's Thunder Road Report [mailto:paul@thunderroadreport.com]
Sent: 02 November 2009 11:34
To: Whistle
Subject: Follow-up

On 20 October 2009, I sent you my report detailing my concerns regarding the gold market.

Did you receive the report?

I have had no response, unless it was last Monday when I was unable to receive any emails seemingly due to technical problems.

Best regards,

Paul Mylchreest

From: Whistle [mailto:Whistle@fsa.gov.uk]
Sent: 02 November 2009 12:42
To: Paul Mylchreest's Thunder Road Report
Subject: RE: Follow-up
Importance: High

Dear Sir

further to your email, I am unable to locate an email received from you at that time, if your concerns relate to a possible breach of the regulations relating to a firm authorised by the FSA or to an approved individual engaged in financial services as defined under the Financial Services and Markets Act 2000, I would be most grateful if you could re-send your original email to me, and I will seek to address your concerns.

yours most sincerely

Roger.F.Breavington Associate, FSA Whistleblower

Enforcement and Financial Crime Division
Financial Services Authority
25 The North Colonnade Canary Wharf
London, E14 5HS
Whistle Blowing Contact Telephone: 0207 066 9200
Please note that telephone calls may be recorded

From: Paul Mylchreest's Thunder Road Report [mailto:paul@thunderroadreport.com]
Sent: 02 November 2009 13:11
To: Whistle
Subject: RE: Follow-up

Roger,

I have attached the report again

As you may know, the wholesale gold market is considered to be a "non-investment products market", even though this doesn't make sense for a market which is turning over something like US$70bn per day through London just in spot gold.

However, the Financial Services Authority contributed to the development of the "Non-Investment Products Code" along with the Bank of England and, therefore, has some responsibility for oversight of this market, however much it might want to avoid it if you appreciate the circumstances outlined in the report.

Unfortunately, the Bank of England is likely to wish this problem would "just go away", but that is unlikely. You should be aware that the vested interests here are very powerful, but forewarned is forearmed as they say.

Kind regards,

Paul Mylchreest

From: Whistle [mailto:Whistle@fsa.gov.uk]
Sent: 11 November 2009 13:21
To: Paul Mylchreest's Thunder Road Report
Subject: Whistleblowing reference 000 / Paul Mylchreest Thunder Road Report
Importance: High

Dear Mr Mylchreest

thank you for the detailed and comprehensive resume of the position of gold which is contained within your "Thunder Road Report".

As informative as this account is, it is regrettably an issue which is not one for the FSA to determine as the market in gold is not provided for under the FSMA 2000, but an issue for I anticipate the London Metals Exchange to have regard to.

However, I thank you for bringing your issues to my notice, and regret that I am unable to be of assistance to you on this occasion

yours sincerely

Roger Breavington

Associate, FSA Whistleblower
Enforcement and Financial Crime Division
Financial Services Authority
25 The North Colonnade
Canary Wharf
London, E14 5HS
+44 (0)20 7066 9200
Whistleblower email: whistle@fsa.gov.uk
Please note that telephone calls may be recorded

From: Paul Mylchreest's Thunder Road Report [mailto:paul@thunderroadreport.com]
Sent: 11 November 2009 14:29
To: Whistle
Subject: RE: Whistleblowing reference 000 / Paul Mylchreest Thunder Road Report

Roger,

I am not surprised by your response, but I have one observation and one question.

My observation is that If there is a failure in the gold market, it will have devastating consequences on the rest of the financial sector (and I am wondering whether you appreciate this).

My question is why would the LME be interested when it trades non-ferrous metals and plastics?

Best wishes,

Paul

Dear Mr Mylchreest

thank you for your further email, I am confident that you are far more aware of the impact of the concerns you have indicated than I, but as I have indicated I can only assist as far as the powers under the Act allow.

As regards the other point you raise, I should have indicated that the trade body for gold would be the London Bullion Market Association may have regard to the point you raise but the actual trading of gold is unregulated

yours sincerely

Roger Breavington

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It was clear that no matter how serious the risk of failure in the gold market, the wider implications for other financial markets, or the fact that there was a history of illegal activity, the FSA was not interested. With regard to Roger Breavington's comment about the LBMA, my response would be that turkeys don't vote for an early Christmas.

The membership of the LBMA's Management Committee is composed largely of representatives of the major bullion banks - currently Mitsubishi, Goldman Sachs, UBS, Barclays, Deutsche and Scotia Mocatta – along with Brinks Limited (vaulting and logistics) and Natixis Commodity Markets (72%-owned by French banking group BPCE). The Physical Committee includes representatives of JPMorgan Chase (Chairman), HSBC, UBS, Scotia Mocatta and Standard Bank along with Natixis.

Putting it nicely, it seems wrong to me that there are no independent representatives on the Management and Physical Committees including at least one representative for institutional investors and one for small investors. Failing this, we might be tempted to conclude that the LBMA is a closed shop! With regard to small investors, the fact that the LBMA only trades in wholesale quantities is irrelevant since price formation in this market sets the benchmark for gold prices across the world. For example, what about the teeming millions of Indian citizens who are collectively huge investors in gold?

With regard to my argument that the LBMA is a fractional reserve system and could blow up as more investors demand delivery of physical bullion, the anecdotal evidence continues to come in. Here is a comment from Bill Murphy who is referring to a high profile hedge fund manager in the US:

"From one of our best sources…A couple of months ago one of the wealthiest men in America went over to the LBMA to check on his precious metals holdings. In particular he was concerned over the flap made by Adrian over the unallocated accounts over there and the amount of gold traded versus what they have in the vault. The LBMA guy confirmed what Jeff Christian has told the investment world: that it is about 100 to 1. The American then asked what happens if 2% want to take delivery at the same time. The LBMA response was priceless: 'Then we go into price discovery'. This wealthy investor then took his precious metals investments out of the LBMA and sent them to Brinks" .

I would just note that the "source" is clearly not au fait with the gold market in the sense that the LBMA is an industry association. My guess is that the "wealthy investor" was likely meeting with a representative of one of the LBMA registered bullion banks although I can't be certain.

Here is GATA's Adrian Douglas suggesting that there are more events taking place behind the scenes in this regard:

"The trigger is not NEW demand; it is the current holders of paper gold realizing that they don't own an investment in precious metals but a claim against the bullion dealers assets. GATA's explosive revelations may not yet be mainstream apart from the NY Post article but I can guarantee that everybody who is anybody in the gold world knows what we have said. What's more our allegations of huge unbacked

leverage in the CFTC meeting and calling the LBMA a "Ponzi scheme" went unchallenged in the meeting by the bullion dealer reps sitting in the very same room and by the Commissioners themselves… I know for a fact that this has created a snowball that is now rolling and gathering pace that there is a move for current investors to make sure that they are in the "1's" who have metal and not in the "99's" who have a piece of unbacked paper.

You will hear more in the weeks ahead as I can not reveal all that I am aware of but the big physical squeeze is coming because of GATA and the internals of the market, not because of the public. BUT imagine what will happen as this unfolds and THEN the public wants to get involved."

In his King World News interview, Andrew McGuire commented tellingly:

"What's going to happen if you're an Asian trader, for example, or a non-western trader who has no loyalty ...who says 'Hold on a minute, if I can establish this in my mind that there is 100oz of paper gold, paper silver for example, for each ounce of real silver, then I've got a naked short situation here that I can squeeze' And they can go on to the spot market, which is basically a foreign exchange transaction, short dollar, long silver to ANY amount they want, billions, trillions, any amount they want and they can take this market, squeeze this market and blow it up."

Now I think the paper/physical leverage is less than 100:1 but that's not the point – the result is still going to be the same if it's 5:1, 10:1 or 15:1.

It also seems that some mined bullion production is not even going to see the bullion markets but will by-pass them. Here is an interesting "nugget" from GATA supporter, "Mexico Mike"

"It is worth noting that I have heard from several smaller producers lately that they are receiving offers to sell dore (semi-purified bars before refining - Paul) directly to private interests. Even very small producers have been contacted. I also know of two companies that have decided to forward sell part of their production directly to private investors instead of going to a bank for funding. I think these transactions are going to be part of the landscape for many players in the future. If in fact the futures market has become so compromised by scams and manipulation that buyers no longer trust the settlement process, and if in fact the financing window has been closed to smaller companies to get access to capital at reasonable rates and conditions, then it makes sense that the small producers may just begin selling their product directly to the buyers that want to own physical gold. That is the need that a futures market was supposed to be serving in the first place, before it became a casino for speculators and a den of thieves for manipulators and criminals. At the end of the day, producers still need to establish a fixed price for forward production, and consumers and buyers still need a reliable source of supply. If the COMEX has become corrupt and unreliable, then buyers will go elsewhere. The reports I have heard in the field seem to suggest this is going on right now."

I alluded above to the New York Post breaking ranks with the rest of the mainstream media. On 11 April 2010 it carried an article "Metals are in the pits – Trader blows whistle on gold and silver price manipulation" based on its own interview with Andrew McGuire. Here is part of the article:

"There is no silver lining to the activities of JPMorgan Chase and HSBC in the precious-metals market here and in London, says a 40-year veteran of the metal pits.

The banks, which do the Federal Reserve's bidding in the metals markets, have long been the government's lead actors in keeping down the prices of gold and silver, according to a former Goldman Sachs trader working at the London Bullion Market Association.

Maguire was scheduled to testify last week before the Commodities Futures Trade Commission, which is looking into the activities of large banks in the metals market, but was knocked off the list at the last moment. So, he went public.

Maguire - in an exclusive interview with The Post - explained JPMorgan's role in the metals pits in both London and here, and how they can generate a profit either way the market moves.

'JPMorgan acts as an agent for the Federal Reserve; they act to halt the rise of gold and silver against the US dollar. JPMorgan is insulated from potential losses (on their short positions) by the Fed and/or the US taxpayer,' Maguire said.

In the gold pits, Maguire sees HSBC betting against the precious metal's price without having any skin in the game in the form of a naked short.

'HSBC conducts an ongoing manipulative concentrated naked short position in gold. Silver is much easier to manipulate due to its much smaller (market) size,' Maguire added."

In response to Andrew McGuire's allegations, it's important to note that the New York Post contacted both JPMorgan Chase and HSBC for their side of the story:

"No one at JPMorgan is familiar with Andrew Maguire," said Brian Marchiony, a company spokesman. HSBC declined to comment."

For the sake of balance and the fact that this whole question of interference in the gold and silver markets needs resolving, Thunder Road will obviously publish any further responses from the banks named in Andrew McGuire's allegations.

With the exception of the New York Post, the mainstream media in the UK and US has been deafeningly quiet on the Andrew McGuire testimony. In contrast, the cutting edge of the debate about the gold and silver markets has not only spread across the internet but is also being covered by the mainstream media in other parts of the world. Here are some examples:

1. Russia - here is GATA Chairman Murphy discussing an interview with Russian TV on 31 March 2010:

"Then, from 10:30 to 2:30 I spent a delightful time with Emilya Khatskevisch, a Russian TV journalist from San Francisco, and Alexander Sasha Burkative, another Russian and an Event Videography guy who was the cameraman (also from San Francisco). Both came to Dallas for Channel 1 TV in Russia…It has been in business since the 1950's and is the equivalent to NBC or CBS here in the States. The interview is about a documentary Channel 1 is doing on gold and the dollar. It was a very long interview…I don't mind mentioning this after being forced to super speed my 5 minute delivery before the CFTC. She also said that 'GATA is famous in Russia'. Again, how bizarre … the mainstream financial market press in the US won't even mention that we exist."

2. Germany – from GATA supporter Bill H regarding exposure in the German press:

"The news is spreading! To all; I played golf this morning with a German citizen who spends half the year here in Costa Rica. I hadn't seen him since last Wed. and he came running up to the first tee telling me 'you'll never guess what I read over the weekend'. He went on to tell me that he gets e-mail's from a German news service regularly and on Friday or Saturday he received one titled 'The biggest fraud in history!'. Yes you guessed it, the e-mail was about how 'paper' Gold has been sold 10 times over the amount of physical Gold held, in other words 'fractional reserve Gold'. He was more excited and agitated than I've ever seen him in 3+ years over this news. I then went on to explain that the number "10-1" is grossly understated but the basic premise was correct. He then said 'can you imagine what's going to happen when people find out about this?'. I told him 'they are finding out and you are proof of it!'. Then he wondered how long it would take for people with 'Gold receipts' to begin asking for delivery and speculated that Gold could even go to $3,000-4,000 per ounce!"

3. Australia – gold manipulation reported in the Melbourne Herald Sun. This is an excerpt from a letter to GATA from David Hirst: "Last week I did two long articles on the whole sordid business of the hearings and the latter one was passed on to a journalist at the Melbourne Herald Sun by the name of Beveridge who wrote the story up big (huge for the Herald Sun) with a pic (Mel Gibson from Conspiracy Theory) and a cartoon which showed to cops guarding a vault one saying 'If there is no gold what are we guarding?' Reply 'The secret - there's no gold'. I have the hard copy which pretty much is a repeat of what I wrote if more tongue in cheek. Has the Maguire

stuff and is, by press standards very accurate. Trouble is it seems to have dropped from the internet the same day it appeared in print. Funny that! The Herald Sun sells 600000 copies a day and is read by over a mill. It may be the first comprehensive GATA report in the Anglo-US-Aussie press and I suspect the journo didn't know what he was getting into."

4. China and Hong Kong - The news hit several financial websites in China including gold.hexun.com, bbs.ce.cn. skill.ce.cn, jrj.com.cn and sina.com.cn all of which seem to have reported the story in identical fashion. I haven't got a clue what they are saying apart from "Andrew McGuire", "GATA" and "CFTC" which are spelt in English in the articles. This was from GATA supporter Michael Tse in Hong Kong:

"Besides buying your T-shirt, I have written a piece in Chinese (hoping to inform my fellow citizens in Hong Kong) quoting extensively your research and information and the recent development in the CFTC meeting. I have posted the article on the website of a very famous financial newspaper in Hong Kong...I believe that if more Chinese is bought to aware of your hard and solid work, the cartel's game will be ended much sooner."

But my favourite comes from an Austrian website called foonds.com. You don't need to speak German to understand the headline:

"Ist der Goldmarkt ein Ponzi-Schema a la Madoff?"

On 7 April 2010, GATA supporter Chris Kiel sent this letter to the editor of the Financial Times:

"Open markets – 'without fear and without favour?'

Sir,

Your editorial 'The UK must look beyond the crisis' says 'The Financial Times stands for a liberal agenda: a small state, social justice and open international markets' —admiral and worthy goals to be sure. 'Open international markets' by definition are free, honest and unmanipulated markets – inclusive of many participants and certainly not where one or two large banks control more than two thirds of the action.

Why then are you silent and a participant of the traditional media blackout regarding the CFTC (Commodities Futures and Trading Commission) gold and silver manipulation hearings recently conducted in Washington and broadcast for the world to see? (There is certainly no lack of coverage on the web.) I suggest any sane, reasonably intelligent, fair and free market oriented individual, who listened to the hearings, must honestly conclude that the presented testimony pointed towards heavily manipulated markets, that are mostly based on paper and not the real physical commodities.

Open gold and silver markets are enormously important to individuals, free societies, and the global economy, are they not?

Where is your voice 'without fear and without favour?'
Chris Kniel
Orinda, CA US

I hardly ever buy the FT anymore unless I want to know what the consensus is thinking about an event. The reason I don't is because I don't need to - something which would have been unthinkable when I first started working as an analyst in 1987. In fact, I had a student subscription for a year beforehand during my last year at university. It was half price - 20p compared to a cover price of 40p (now £2.00!). It used to get delivered to our student house to the disgust of my three house (and still good) mates - an astrophysicist, a lawyer and an unstable Welsh dentist - who would occasionally post it back out through the letter box on to the pavement as a way of registering their disapproval.

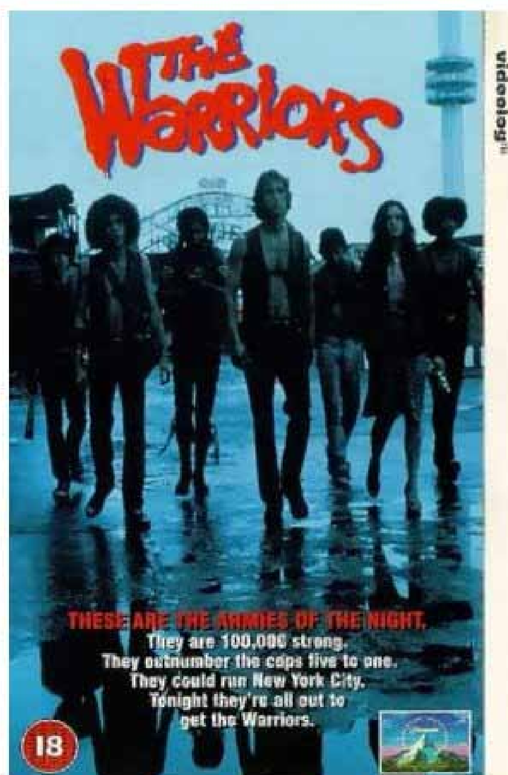
The opportunity is there for the FT to recapture the cutting edge of the debate in financial markets. One reason is purely commercial - unprecedented competitive pressure on that industry which is reflected in slowly declining circulation figures. Take That's Gary Barlow said of former band mate, Robbie Williams "The door is always open for Rob" and my wallet will always open for the FT if it gets its act together.

The CFTC hearing and its aftermath is another battle in what is the Third Gold War in the last half a century. The first one took place in the late-1960s and the second took place in the late-1970s. In the first one, the gang promoting massive deficits, inflation, unsound money, lies and deception were the members of the London Gold Pool, i.e. the Federal Reserve, the Bank of England and the central banks of Germany, Italy, Belgium, Netherlands, Switzerland and FRANCE, which had the good sense to switch sides. I'm suddenly reminded of the moment in Casablanca when the French contingent in Rick's Café strike up "La Marsellaise":

Aux armes, citoyens,	To arms, citizens,
Formez vos bataillons,	Form your battalions,
Marchons, marchons!	Let's march, let's march!

In the late-1970s, the gang consisted of the US Treasury, the Federal Reserve and the IMF. Now here we are again and the choice is black or white. Do you want to be part of this gang?

Or, in (non-violent) metaphorical terms, this one (!):



trying to "make it back to Coney" with Thunder Road, GATA, Zero Hedge, Martin Armstrong, Jim Puplava, Jim Sinclair, Ronni Stoeferle, Dylan Grice, Rob Kirby, Marc Faber, Gerald Celente, etc (and many anon PMs – you know who you are).

From the movie (I love the DJ/narrator!): "Latest sports news off the street, boppers. The Baseball Furies dropped the ball, made an error. Our friends are on second base and trying to make it all the way home. The inside word is that the odds are against them. Stay tuned, boppers…stay tuned."

But the odds have been evened up because these guys are buyers (which is handy!).

Source: Boston Globe

Now I'm not going to spend my life being a "color" (as they say), but it's a turf war on a global scale. Here is an excerpt from an interview with Jim Sinclair (of jsmineset.com) on Gold Seek Radio from 11 September 2009:

"(It) puts China in a position that France was once and the Saudis were once when it comes to gold. It's always a country that appears in these markets and makes things happen. This gold rally…is going to be fought every dollar of the way by the gold banks for their purposes, their government sponsors to some degree, or for personal greed, but they'll be fought. But they're fighting a country now, just like in the 70s they fought De Gaulle and lost and in the late 70s they fought the Saudis and lost. This loss to China is going to have a much greater duration and have much greater economic implications. You're investing in insurance and it's the only thing out there that can protect you against powerful people doing wrong things. You can't go out and make an Administration change its mind or go back and cure what ten Administrations have done…So what can you do? Protect yourself."

Jim sees the analogy with the London Gold Pool and the events of the following decade. The creation of the London Gold Pool was a response to US running deficits in the early 1960s which put pressure on its ability to keep gold pegged at US$35/oz (all other currencies were fixed to the US dollar and, therefore, indirectly to gold also). The Fed, Bank of England and the European central banks pooled their gold reserves and sold gold to maintain the value of the US dollar. As Bob Landis opined in 2007:

"Addressing the underlying problems was, of course, out of the question, so the monetary authorities set about manipulating the market price of gold instead...in a flamboyant waste of public assets so grand, so misconceived, so futile, as to make Chancellor of the Exchequer Gordon Brown's decision to dump half the UK's gold reserves at the bottom of the market some 30 years later look positively brilliant by comparison."

In the 60s, things started to go badly wrong when US deficits ballooned due to the escalation of the Vietnam War, France's withdrawal from the Pool and the forced devaluation of Sterling. It was the French President, Charles de Gaulle, advised by one of my gold market heroes, Jacques Rueff, who caused the London Gold

Pool to collapse in March 1968. Rather than just withdrawing from the Pool, the French began converting their overvalued US dollars into undervalued gold, as they were entitled to do under the Bretton Woods Agreement of 1944. Here is part of Wikipedia's entry on Jacques Rueff:

"In the 1960s, Rueff became a major proponent of a return to the gold standard and critical of the use of the dollar as a unit of reserve, which he warned would cause a worldwide inflation…(he) always remained a firm opponent of Lord Keynes' ideas."

Investors piled into gold along with the French government, which led to a run on the London Gold Pool. By the time the US raised the white flag in March 1968, it had lost 5,381 tonnes of gold (36% of its reserves) and the UK 869 tonnes (43% of reserves).

Amateurs.

In contrast, France increased its reserves by 2,770 tonnes at US$35/oz. In Paris, they named this square "Place Jacques Rueff":

Source: Travel Webshots

I was looking through declassified documents on the US State Department's website while trying to piece together how the US secretly supported the creation of Japan's Liberal Democratic Party after World War II (this was in relation to Yamashita's gold). This is the political party which has recently been deposed after about fifty years of almost continuous rule - although as one commentator once put it "It's not liberal, it's not democratic and it's not a party". While searching for information on that, I came across documents relating to the US dollar and Sterling crises during the Johnson and Nixon administrations in the 1960s and 1970s. This obviously included the collapse of the London Gold Pool in 1968 and the closing of the "gold window" in 1971.

With us poised to experience a kind of "redux" experience (unless the powerz can access more of Yamashita's hoard), it was extremely interesting to read about how the major players approached the crisis back then and how confident they were until very near the end that they could defy economic gravity – before being overtaken by events. Has anything changed in the intervening period? Doubt it.

Let's begin with an except from a memo from Treasury Secretary Dillon to President Johnson on 4 January 1965 titled "The Current Gold Situation and Future Prospects":

"The immediate prospect for early 1965 is for a substantial acceleration in the gold outflow. This is due to a number of factors, the most important of which relates to decisions about to be taken by the French Government. We have had a number of informal exchanges with the French in which they have indicated that it is their intention to convert their excess dollars into gold by purchase from us."

Moving forward to July 1965 and pressure was building on the British pound to devalue which caused fears about a knock-on effect on the dollar. In this memo from Under Secretary of State Ball to Treasury Secretary Henry H. Fowler, the US is considering using the G10 to raise funds to support Sterling. In truly arrogant fashion, they will not "tolerate" devaluation. Free market forces obviously don't get a mention. There is also a swipe at those nasty gold buyers, the French!

"The procedure for carrying out 1, above, will probably require telephonic exchanges with the other members of the Group of Ten. (We talked about this yesterday). I can't see any other practical way of raising the money. If the UK were to ask for a meeting of the Group of Ten in Paris, the visibility of a conclave of Finance Ministers and Central Bankers would probably touch off a further run. The French would be given a golden (good pun, Paul) opportunity to wreck the operation if that is what de Gaulle decides he wants... But I am frankly appalled at the thought, put forward during the Treasury talks, that we should suggest to the British, at any point, that we would tolerate the devaluation of sterling. I think we should let them know in no uncertain terms that any change in the sterling rate is out of the question."

One of the assertions of GATA has been that one (of the many) ways that the US authorities have intervened in the gold market has been via the Exchange Stabilization Fund (ESF). James Turk of goldmoney.com showed evidence that the ESF was active in the gold market by showing the discrepancy between the Federal Reserve's "Gold Stock" on its balance sheet and "Gold Stock including the Exchange Stabilization Fund" in its statement on US Reserve Assets. On 31 December 1995, US gold reserves were identical in both sources but diverged from 1996, broadly when GATA alleges that suppression of the gold price began. After 1999, references to the "Gold Stock including the Exchange Stabilization Fund" were removed with no explanation.

After discussing the above, it's worth mentioning the background to the ESF. It was created, ironically, from the profits made from the confiscation of gold from US citizens in 1933. Gold was bought from the populace at US$20.67/oz but the dollar was subsequently devalued, leading to an increase in the price of gold to US$35/oz. The ESF is basically a gigantic slush fund used to manipulate gold and other markets without any Congressional or public oversight since it is under the exclusive control of the Treasury Secretary and the President.

From the declassified documents of the US State Department, the President's Special Assistant, Walt Rostow, sent a memo to President Johnson on 23 March 1967 suggesting a way to falsify the first quarter balance of payments data to support the dollar using the ESF. Even better, the recommendation for this move comes from the Treasury Secretary, Henry H. Fowler. The memo is titled "Two Steps to Help the Balance of Payments". Here it is:

"In the attached, Secretary Fowler asks you to approve two ways of using his Exchange Stabilization Fund to help the balance of payments. He proposes to use the Fund:

- to guarantee payment of a German offset obligation we would sell to the U.K. in a complicated, 3-cornered deal designed to shift $100 million in receipts into the first quarter. (If we do this, we must do it before midnight, Friday, March 31.)

- to buy U.S. Government agency securities and sell them, usually at a discount, to foreign central banks and other official holders.

Fowler has blanket authority to use the Exchange Stabilization Fund for any purpose which will strengthen the dollar (an important comment to this day, Paul). But the law requires that he have the President's approval.

3-Cornered Arrangement

Fowler, Ackley, and the rest of us are very worried that a very large first-quarter payments deficit would produce serious pressure for tight money--which is just what we don't need. Fowler's proposal would take advantage of an opportunity to sift $100 million in inflow from the second quarter to the first. This would not solve the problem, but it would help. Basically, Fowler suggests the following:

- we would transfer to the British $100 million in German offset obligations which will be paid in the second quarter.

- in return, the U.K. would immediately pay us the $100 million, less the interest we would normally pay on a similar amount in Treasury bills.

- through the Exchange Stabilization Fund, we would guarantee payment of the German obligation.

Obviously, we would have to forego $100 million in anticipated second-quarter receipts, but your advisers are agreed that the first-quarter problem is serious enough to be worth it. This transaction would not be made public. If it leaked, we could be charged with gimmickry, but Fowler believes he has an effective defense: we are simply trying to keep our balance of payments difficulties from being exaggerated through uneven receipts under the US-FRG offset deal.

Purchases of Securities

This proposal is aimed at the longer term. The market is now so structured that there are relatively few sales of U.S. agency securities to foreign governments and central banks. Fowler's proposal is that the Exchange Stabilization Fund buy these securities at the going rate and sell them to official foreign holders, usually at a slight discount (1/8-3/8 of a point). The Exchange Stabilization Fund would take the small losses involved.

Fowler is confident this operation would not cause any trouble on the Hill if it were noticed at all. (The Exchange Stabilization Fund is not audited outside the Treasury and does not require appropriations.) If criticism did develop, he believes we could show that the benefits to the balance of payments far outweigh the cost to the Fund.

Recommendation

I recommend that you approve both proposals. The CEA concurs.

Walt

A subsequent memo from the Treasury Secretary to the President has the latter's signature in the approval line.

Moving on to June 1967 and here is an excerpt from the minutes of a conversation between the US, represented by Treasury Secretary Fowler and Deputy National Security Advisor, Francis Bator, and Germany, represented by Minister of Economic Affairs, Karl Schiller, and First Secretary, Ernst Jirka. The subject of the conversation was "International Liquidity".

"Mr. Bator said the wrong kind of compromise would do the world no good. Many French officials don't want the price of gold to go up in any event. The others must be made to realize that gold won't go up. 'The game won't be played that way'... Secretary Fowler asked whether politics or economics was more important to de Gaulle. Mr. Jirka replied that 'economics are the basis of

de Gaulle's politics'...Mr. Schiller made a long speech on German loyalty to the U.S.A. Secretary Fowler said he had no doubts on this score but what we must focus on is making the first step--and it must be on the right path and a big enough step to convince the world that the price of gold would not go up. Otherwise, we would have crisis after crisis."

Unbelievable - "The others must be made to realize that gold won't go up". If the US government had put its economic house in order then the gold price wouldn't have subsequently exploded.

A month later, the US delegation was planning for an upcoming G10 meeting where the attendants would discuss the creation of additional liquidity in the form of Special Drawing Rights issued by the IMF. These are comments attributed to the Chairman of the Federal Reserve William McChesney (Bill) Martin:

"He feared that the breakdown in the negotiations would be what the French want. We should therefore come out with a hopeful attitude rather than forcing a collision. The French were winning the propaganda battle. Our line should be one of sweet reasonableness. He reiterated that he would propose to espouse the IMF plan now at the meeting instead of publicly on August 1. We should also make clear that we are not proposing reserve creation to solve our balance of payments problem and we are not trying to avoid drawing on the IMF or selling gold. We merely want a bona fide supplement to gold."

Forty years ago, US was trying to substitute paper for physical gold and it's still running the same play today with the shenanigans on COMEX and some of the ETFs!

In August 1967, the US balance of payments situation was deteriorating and it was clear that the US was leaning on European countries not to buy gold. This is a memo from the Deputy for National Security, Francis Bator, to President Johnson:

"In getting the Europeans to cooperate in not buying gold, and accepting a U.S. deficit as not entirely illegitimate (we are not running an economy like Brazil), direct investment is our Achilles heel. They recognize the world-wide case for foreign aid, for military spending (even Vietnam) and for access to our capital markets. But many of them think that financing U.S. direct investment by means of a deficit is equivalent to buying up Europe with money borrowed from Europeans."

The lesson seems to be that when you know you're losing the battle resort to the filthy practice of politics. In November 1967, with Sterling on the brink of devaluation, Treasury Secretary Fowler sent a memo to President Johnson:

"While we believe the Common Market would hold, there is some evidence that France would try to follow the U. K. - in an effort to attack the dollar and try to force a gold price increase. Japan, Australia, and Canada probably could be held, although Japan, itself, would face great pressures.

But even if all this worked out:

- the dollar would come under attack;

- the gold market would come under very great pressure--and might explode;"

It was to no avail as Sterling was devalued from US$2.80 to US$2.40 on 18 November 1967. Rather than face up to the coming consequences for the dollar, President Johnson called a meeting of 17 members of the US leadership, including the Treasury Secretary and Chairman of the Federal Reserve, which decided that the US position was:

"to stand firm... Building confidence in the dollar through demonstrating fiscal responsibility and other constructive measures to improve the balance-of-payments position."

So with the pressure building, the US leadership belatedly recognizes the need to take action to sort out its finances! Surely that couldn't happen again could it? Yep, it's a dead cert. As a little aside, there was a wonderful example of being completely two-faced on the part of President Johnson. In a memo to Special Assistant Joseph A. Califano after Sterling's devaluation he comments:

"The fourth quarter is very serious. It is caused substantially by

1. The inept handling by the British of their devaluation which played unbelievably into the hands of speculators - smart money men and even amateurs *(talking of amateurs, son – Paul)***.**

2. Subsequent loss of gold to speculators and hoarders who saw the British devaluation as the opening wedge and under the present structure of the London gold can buy gold at prices which carry no risk."

A week later, he wrote a letter to British Prime Minister, Harold Wilson, which included the following heart-felt message:

"Dear Harold,

We are at the end of a difficult year, and both our countries have much unfinished business to carry forward. It is encouraging to recall nonetheless that it has been a year in which our close consultations and collaboration have helped produce a number of memorable achievements... We can take heart also from the success we have had through our joint efforts and through the cooperation of the other financial powers in meeting the critical problems of November and December and in restoring a sense of confidence and order to the world's financial system.

The speculative fever of these weeks has severely tested our methods of cooperating on economic problems; but, we have continued to work together effectively in a financial world suddenly beset by fear and disorder. We have, thus far, met and repelled a serious threat to the foundations of the international monetary system..."

Back to the story and President Johnson had returned to Texas where his Special Assistant, Walt Rostow, sent him a telegram on 22 November 1967:

"The gold market continues to be nervous as an aftermath of sterling devaluation. Rumors are circulating that the price of gold will not be held on the London market. These rumors have been fed by leaks out of Paris on the operation of the gold pool and French withdrawal from the pool (which actually took place in June).

We expected substantial gold losses after the devaluation. The gold pool lost $28 million Monday, $45 million Tuesday, and $104 million today. (We supply 60 percent, our European partners the other 40 percent.) Rumors were responsible for the sudden rise.

Bill Martin is going to call the other Governors of the Central Banks who are partners with us in the gold pool (Germany, Italy, the Netherlands, Belgium, U.K., and Switzerland), to support us in a statement today affirming business as usual. If they won't, Bill Martin would issue a statement that U.S. intends to continue to support the market and referring again to your statement of Saturday that the U.S. will buy and sell gold at $35 an ounce.

We expect further heavy losses this week. An unequivocal statement of our position should calm things down. We will keep you advised."

In December 1967, Rostow sent another memo to the President that keeping the European members of the London Gold Pool happy would require the US to carry some of their losses – though it seems this was a behind-the-scenes deal:

"Attached is the answer Bill Martin received from his approach to our gold pool partners. They have agreed to go along with us but expect us to bail them out of some of their gold losses. Each would make his own pitch to us if he finds it necessary. The UK is replying separately. Bill did a really impressive job.

We are working on a brief statement to clear with the Europeans and release tomorrow. It should put a stop to the rumors and quiet things down a bit."

The Europeans responded in a telephone call from the Governor of the Central Bank of Belgium to Fed Chairman, Bill Martin. His comments were summarized as follows:

"1. I am speaking for myself, the Germans, the Italians, the Dutch, and the Swiss. These are our unanimous views.

2. Of course we are always ready to support you because we believe in the fundamentals of the policy of gold at $35 an ounce.

3. We wonder if you will find it possible to make your balance of payments program known as soon as possible--before the 10 days you mentioned--even if it is in very general terms.

4. We approve and strongly support your going to the IMF. Apart from the measures it shows the U.S. is ready to solve the problem.

5. We very much hope that the program will be really very fundamental and substantial; not just a stop-gap measure; something really affecting the root of the matter.

6. We wonder if it would not be better to close the London market for awhile until your program is known as it is open to speculators and is completely disorganized. The French cannot even deliver gold. However, we understand you may prefer to keep it open but this is up to the United States to decide; it represents not a condition but a reflection.

7. Having this in mind, we were strongly of the opinion until yesterday night, when you got in touch with all of us, to recommend that we should stop our intervention in the London market. But taking into account your request, the fact you have a program, the fact that public reaction to withdrawal from the London market would be bad, we are ready to stay in the market. You may say this is a common policy not only of the Fed and the U.S. Treasury but of all the European central banks concerned.

8. This does not mean that we will not ask for reimbursement in gold of any excessive accumulation of dollars which may be the result of our intervention. We will stay in the pool but on the other hand we cannot face a large depletion of our gold reserves. All of us agree on this in principle but it would be left for each central bank to work it out with the Federal Reserve.

9. We recommend that you issue a communique over the weekend indicating, if possible, the U.S. intentions on the balance of payments program, reaffirming our intent to maintain the $35 price of gold, and reaffirming no change in operations in the London gold market, and pointing out this is not only an American position but represents the unanimous views of the European central bankers, all of whom endorse this position and are cooperating in the interest of maintaining stability in the international monetary system."

So although the position of the Europeans was publicly aligned with the US, they had lost their nerve. The communiqué issued by the US Treasury Secretary and the Chairman of the Federal Reserve was as follows:

"The United States stands firm in its determination to maintain the gold value of the dollar. The central banks of Belgium, Germany, Italy, the Netherlands, Switzerland, and the United Kingdom support this position and continue to participate fully with the United States in policies and practices in support of the price of gold at $35 an ounce. The operation of the London gold market will continue unchanged. The United States authorities and the European central banks

concerned endorse this position unanimously and are cooperating in the interest of maintaining the stability of the international monetary system."

The substance of this statement from a European standpoint was, therefore, a lie.

Switching briefly from declassified documents from the US State Department to the Federal Reserve, here is part of the FOMC meeting minutes from December 1967 unearthed by Zero Hedge:

"Of greater concern, however, was the fact that the drain on the pool was accelerating again, Mr. MacLaury observed. Last week there was a small net surplus, but yesterday the loss was $56 million and today $95 million; for December to date, the pool was in deficit by $183 million. Some of the demand shortly after devaluation apparently represented large individual purchases by Eastern European countries, Communist China, and possibly Middle Eastern countries, although demand was more general in the last two days.

On the whole, it was Mr. MacLaury's impression that the measures taken by the Swiss commercial banks and by some other continental banks to impede private demand for gold worked quite well, although it was clear from the start that such measures could serve only as a stop-gap until some fundamental change was agreed upon. Persistent newspaper leaks--mainly from Paris--about current discussions on this subject and their reflection in gold market activity Monday and today pointed up the need for speed in reaching a decision...The governors agreed that a group of technical experts should meet on Monday morning, in advance of the meeting scheduled that day with Mr Deming, to discuss problems and possible methods of limiting demand in the London market and to consider the relationship between the restraints in that market and the kinds of limitations the Swiss National Bank had applied. The Italians and Belgians favored a plan in which a distinction would be drawn between legitimate industrial demands and all other types of demand, with only the former to be met on the London market. It was the general sense that it would be desirable for central bank demands, other than those from the sterling area, to come directly to the United States, rather than being permitted to contribute to pressures in the London market.

Mr Hayes noted that the sense of urgency at the meeting was greatly accentuated by the problem of leaks. Practically all of the discussion, in garbled form, was published daily in the Paris newspaper Le Monde and those reports were picked up by other newspapers. There were reporters sitting about and waiting in the corridors, something he had never seen before at a Basle meeting."

And as an indication of how desperate they were getting:

"The possibility of limiting US tourism (to Europe) had not been raised but he thought that possibility should be studied carefully."

Paraphrased as – things are going badly in the gold market so let's consider restricting civil liberties. These people.

On 1 January 1968, President Johnson announced a new programme to address the country's balance of payments deficit, which included tax increases. By 7 February 1968, rumours of an impending crisis were circulating in the London markets and here is wonderful example of poor judgement on the part of the Treasury Secretary in a memo sent to President Johnson:

"There is some belief in financial circles, particularly in the City of London, that a new international financial crisis may occur in March... Furthermore, the exchange markets do not seem to be looking for an early crisis. Sterling is not as strong as we would like, but it has behaved fairly well and U.K. reserves have strengthened somewhat...In sum, I think the probability of a March

crisis is not all that great, but I think it well for you to have this background as you talk to the Prime Minister."

On 8 March 1968, the London Gold Pool lost 100 tonnes of gold compared with about 5 tonnes on a normal day as the crisis blew up. This led to a meeting of the Dillon Committee and a memo was sent to President Johnson by his Special Assistant, Rostow, on its conclusions:

"1. The tax bill is a must. They agree on a strong public statement (attached) which they will release next week after going over it with Fowler.

2. They are unanimously opposed to an increase in the price of gold as a way of dealing with the present crisis.

3. Most would prefer to keep the present gold pool arrangement going but they do not believe it will be possible to negotiate with the Europeans the arrangements necessary (specifically, the gold certificate proposal) to turn the market around and restore calm.

4. They, therefore, believe we will have to close the gold pool operation and let the market price go. They believe it is essential we do this in cooperation with our gold pool partners and preferably at their request.

5. They were somewhat fuzzy on particular plans for getting non-gold pool members to cooperate and suggest we perhaps can use the IMF for this purpose. They believe we will have to act within 30 days and must have a clear idea of where we want to go and how we plan to get there.

Comment: As you can see, these views are not very different from our own. After the meeting of the Central Bankers in Basel this week end, we will have a better idea of what the Europeans are willing to do, what the prospects are of keeping the gold market open and quiet, and what would be the most orderly way of bringing about change. Deming returns tonight, and Bill Martin on Monday."

They seem fairly close to acknowledging that the game was up, but in a memo to President Johnson from Rostow, dated 12 March 2009, they were still putting together funds for a final, doomed attempt to save the US dollar.

"Mr. President:

Here, as we understand it, is what Bill Martin found out and will report to you.

1. With respect to a change in the price of gold, the British and Dutch are inclined to flirt with this option. The Germans are wobbly. The Italians, Belgians and Swiss are strongly against.

2. He achieved agreement on the statement and the willingness to back the gold pool with $500 million, with another $500 million contingent. (At the rate the market in London is going, this will only last a matter of days.)

3. The Europeans realize that we all may face soon some quite unpleasant choices; but they are not clear about what these choices are and what will be required of them if we are to hold the system together. They are prepared to close down the London gold market and let the free market price of gold float. What they have not thought through are the terms of the intimate collaboration which will be required to make that kind of system work--especially how to deal with the consequences of a two-price gold system.

4. In the light of this situation, Treasury, State, Federal Reserve, Council of Economic Advisers, and White House staff people have been driving all day, at Ed Fried's insistence, to get in shape an operational scenario of the kind that is attached. The essential object of the scenario would be to get certain minimum essential commitments from the other members of the gold pool before the closing of the gold pool was announced. On this basis we could proceed in reasonable order to a monetary conference.

5. We do not yet know Joe Fowler's or Bill Martin's personal views of this particular scenario. But we will be presenting it to them either late this evening or tomorrow morning.

6. It emerged from the Basel meeting that the U.S. tax bill and the austerity of the British budget of March 19 are absolutely critical factors. Joe Fowler and Bill Martin have been working Mills over hard on this point. They are also talking to the Republican Policy Committee this afternoon.

My own feeling is that the moment of truth is close upon us; and we shall have to convert some such scenario into action within the next few days.

Walt"

Two days later, a follow-up memo on outlined the President's options when they finally realized it was over.

"Washington, March 14, 1968.

SUBJECT Gold

Your senior advisers are agreed:

(1) We can't go on as is, hoping that something will turn up.

(2) We need a meeting of the gold pool countries this weekend in Washington.

(3) We want to negotiate the following package:

- Interim rules on gold.

- Measures to keep order in the financial markets.

- Acceleration of the SDR's.

(4) With the right kind of interim package, we could maintain our gold commitment to official holders.

(5) If we can't get this package, we would have to suspend gold convertibility for official dollar holders, at least temporarily, and call for an immediate emergency conference.

(6) This probably would mean a period of chaos in world financial markets, but it may be the only way to push the others into a sensible long-run arrangement which avoids a rise in the official price of gold. We are unanimously agreed that a rise in the price of gold is the worst outcome.

The decision you must make now is whether the London gold market should be closed at once.

(a) Arguments for closing:

- Avoid losing perhaps $1 billion in gold tomorrow (we lost $372 million today).

- Such a gold loss would further shake the confidence of central banks and trigger their coming to us for gold.

- Makes it easier to arrange an emergency meeting of the gold pool countries this weekend.

- Evidence of U.S. decisiveness.

(b) Arguments against closing:

- Involves U.S. taking the lead in throwing in the towel.

- Closing the market will strengthen the hand of those who believe the official price of gold will be increased.

- May reduce the U.S. bargaining position with the Europeans.

- Gives us another fling at the Gold Certificate proposal.

Walt"

The London Gold Pool collapsed. That night, the Queen declared a Bank Holiday for the following day and British Chancellor, Roy Jenkins, closed the London gold market "on the request of the United States". It remained shut for two weeks although gold continued to trade in Zurich and Paris where the price rose from US$35/oz to US$44/oz – implying a 26% devaluation of the US dollar. This led to a two-tier gold market, with gold transfers between nations continuing at US$35/oz.

Here is part of a memo from National Security Adviser, Kissinger, to President Nixon on 25 June 1969:

"we have already moved a long way towards suspension of the gold convertibility of the dollar. Germany has explicitly agreed not to convert (under the implicit threat of troop withdrawals as part of an earlier "offset" agreement). All other major countries are afraid to queue up for gold for fear that we will close the window. We are thus already achieving much of the gain from suspension - essentially through accumulation of dollars by others - while minimizing the political costs of blatantly unilateral U.S. action."

So while the French were converting their balance of payments surpluses from US dollars into gold, the US basically strong-armed the Germans, an even bigger surplus nation, into not following suit – which ended up being very costly for them.

Nixon finally ended the two-tier gold market in 1971 when he closed the "gold window".

Second Gold War: late-1970s

Having lost the first gold war to the French (and the speculators), the US lost the next one to Saudi Arabia - well Arab nations, a German bank and speculators - as James Sinclair highlighted earlier. Obviously for "speculators", read "Smart investors and believers in sound money who saw the writing on the wall". The first shot was fired in December 1974 when the US announced the first gold sale of 2.0m oz (62 tonnes) in December 1974 and followed this with a second of 0.5m oz in June 1975.

Before the second gold war had even really got going, the US Treasury and Federal Reserves were already squabbling (wait for this) about the extent to which OTHER countries would be allowed to buy gold and the strategy of limiting the role of gold in the financial system. Let's just call it manipulation.

Here is the memo from Chairman of the Federal Reserve, Arthur Burns, to US President, Gerald Ford, on 3 June 1975 ahead of the IMF's Interim Committee meeting a week later:

"The broad question at issue is whether central banks and governments should be free to buy gold, from one another or from the private market, at market-related prices. (Market prices have recently been in the range $160 to $175 per ounce; the official price is $42.22 per ounce.) The Treasury is willing to accept a large measure of freedom for such transactions. The Federal Reserve is opposed.

The specific point of controversy is whether to allow individual governments to increase their gold holdings above a specified ceiling. The Treasury is willing to agree to the position, taken strongly by the French Government, that there should be no ceiling on the gold holdings of an individual government. The Federal Reserve believes that individual ceilings are essential, and that the United States should not agree to any new international arrangements on gold unless they incorporate such ceilings.

The January 1975 communique of the International Monetary Fund's Interim Committee, an internationally agreed document, stated that freedom for national monetary authorities to enter into gold transactions should 'ensure that the role of gold in the international monetary system would be gradually reduced.' Individual country ceilings on gold holdings, which the Federal Reserve favors, would contribute to this objective. The Treasury's position, on the other hand, will be interpreted by many as a withdrawal from the January understanding."

Burns then outlines reasons for the Fed's stand on gold which included:

"Third, early removal of the present restraints on inter-governmental gold transactions and on official purchases from the private market could well release forces and induce actions that would increase the relative importance of gold in the monetary system. In fact, there are reasons for believing that the French, with the support of one or two smaller countries, are seeking such an outcome. Countries such as France that are opposed to ceilings on their individual gold holdings undoubtedly want the freedom to buy in the private gold market so as to support the market price. It is an open secret among central bankers that, at a later date, the French and some others may well want to stabilize the market price within some range. In my judgment, therefore, there is a significant risk that the Treasury's recommended position would inadvertently foster, or at least permit, an increase in the relative importance of gold in the monetary system."

"Fourth, a large measure of freedom for governments to trade in gold at a market-related price may easily frustrate efforts to control world liquidity. For example, such freedom would provide an incentive for governments to revalue their official gold holdings at a market-related price. (France has already done so.) This in turn could result in the addition of up to $150 billion to the nominal value of countries' reserves. Liquidity creation of such extraordinary magnitude would seriously endanger, perhaps even frustrate, our efforts and those of other prudent nations to get inflation under reasonable control."

Burns goes on to moan about how he had already "gone some distance to try to conciliate the French view" – a whole 5%:

"I have suggested some lifting of the ceiling that would apply to an individual country's gold holdings (e.g., from 100 per cent to 105 per cent of the actual holdings as of May 1, 1975)."

Before moving on to filthy politics:

"I have consulted Henry Kissinger as to whether there is some political advantage we might want to extract from the French in exchange for acceding to some part or all of their desired position on gold. But Henry tells me there is none at this time...I few do ever accede to French views on gold, we should at least use our bargaining leverage to achieve some major political advantage."

Then we have a prime example of the dirty dealings that are done between central bankers in the gold market. Burns explains why he doesn't see any disadvantage from taking a stand against the French in the current negotiations – the British won't support the French and he's already done an under-the-counter deal with the Germans (who always seem to get taken to the cleaners by the US where gold is concerned).

"I have a secret understanding in writing with the Bundesbank – concurred in by Mr Schmidt – that Germany will not buy gold, either from the market or from another government, at a price above the official price of $42.22 per ounce."

One of my other gold market heroes is even less well known today than Jacques Rueff. He is Hans-Joachim Schreiber, who worked for Germany's Dresdner Bank in the 1970s. He was the biggest player in the gold market when the second gold war really got going during the late-1970s. Once again, the US and its ally, the IMF, conducted an overt war by selling gold into the market:

- In 1978-79, the US conducted a series of gold auctions amounting to a further 14.5m oz (451 tonnes); and
- The IMF announced the sale of 50m oz (1,550 tonnes) of gold in August 1975, of which 25m oz (778 tonnes) were sold in a series of auctions between June 1976 and May 1980. The other 25.0m was sold in the form of restitution to IMF member countries.

So despite selling 1,308 tonnes of gold on to the open market, the US and IMF failed to stop the gold price rising from US$193/oz at the end of 1974 to its then all-time high of US$850/oz.

In the middle of all this, Schreiber saw straight through the shenanigans of the US and IMF and encouraged his bank's clients to buy gold. Some of the biggest buyers were believed to be Arab nations, including Saudi Arabia – as mentioned by Jim Sinclair. Here is quote from Time Magazine on 17 September 1979 in an article "Lift for the Bullion Boom":

"Remarkably, almost half of the 1,000 tons of gold that the IMF and the US Treasury have put on to the market in the past five years have been scooped up by one buyer: West Germany's Dresdner Bank. And its drive into gold has been pressed by one man, Hans Joachim Schreiber, 46, who was appointed to the bank's board of directors five years ago. His faith in the metal dates to his youth in postwar Germany, where, he recalls 'some people owed their survival to the possession of a few ounces of gold'."

The article goes on to discuss the most famous of all the gold auctions of that period. This was one for 750,000 oz (23 tonnes) in August 1979 by the US Treasury. Schreiber and Dresdner Bank bid for the whole lot (he was "the man"!), receiving an allocation of 720,000 oz. According to Time:

"At the US Treasury's auction late in August, Schreiber bid $301 per oz. for gold that had been selling the day before for $299…Some of the gold goes to the bank's own account, but most is for its clients. Dresdner is rumoured to be active as an agent for Middle Eastern investors…Schreiber keeps tight control over his agents in Frankfurt, New York, London, Hong Kong and Singapore, contacting his team almost instantly to find out who is buying, where and why…Says Schreiber 'Even after we submit written bids, we usually adjust them by a few cents via Telex write down to the deadline'."

Two weeks after this auction the price had risen to US$320/oz and according to Professor R.M. Gidlow in his essay, "Review of the gold sales policy of the United States Treasury (1978-79)":

"this auction result stimulated the demand for gold rather than dampened it, and threatened possibly to weaken the dollar in foreign exchange markets…the position of gold was strengthened by the evidence provided by the auctions that the market can absorb large tonnages of gold…In retrospect the Americans could have retained greater influence over the bullion markets by staying out or selling less, because of the greater uncertainty which they could have exerted over the market."

Going back to October 1979, the US Treasury announced that regular monthly gold sales would be discontinued and moved to a policy of ad hoc auctions in variable amounts. This move, together with the tensions caused by Iran seizing the US hostages, saw gold rise from just under US$400//oz to its high of US$850/oz on 21 January 1980. Then Volcker started hiking rates, eventually taking Fed Funds up to 18% which eventually killed the gold price rise. I'd like to see them try that now. Going forward, we will see slowly rising interest rates AND a rising gold price.

The current Gold War and China

Having twice had their *rse handed to them on a plate, the US Treasury/Federal Reserve and other fine western institutions learned that overt intervention in the gold market was a doomed strategy:

Monkey see…monkey see again…monkey do something different next time.

They realised that it's much better to keep the gold market permanently off-balance with a covert strategy. Key elements of the current strategy are:

- Time interventions for the maximum possible effect. For example, the "$6 rule" which morphed into the "2% rule" (in terms of capping maximum single day movements), ahead of option expiries, any time bearish economic indicator is released (so investors don't put "bad economic news" and "surging gold price" together – behavioural finance)…and often any time any key economic indicator is released, etc, or some Fed/Treasury cheese makes a speech;

- Even if you are losing the war, sustained pattern of intervention cause continual price corrections which shakes out the weak holders. This play havoc with trend following funds and stops vast amounts of “dumb” money from getting on board as well – exactly the sort of money that turns trends into booms;
- By acting covertly, many professional investors, never mind the “man in the street”, don’t even realize there’s a war taking place. Even among professional investors, there are still plenty of deluded individuals sufficiently conditioned by governments and the mainstream media that they believe that the gold market is free and fair. They are the prisoners in Plato’s cave described above; and
- Wherever possible fight the war with “paper” gold rather than scarce physical bullion, i.e. use futures on the COMEX, OTC options and unallocated gold.

It’s a smarter strategy and it’s why a covert version of the London Gold Pool is operating today and has been in operation for more than a decade. Along the way, some tactics have been jettisoned, e.g. hedging by at least one major “connected” gold miner.

Jim Sinclair correctly observed that the biggest adversary faced by the US in the current gold war is China, although it is being joined by other countries (not least of which is Russia) and a growing hoard of institutional and private investors – as more and more “prisoners” escape. The reality is that the “phony” part of this gold war was 6 years into existence before most people even realised that China had entered the fray. China’s official gold reserves were reported by the World Gold Council (WGC) to have remained unchanged during 2002-07.

More kudos to GATA – here is Bill Murphy’s comment on China back in 2007:

“They have been discreetly buying up natural resources for at least the last five years…(we) have known for years they have been accumulating gold via our STALKER source.”

It came as a surprise to the WGC and the rest of the market in April 2009 when China announced that it had increased its gold reserves by 454 tonnes to 1,054 tonnes since 2003. Talking of GATA’s famous “Stalker” source, there was some interesting feedback from a conversation he had with a former member of the WGC. The Stalker reported him as saying:

“…the most important factor for gold was the growing population of India and China…and their population has a propensity for gold. In his opinion, this dwarfs all the other factors regarding the gold price, i.e. don’t stand in the way of the inevitable.”

It’s important to realise here that in this gold war, the US authorities are taking on both the Chinese state AND its citizens and we need to consider both. In recent months, the only illuminating information about gold to come from an “official” Chinese source was reported by Ambrose Evans-Pritchard on his Daily Telegraph blog. His story “Gold now enjoys the Beijing put” followed a meeting with Cheng Siwei, China’s former Vice Chairman of the Party’s Standing Committee and now a “sort of economic ambassador for China around the world”. On his blog, Evans-Pritchard commented:

“What he said about US monetary policy and gold - this bit on the record - would appear to validate the long-held belief of gold bugs that China has fundamentally lost confidence in the US dollar and is going to shift to a partial gold standard through reserve accumulation. He played down other metals such as copper, saying that they could not double as a proxy currency or store of wealth. ‘Gold is definitely an alternative, but when we buy, the price goes up. We have to do it carefully so as not stimulate the market,’ he said. In other words, China is buying the dips, and will continue to do so as a systematic policy…As I have written in today’s paper, Mr Cheng (and Beijing) takes a dim view of Ben Bernanke’s monetary experiments at the Federal Reserve. ‘If they keep printing money to buy bonds it will lead to inflation, and after a year or two the dollar will fall hard. Most of our foreign reserves are in US bonds and this is very difficult to change, so we will diversify incremental reserves into euros, yen, and other currencies,’ he said.”

One might assume that Cheng's off the off-the-record comments were even more bullish for gold and/or damning for the dollar. Nice one Ambrose – sometimes a shining light in the mainstream media. The theory that China is "buying the dips" also fits with the market action we are seeing.

One question which remains unanswered is why hasn't the Chinese government purchased at least some of the 403 tonnes that the IMF claims that it wants to sell? However, the combination of gold and the IMF (as ever) means that things aren't clear cut. India acquired 200 tonnes of the IMF gold in November 2009 which was one factor behind the gold price reaching its all-time high of US$1,222/oz in December 2009. Sri Lanka subsequently bought 10 tonnes and Mauritius bought 2 tonnes.

There was talk in the gold market that India had beaten China to the punch and that the latter would only buy gold from the IMF at a price the same or lower than the c.US$1,045/oz paid by India. This is possible since the gold price hasn't broken down below US$1,050/oz since. There was also speculation that the IMF would be reluctant to sell to China either because it would be an even more bullish signal for the gold price than the sale to India and/or India's central bank might have agreed to lease some or all of the 200 tonnes back to the market after the deal (neither of which would surprise me).

In the meantime, the long drawn out saga of IMF gold sales (the US was promoting IMF sales back in the late-1990s) took another twist in March this year. Eric Sprott of Sprott Asset Management, a high profile Canadian portfolio manager, approached the IMF to buy the remaining 191.3 tonnes. He was turned down. The "businessinsider.com" phoned up the IMF to ask why not:

"We spoke with Alistair Thomson, external relations officer at the IMF, who cleared up the matter for us. Here's the breakdown of what he told us:

- The IMF is only selling gold though a qualified agent. There is only one of these agents at the moment and due to the nature of the gold market, they won't reveal who or what that agent is.
- The IMF is also phasing out the gold sale and does not intend to dump it all at once because to do so would disrupt markets, which is obviously not their intention.
- Sprott can't buy the gold directly because they do not deal with institutional clients like hedge funds, pension funds, etc. The only buyers can be central bankers and sovereign nations, that sort of thing.
- The IMF board agreed months ago how they wanted to approach the sale of the gold. Sprott is welcome to buy from central banks who have bought from the IMF, but not from the IMF directly."

This explanation doesn't stand up at all, it's a joke:

- The IMF was selling gold to non-central bank buyers in the 1970s;
- Selling the remaining 191.3 tonnes to a single buyer would not disrupt the gold market: and
- If the IMF wants to sell and Sprott wants to buy, all the IMF has to do is arrange the sale through its un-named "qualified agent" or through a central bank intermediary.

Eric Sprott called the IMF's bluff beautifully. What a shameful institution it is when the reason for the gold sale was outlined by the G20 leaders in their communiqué following the April 2009 meeting in London as providing:

"additional concessional and flexible finance for the poorest countries over the next 2-3 years."

Like they really care. There was another great line in that communiqué:

"The era for banking secrecy is over"

That meant for you (tax havens, etc) and NOT for them!

Eric Sprott is no upstart in the investment world. He has 35 years experience and billionaire status to show for it. Sprott was interviewed on King World News on 27 March 2010:

Eric King: People are walking around, some of the professionals in the United States and asking each other 'What is real anymore?'. Is it kind of the twilight zone here to some degree?"

Eric Sprott: "We have a great example of what's real. I of course listened to Bill Murphy speaking at the CFTC hearing yesterday and Bill Murphy says 'We have a whistleblower who says JP Morgan rigs the gold market, etc, etc, and went on for a while. I thought to myself, I'm just going to look and see what media companies pick any of that up…you might imagine someone might report on it. None of the mass media picked it up. I think well, okay, that's obviously orchestrated because you would think it would be a big story. So do I think everything's orchestrated? Yeah, I think everything is totally orchestrated."

Back to gold in relation to the Chinese government. One way that some people are thinking about it this is via a comparison with the US. The US claims to have 8,132 tonnes of gold although this hasn't been properly audited since the Eisenhower Administration. Nevertheless, China's GDP is about US$5 trn compared with US$14 trn for the US. On a comparable basis, China would need 3,000 tonnes of gold (and growing) to have the same gold/GDP ratio now. Jim Rickards, for example, is talking about China needing an incremental 3,000 tonnes since it is "on a path to have an economy that's about half the size of the United States". Either way, 2-3,000 tonnes is a lot of buying power when other countries and investors are competing for gold at the same time.

But China's buying could exceed this level. In November 2009, Ji Xaonan, who chairs the supervisory board for the state-owned Assets Supervision and Administration Commission (basically China's biggest state-owned companies) said publicly that China should increase its gold reserves to 10,000 tonnes over the next 10 years. In the China Youth Daily, Ji was quoted as saying that a task force was set up in 2008 to examine the issue:

"We suggested that China's gold reserves should reach 6,000 tonnes in the next 3-5 years and perhaps 10,000 tonnes in 8-10 years."

Turning to the gold buying trends of the Chinese people, the WGC (amazingly) wrote an informative piece on this subject – "China Gold Report: Gold in the Year of the Tiger"! The report notes that the abolition of the ban on private ownership of gold investment in 2001 was a watershed event and:

"Today gold is regarded as a sign of prosperity, an ornament and an integral part of Chinese religion."

I like this quote:

"The children of affluent Chinese families are said to be born not with a silver spoon as in Britain, but with a golden chopstick in their mouths."

I hadn't realised this but, just like in India, weddings are important gold buying occasions in China and gold is sometimes given as a gift on birthdays, Mother's Day, after births and at Chinese New Year according to the report.

The Executive Summary makes an important point, the demand for gold in terms of jewellery and investment in 2009 amounted to 428 tonnes compared with domestic mine supply of only 314 tonnes. The implication being:

"This shortfall creates a 'snowball' effect as China's gold industry may not be able to keep pace with the annual leap in domestic consumption despite rising to be the world's largest gold producer since 2007."

In the 1 September 2009 Thunder Road, I highlighted how China's state television channel, CCTV, had been showing viewers how they could buy gold and silver. The "Sovereign Man, Simon Black, had asked his Chinese insider friend what was happening? She replied:

"I just got off the phone with one of the key executives of the Shanghai Gold Exchange…You know for the past 50 years, the Chinese government has controlled the distribution of all types of gold…The government is now taking radical measures to change that…The government is now trying to drum 'gold/silver as an investment' into their heads at every corner…For the past half a century, the Chinese had the lowest per capita consumption of gold in the world. Next year, Chinese gold demand will likely surpass that of India. This year, the government banned silver from being exported…and by July, it was being promoted as an 'investment' to the Chinese public on the six o'clock news. You do the math – how does that effect global demand if just 10% of Chinese begin to perceive silver as an investment…From what I'm seeing on the ground, the Chinese government is engaging in one of the most explosive financial marketing campaigns in history. Instead of Maoist propaganda, though, they are attempting to change the entire perception of gold/silver to the Chinese public. Simply put, the Chinese government is trying to trigger a national gold craze…and it's working."

The WGC also report emphasizes the point about rising per capital gold consumption in China. In 2009, Chinese per capital gold consumption was 0.33g, almost double the 0.17g in 2002. If consumption reaches the levels of the US and Japan, i.e. about 1.0g, it would imply incremental gold demand of another 1,000 tonnes per annum. This is an alarming statistic when world mine supply has been +/- 2,500 tonnes for the last decade.

An interesting debate in the WGC report is the extent of Chinese gold reserves "in the ground". It acknowledges:

"There is considerable uncertainty and controversy surrounding the reserves of gold present in China."

It then references the US Geographical Survey's data that China has only 4% of world gold reserves and, if correct, will be exhausted in six years at current production levels. Maybe although it sounds somewhat extreme to me. However, there maybe at least a grain of truth in China perceiving that it has a problem with the reserve lives of its domestic gold miners. In October 2009, the state-owned metals trader, Minmetals, said that it was looking to buy overseas gold mines. The company's deputy general manager, Huang Dongmei said that it would look to acquire gold mines in Canada and Australia at a conference in Tianjin. Unless I missed it, we've yet to see a deal, but from my perspective, I'm hoping that they are looking at the likes of Seabridge, for example. We'll see.

The good news is that the gold price manipulation scheme and the fractional reserve system of gold trading in the London market (90% of the world market) is slowly coming apart. The sad thing is that without the price suppression scheme, the gold price would have warned investors of the reckless policies of central bankers and politicians some years ago. The extremes of the bubble and the approaching monetary catastrophe could have been avoided. But we are where we are.

Author: I started work the month before the stock market crash in 1987. I've worked mainly as an analyst covering the Metals & Mining, Oil & Gas and Chemicals industries for a number of brokers and banks including S.G. Warburg (now UBS), Credit Lyonnais, JP Morgan Chase, Schroders (became Citibank) and, latterly, at the soon to be mighty Redburn Partners.

Lyrics from Michael Jackson's "Black or White" with the rap lyrics by Bill Bottrell, "The Warriors" VHS cover from Amazon, movie credits Paramount Pictures, director Walter Hill.

Please note - "Lock and load in Gold and Silver" and the main photo on page 1 is meant to signal my view of an imminent event, i.e. an upward move in the prices of gold and silver, and nothing else. Some people can get the wrong idea these days! Thunder Road supports law and order and peaceful protest if it's ever necessary.The idea for using the phrase "lock and load" comes from the Wall Street movie.

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