SPECIAL REPORT

Sprott Asset Management

NOT FREE, NOT FAIR:

The Long-Term Manipulation of the Gold Price

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August 2004

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1. Introduction

It is no secret that some investors believe the price of gold has and continues to be artificially depressed. Unfortunately, many in the financial world denigrate such allegations as the work of mindless conspiracy theorists. We hope the following report will, if not silence those critics, at least allow for a healthy debate on these serious claims of market rigging. The accumulated evidence demands as much. As significant gold owners ourselves, we firmly side with the alleged lunatic fringe on this contentious topic. Their assertions appear to be essentially correct.

By way of background, the Long Term Capital Management (LTCM) crisis in 1998 spurred the first loud claims that the gold market was being actively managed.[1] A few large bullion dealers consistently appeared as strong sellers on the COMEX and stopped promising rallies dead in their tracks. Word emerged that LTCM was short approximately 400 tonnes of gold. Covering this position would have sent gold soaring, harming the balance sheets of LTCM and other significant gold shorts.

May 1999 marked the conversion of many veteran gold market watchers to the manipulation thesis. The announcement by the Bank of England of its planned gold sales signaled to them that the price of gold had fallen under official sector management. Gold was breaking out at the time, and the announcement acted as the catalyst for gold to drop from $290 to $260. Neither the Bank nor U.K. Treasury wanted to accept responsibility for the decision. Ostensibly pre-announced as a measure of transparency, the British gold sales cost the nation's taxpayers dearly when gold rose. It appears that the real reason for this announcement was to keep the gold price down. Evidently, the shorts were being protected.

After languishing near $260 an ounce, gold awoke in dramatic fashion following the September 1999 Washington Agreement on Gold. 15 European central banks agreed to limit gold sales over 5 years and curtail lending activities.[2] The price exploded, climbing almost $80 in two weeks as panicked shorts rushed to cover. The gold "carry-trade"[3] had quickly turned dangerously unprofitable.

A large amount of information has surfaced indicating that the official sector intervened at this point to prevent what has been termed a gold derivatives crisis. Short positions, essentially equal to the total stock of borrowed gold, had grown to the extent that they simply could not be covered. The spike in the gold price threatened the solvency of some large financial institutions and thus could have precipitated a systemic crisis.

We agree with gold market commentators who still believe the price to be actively managed. While the short position has apparently been assumed by the central banks, gold's role as a financial barometer spells trouble for monetary authorities who have been strenuously liquefying the financial

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[1] For example, the Gold Anti-Trust Action Committee (GATA) was formed in January 1999 (http://www.gata.org/history.html). Suspicious trading patterns in the gold market around this time acted as the catalyst for the group's formation.

[2] For the text of the Washington Agreement, see European Central Bank, *Joint statement on gold* (September 26, 1999): http://www.ecb.int/press/pr/date/1999/html/pr990926.en.html.

[3] Taking advantage of the differential between gold lease rates and prevailing money market interest rates, speculators borrowed gold, sold it into the market and invested the proceeds, thereby earning the spread. Alternatively, such traders captured this "forward premium" by going short in the gold forward market.

system. Having aggressively underwritten the current low-interest rate environment, the Federal Reserve in particular, would be held to account by a free market gold price.

One final note is in order. We are not alleging a vast conspiracy orchestrated years ago and implemented flawlessly ever since. Indeed, as Barry Riley of the *Financial Times* suggested in 2000, "The gold manipulation might well have started out as a minor smoothing operation that got out of control."[4] Nor are we implying that the gold market managers are omnipotent; investors only have to consider the current price to realize that the forces working against gold are in retreat. Nevertheless, enough damage has been done and too many blatantly manipulative bear raids continue to occur for us to stay silent on this issue.

[4] Barry Riley, "The long view-The battle over bullion", *Financial Times*, February 13, 2000. Article reprinted at http://groups.yahoo.com/group/gata/message/376

2. A Note on Methodology

On the internet, the subject of gold market manipulation has received much coverage, investigation, and analysis. Indeed, this report is mostly based on materials located in cyberspace. We have been careful to only use material we consider credible. In assessing whether something should be included, we have evaluated the source of the information as well as any possible corroborating evidence. Due to the nature of the topic, many of our conclusions concerning various events are based on anecdotal reports from others in the marketplace. In such instances, we are not merely passing on rumours or conjecture. These reports are in print, and we consider the people quoted both credible and well-informed.

Much of what follows are quotes, often lengthy, drawn from material either written on this topic or related to it. Nevertheless, we have only included information that strikes us both as correct and relevant to the topic. Though we obviously cannot guarantee that every allegation will ultimately be proven to be correct, the current body of available evidence can only lead us to the conclusions found in the forthcoming pages.

Certain aspects of the gold price manipulation debate can become incredibly complex. We hope we have found a reasonable balance between providing enough supporting evidence while keeping the report accessible and interesting for as many as possible.

A great deal of what follows is based on research completed by the Gold Anti-Trust Action Committee (GATA). We consider their work to be excellent in scope, yet chronically under-appreciated by gold market observers. Disdain for GATA's allegations is not justified in our opinion. Quite the opposite: more than all others, GATA displays an appreciation and understanding of the gold market's structure and dynamics. Whereas consensus forecasters see a free market roughly in equilibrium, GATA has amply shown that the gold market is both controlled and seriously distorted with respect to gold's fundamentals.

Four gentlemen associated with GATA are quoted extensively in this report. We think it might be helpful to provide some background information on these researchers and analysts.

Frank Veneroso is arguably the foremost mind on gold supply and demand flows. His *1998 Gold Book Annual* made the case that the consensus supply and demand view of the gold market established by GFMS Ltd. (formerly Gold Fields Mineral Services) was seriously flawed.[5] Veneroso's gold market model indicates that central bank loans are far greater than GFMS estimates suggest. We quote from his biography:

> Currently head of Veneroso Associates, formerly partner of the hedge fund Omega Advisors where he was responsible for global investment policy formulation. Through his own firm, Mr. Veneroso has been an investment and economic adviser in investment strategy to institutions and governments around the world in the areas of money and banking, financial instability and crisis, privatization, and development and globalization of securities markets. His clients have included the World Bank, the International Finance Corporation,

[5] Frank Veneroso, *The Gold Book Annual 1998* (Jefferson Financial, 1998).

> [and] The Organization of American States. He has advised the Governments of Bahrain, Brazil, Chile, Ecuador, Korea, Mexico, Peru, Portugal, Thailand, Venezuela and the United Arab [Emirates]. Frank is a graduate from Harvard and has authored many articles on the subjects of international finance.[6]

Recently, Mr. Veneroso has been "Market Strategist for the Global Policy Committee of Allianz Dresdner Asset Management and is responsible for alternative asset product development at Dresdner RCM."[7]

Another top gold industry expert supporting GATA's contentions is Reginald H. Howe. In 2000, Mr. Howe filed suit against the Bank for International Settlements, Alan Greenspan, Lawrence Summers (later replaced with Paul O'Neill) five bullion banks, and William McDonough (then-president of the Federal Reserve Bank of New York). As it concerns the gold market, Howe alleged horizontal price-fixing by all defendants. In 2002, the presiding judge dismissed the lawsuit on two technicalities.[8] First, he ruled that Howe was not the most appropriate plaintiff to bring a gold anti-trust claim. Second, the court found that defendants Greenspan, O'Neill and McDonough enjoyed sovereign immunity protection because the alleged actions would have taken place in their capacity as government officials. Importantly, the lawsuit was not dismissed due to lack of evidence or quality of information presented.

From Mr. Howe's biography:

> Reginald H. Howe, is an author, private investor and member of Golden Sextant Advisors LLC, which provides consulting, management and investment banking services to companies and private investors with an interest in gold. From 1976 to 1984, Mr. Howe was a partner in the Boston law firm of Palmer & Dodge, where he specialized in civil litigation and was a member of the firm's investment committee. He was an associate at the same firm from 1970 to 1976. In 1983, Mr. Howe organized Golden Sextant Associates, a general partnership for investing in developing North American gold mining companies, and he served as its managing general partner until its profitable dissolution in 1987. For a few years thereafter, he continued as a sole legal practitioner and served as a registered investment adviser to private clients. Mr. Howe began his business career in 1964 as a financial analyst with the international division of The Kendall Company. He is a graduate of Harvard College, Harvard Law School and the Bologna (Italy) Center of the Johns Hopkins School for Advanced International Studies.

We consider Mr. Howe to be one of the leading authorities on the gold market generally, and gold derivatives in particular.

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[6] Frank Veneroso, *Facts, Evidence and Logical Inference: A Presentation On Gold Supply/Demand, Gold Derivatives and Gold Loans* (May 2001), 1: www.gata.org/fv.pdf
[7] Canarc Resource Corp., *About Frank Veneroso*: http://www.canarc.net/venerosos_corner.asp
[8] United States District Court, District of Massachusetts, *Howe vs. Bank for International Settlements, et al, Memorandum and Order on Defendants' Motions to Dismiss* (March 26, 2002): http://www.goldensextant.com/Lindsay%20Decision.pdf

Michael Bolser "contributes heavily in the "Gold Market Regression Chart"[9] section" of Mr. Howe's website, www.goldensextant.com. A short biography follows:

> Mike, a former military flight instructor, is an optical physics developer. He has also worked in the medical diagnostics and coronary laser fields. With a background in mathematics and an interest in gold, Mike enjoys doing regression analyses of various segments of the gold market….[10]

Mr. Bolser's statistical approach to the gold market has provided evidence that the price of gold has been actively managed. His concept of "preemptive selling" demonstrated that the gold price was turned back at key levels and around important events affecting the bullion market.

Finally, James Turk authors the Freemarket Gold and Money Report and is the founder of GoldMoney.com, a digital payment and gold storage service. He is an authority on the U.S. gold reserve. From Mr. Turk's biography:

> James Turk has specialized in international banking, finance and investments since graduating in 1969 from George Washington University with a B.A. degree in International Economics. He began his business career with The Chase Manhattan Bank, with whom he worked for eleven years, principally in the International Department, which included assignments in Thailand, Hong Kong and the Philippines.
>
> From 1980 to 1983, Mr. Turk was with RTB, Inc., the private investment and trading company of a prominent precious metals trader based in Greenwich, Connecticut. He moved to the Middle East in December 1983 to be appointed Manager of the Commodity Department of the Abu Dhabi Investment Authority. In this position, Mr. Turk was responsible for developing and implementing the investment strategies of that organization's portfolios of precious metals. Mr. Turk held this position until March 1987. Since then Mr. Turk has acted as Chief Executive of Greenfield Associates, a firm he established in 1985 to publish his work and to provide investment research and trading advice, principally to investment managers, hedge funds and commodity trading advisors in the United States and Europe. From 1995 to 1999 he was a Director of Lion Resource Management Ltd. of London, England, a firm which was the sub-advisor to the Midas Fund, a publicly listed mutual fund in the United States that invested in the equities of companies involved in the mining and exploration of precious metals.[11]

We have been incredibly impressed with the work of the people cited and described above. Having followed their research for years, we are very comfortable basing many of our conclusions on their erudite and painstaking efforts.

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[9] Financial Sense Newshour, *Ask the Expert: Michael Bolser* (May 31, 2003): http://www.financialsense.com/Experts/2003/Bolser.htm
[10] Ibid.
[11] Freemarket Gold and Money Report, *James Turk's Bio*: http://www.fgmr.com/bio.htm

3. Executive Summary

This report examines and details allegations that the price of gold has been manipulated. Important conclusions include the following:

- Central banks intervened in the late 1990s to prevent a gold derivatives crisis that threatened the stability of the global financial system. This intervention appears to have started around the time of the Long Term Capital Management crisis and commenced in earnest after the post-Washington Agreement gold price explosion in 1999.

- At the root of this crisis was the speculative gold carry-trade. Investment banks, both on their own behalf and for others, borrowed gold from central banks at very low rates of interest (e.g. 1% per annum), sold it into the physical market, and invested the proceeds in higher interest-bearing instruments. The accumulated gold loans, far in excess of annual mine production, constituted a large physical short position that could not be covered.

- Long Term Capital Management was short approximately 300-400 tonnes of gold. This position appears to have been assumed, either by a counterparty bullion bank or a central bank.

- The Bank of England's well-publicized gold sales were a political decision designed to manage the price of gold.

- The U.S. Exchange Stabilization Fund (ESF) and Federal Reserve have been active in a scheme to depress gold prices. Information available in the public domain suggests that such intervention started sometime between 1994-1996. A 1995 Federal Open Market Committee (FOMC) transcript reveals that the ESF conducted multiple, undisclosed gold swaps. We believe the unwillingness of the U.S. government to reveal the details of these transactions indicates that their purpose was nefarious. It is unclear what, if any, support the U.S. authorities received from foreign central banks prior to the concerted post-Washington Agreement intervention.

- The gold market supply and demand model of Frank Veneroso is far superior to the consensus estimates of GFMS Ltd.

- Given Veneroso's more reliable numbers, we also believe total gold loans to be on the order of 10,000-16,000 tonnes. By contrast, GFMS only reports approximately 4,000 tonnes of total central bank liquidity in the market. Whereas GFMS records less than 15% of central bank gold lent, Veneroso estimates that 30 to 50% of official sector gold has been mobilized and is no longer in central bank vaults. Put another way, central bank vaults are one-third to one-half empty under the Veneroso model.

- GFMS appears to have significantly understated the amount of gold borrowed for speculative purposes.

- Accounting regulations designed by the International Monetary Fund have obscured the amount of borrowed gold hitting the market. It has thus been practically impossible to determine from government reports precisely how much gold remains in central bank vaults and how much has been lent out.

- A complete review of past public comments by gold industry executives indicates a greater inclination toward the manipulation hypothesis than most market observers may realize.

- Statistical research has shown that the price of gold has tended to be suppressed in New York trading. These anomalies defy all expected probabilities.

- Consensus gold market statisticians have erroneously interpreted published data on gold derivatives supplied by the U.S. Office of the Comptroller of the Currency and the Bank for International Settlements. Whereas this information has been shown to reflect positions on the books of gold dealers, research commissioned by the World Gold Council wrongly concluded that the derivatives data represented grossed-up total turnover data. The correct interpretation of the data is significant because it cannot readily be squared with GFMS' conservative estimate of total gold lending.

- Rising gold derivatives figures are inconsistent with consensus claims that producer hedging is responsible for the majority of gold borrowings. Mining companies have been actively cutting their hedge books, implying a contraction in dealer books if the GFMS estimate is correct. The increasing gold derivatives figures suggest that significant official sector selling in the gold forward market continues to this day, and that the speculative carry-trade dwarfed producer hedging.

- The manipulation of the gold price continues to this day. It appears that central banks are unwilling to allow the gold price to repudiate their excessively loose monetary policies.

4. Competing Supply and Demand Models

Two widely opposing supply and demand models exist in the gold market. The conservative estimate put forth by GFMS Ltd., a London-based precious metals consultancy is clearly the consensus forecast. By contrast, the work of Frank Veneroso is much more aggressive and accepted by far fewer in the gold market.

GFMS and Veneroso essentially agree on the following points:

-Annual mine production is approximately 2600 tonnes.[12]

-Scrap supply as of 2000 amounted to approximately 602 tonnes.[13] It is unclear whether Veneroso concurs, but GFMS estimated total scrap supply for 2003 to be 943 tonnes.[14]

The two statisticians disagree on two important, related numbers. GFMS estimates total demand to be 4142 tonnes,[15] while Veneroso's relevant figure is closer to 5000 tonnes.[16] The difference in demand is accounted for by a corresponding disagreement on annual central bank flows.

GFMS estimated that total central bank gold sales for 2003 were 606 tonnes.[17] In addition, they recently stated that total central bank lending stood at approximately 4000 tonnes.[18]

Frank Veneroso's most recent public estimate of total annual central bank supply appears to have been made in 2001.[19] At a summit in South Africa, he provided a conservative figure of 1,674 tonnes[20] and an aggressive number of 1,974 tonnes.[21] Veneroso's presentation included tables showing majority estimates for yearly supply and demand as well as those produced by his firm. We have reproduced those tables below. It should be noted that Veneroso records central bank sales

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[12] For an estimate of mine supply for 2000 by Frank Veneroso, see *Facts, Evidence and Logical Inference: A Presentation On Gold Supply/Demand, Gold Derivatives and Gold Loans* (May 2001), 4: http://www.gata.org/fv.pdf. For GFMS' 2003 mine supply figure, see GFMS Ltd., *Gold Survey 2004 Presentation* (April 20, 2004), 2: http://www.gfms.co.uk/Market%20Commentary/GS%2004%20presentation.pdf

[13] Frank Veneroso, *Facts, Evidence and Logical Inference*: *A Presentation On Gold Supply/Demand, Gold Derivatives and Gold Loans* (May 2001), 4: http://www.gata.org/fv.pdf. See also GFMS Ltd., *Press release: Publication of Gold Survey 2000-Update 2* (January 10, 2001), 2: http://www.gfms.co.uk/Press%20Releases/GS%202000%20Update%202%20Press%20Release.pdf

[14] GFMS Ltd., *Gold Survey 2004 Presentation* (April 20, 2004), 2: http://www.gfms.co.uk/Market%20Commentary/GS%2004%20presentation.pdf

[15] Ibid.

[16] Declan Costelloe and Frank Veneroso, *Gold Derivatives, Gold Lending, Official Management Of The Gold Price And The Current State of the Gold Market* (May 17, 2002): http://www.gata.org/Veneroso1202.html\

[17] GFMS Ltd., *Gold Survey 2004 Presentation* (April 20, 2004), 2: http://www.gfms.co.uk/Market%20Commentary/GS%2004%20presentation.pdf

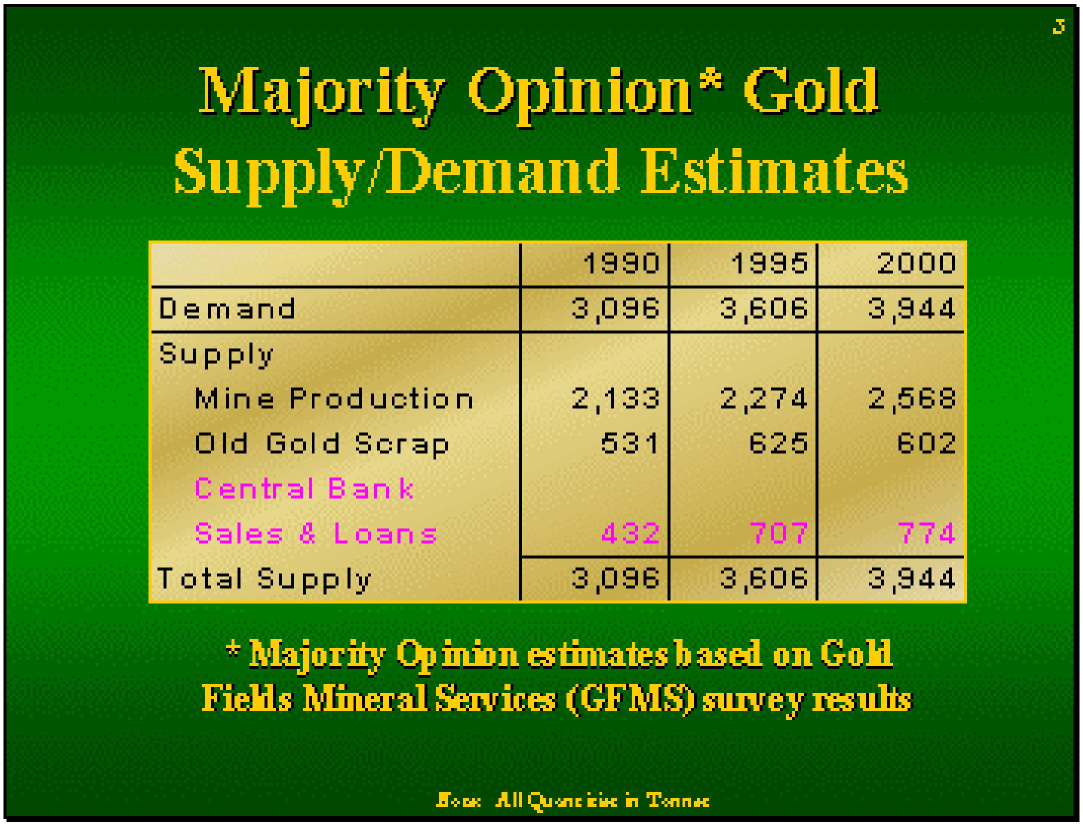
[18] M. Murenbeeld and Associates Inc, citing GFMS statistics states: "Total Central bank gold lending is estimated to have declined to 3960 tonnes at the end of 2003…." (M. Murenbeeld & Associates Inc., *The Price of Gold 2004II-2005III: Three Scenarios* (June 2004), 22.

[19] Frank Veneroso, *Facts, Evidence and Logical Inference A Presentation On Gold Supply/Demand, Gold Derivatives and Gold Loans* (May 2001): http://www.gata.org/fv.pdf.

[20] Ibid., 4.

[21] Ibid., 5.

and loans for 2000 to be 774 tonnes based on GFMS data, while GFMS recorded 491 tonnes of official sector sales for that year.[22] An update to their *2000 Gold Survey* does not mention lending. Nevertheless, if anything, the number published by the consensus forecaster makes the supply/demand disagreement even starker.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Majority Opinion* Gold Supply/Demand Estimates

	1990	1995	2000
Demand	3,096	3,606	3,944
Supply			
Mine Production	2,133	2,274	2,568
Old Gold Scrap	531	625	602
Central Bank			
Sales & Loans	432	707	774
Total Supply	3,096	3,606	3,944

* Majority Opinion estimates based on Gold Fields Mineral Services (GFMS) survey results

Note: All Quantities in Tonnes

[22] GFMS Ltd., *Press release: Publication of Gold Survey 2000-Update 2* (January 10, 2001), 2: http://www.gfms.co.uk/Press%20Releases/GS%202000%20Update%202%20Press%20Release.pdf

Veneroso Associates Gold Supply/Demand Estimates (Conservative)

	1990	1995	2000
Demand	3,396	4,206	4,844
Supply			
Mine Production	2,133	2,274	2,568
Old Gold Scrap	531	625	602
Central Bank Sales & Loans	732	1,307	1,674
Total Supply	3,396	4,206	4,844

Note: All Quantities in Tonnes

Veneroso Associates Gold Supply/Demand Estimates (Aggressive)

	1990	1995	2000
Demand	3,496	4,406	5,144
Supply			
Mine Production	2,133	2,274	2,568
Old Gold Scrap	531	625	602
Central Bank Sales & Loans	832	1,507	1,974
Total Supply	3,496	4,406	5,144

Note: All Quantities in Tonnes

Source for tables: Frank Veneroso, *Facts, Evidence and Logical Inference A Presentation On Gold Supply/Demand, Gold Derivatives and Gold Loans* (May 2001): http://www.gata.org/fv.pdf.

It is the cumulative nature of the central bank loan flows that explains how GFMS reaches a gold lending number of approximately 4000 tonnes while Frank Veneroso arrives at his aggressive estimates of 10,000-16,000 tonnes.[23] Because Veneroso estimates higher annual central bank supply, his figure for the quantity of gold remaining in official sector vaults is necessarily lower. A greater yearly depletion rate corresponds to a lower central bank inventory number than GFMS estimates.

As will be clear very quickly, excessive gold lending initially facilitated the management of the gold price but then created such a problem that central bank control of the market had to be maintained. A tool employed to keep gold in check threatened to cause the market to explode when an epic short-squeeze unfolded.

[23] Frank Veneroso, *Facts, Evidence and Logical Inference*: *A Presentation On Gold Supply/Demand, Gold Derivatives and Gold Loans* (May 2001), 7: http://www.gata.org/fv.pdf.

5. An Explanation of Gold Lending and Gold Derivatives

Despite its flaws with respect to interpreting official sector derivatives data, a Virtual Metals Research and Consulting report commissioned by the World Gold Council in 2000 nevertheless provided a good explanation of the gold carry-trade, when used both by producers and speculators. From *Gold Derivatives: The Market View*:

> In its most simplified form, the transaction can be described as follows:
>
> 1. Gold is leased by central banks and other holders to commercial/bullion banks and thus earns for the lender a return in line with the gold lease rate. It is this liquidity which then allows for the execution of all further derivative transactions.
>
> 2. With respect to producer hedging, the bullion banks contract to buy gold forward from mining companies. To fund the purchase, the bullion banks sell an equivalent amount of gold borrowed from central banks. The proceeds of this sale are invested and earn interest at money market rates. Thus under these conditions, the borrowed gold is sold, which effectively adds to supply in the very short term. In the absence of compensating factors, this can place pressure on the gold price. This is why hedging of this nature is sometimes termed "accelerated supply". In essence it mobilises metal inventories by bringing this metal into the active market. It also allows mining companies to sell metal ahead of their production schedules.
>
> 3. When the forward sale comes to delivery, the producer delivers either newly-mined gold or gold purchased in the market to the bullion bank at the contract price. In theory, the bullion bank then repays its borrowed gold to the central bank and the transaction is unwound in its entirety. However, more commonly, the central bank rolls over the loan, thus maintaining the liquidity to fund further derivative transactions.
>
> 4. The transaction in respect to speculative short-selling has an identical effect on the gold market to that of mining companies (except possibly that mining transactions typically involve a longer time horizon). In this case the bullion bank, instead of contracting to buy gold forward from a mining company, contracts to buy gold forward from a speculator (eg a hedge fund or a bank's proprietary trading desk). To fund the transaction it once again sells the gold borrowed from the central bank and invests the proceeds on the money market. When the forward sale comes to delivery the speculator buys gold on the market and delivers it to the bullion bank. The transaction is then in theory unwound upon the bullion bank repaying the gold to the central bank although in practice the central bank's loan is rolled over to fund the next transaction.
>
> 5. The above ground stocks of gold are very large and are in general held in a form that could readily come to market. Further, the willingness on the part of the holders of this metal to participate in the market implies that the cost of borrowing gold remains relatively low compared with money market rates. This is one of the major reasons why the gold forward market is nearly always in contango (forward price higher than spot price offering a positive interest rate) and only very rarely lapses into backwardation. This positive carry available to the producer and speculator means that the market is implicitly biased towards

> producer hedging and speculator selling. The transaction will be profitable for the miner or speculator unless the gold price rises at a faster rate than the contango.[24]

The author also noted:

> Lent gold is also extensively used to form consignment stocks for jewellers, fabricators or refiners during the manufacturing of physical products. This enables the user to work with gold and create a product but avoid purchasing until they have a buyer for their product. A jeweller, for example, would be able to manufacture an expensive piece of jewellery but avoid buying the gold until he has sold the piece, thus avoiding cash flow problems and eliminating exposure to gold price fluctuations.[25]

Thus, as gold commentator Reginald H. Howe has observed, "…gold is arbitraged like currencies, which is to say on the basis of interest rate differentials."[26] Bullion banks can borrow gold at typically low lease rates, sell the gold into the spot market, and invest the proceeds in instruments that pay a higher rate of interest. Frank Veneroso has stated that this practice "began in earnest in the early 1980s."[27]

If the bullion bank simply borrows the gold, sells it, and invests the proceeds there is no associated derivative.[28] In such cases, there is an un-hedged, proprietary short position on the books of the bullion bank. The derivative arises when the gold borrower hedges its exposure, typically by going long in the gold forward market (i.e. it agrees to buy gold at a future date from a counterparty who agrees to deliver it). After describing the mechanics of gold lending, Frank Veneroso provides the following explanation for the resultant derivative:

> Now, this bullion banker is net short gold when he conducts this [gold borrowing] operation. Remember he borrowed gold and now he has a dollar financial asset. He is making a 5% return on the spread, but he now has a gold price risk. As a banker he is not normally in the business of putting on speculative positions like this. He is an intermediary, so what does he do? For the most part what he does is he hedges his gold price risk. He goes long the forward market to offset his physical short. Now if he goes long in the forward market someone else must go short, because every such contract in the forward market has two sides---a long and a short. In doing this he allows private market participants to go short the

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[24] Jessica Cross, (Virtual Metals Research and Consulting Ltd.), *Gold Derivatives: The Market View* (August 2000), 24-25: http://www.gold.org/pub_archive/pdf/gold%20derivatives%20-%20the%20market%20view.pdf
[25] Ibid., 25.
[26] Reginald H Howe, *The War Against Gold is Meant to Rescue Japan* (July 15, 1999): http://www.gold-eagle.com/editorials_99/howe071599.html
[27] Declan Costelloe, and Frank Veneroso, *Gold Derivatives, Gold Lending, Official Management Of The Gold Price* and *The Current State of the Gold Market* (May 17, 2002): http://www.gata.org/Veneroso1202.html. Of note, Giacomo Panizzutti, then-head of gold trading at the BIS stated: "Back in the late seventies some of the more sophisticated central banks started to place, in a very low scale, gold on deposit." World Gold Council, *Conference on Gold: The Euro, the Dollar and Gold*. (November 16, 2001), 63: http://www.gold.org/value/reserve_asset/history/monetary_uses/berlin/pdf/Merged.pdf.
[28] See, e.g., Gold Anti-Trust Action Committee, *Gold Derivative Banking Crisis Report* (May 2000), 20: http://www.gata.org/congress.pdf

> forward market. Who are those private participants who go short the forward market? They are producers hedging future production, they are jewelers who are hedging their inventory, and they are speculators who want to go short the gold market because they believe the price will go down and they earn a forward premium or 'contango' which happens to be, in this case, roughly equal (though not quite) to the difference between the rate of interest on the dollar asset held by the bullion bank and the rate of interest paid on the gold loans by the bullion bank.
>
> So, basically, in doing this operation the bullion banker has a hedged position on the gold price and he takes a small margin---like a half of one percent---from this intermediation. In doing so, he allows private market participants to go short gold….The ultimate borrowers in the gold lending operation are these shorts in the gold futures and forward markets.[29]

Because of the gold loans, the market is effectively net short. In the examples used by both Virtual Metals and Frank Veneroso, there is one short physical position, one paper long, and one paper short. Obviously, all commodities contracts involve two parties, a long side and a short one. The same is true in the gold derivatives market. However, the initial spot sale of physical gold puts the market in its net short position. The bullion bank that borrows gold from a central bank can only hedge its price risk; it cannot render the market as a whole neutral.

The gold derivatives market allowed speculators such as hedge funds or proprietary bank trading desks to capture the forward premium (contango) made possible by the difference between gold lease rates and prevailing interest rates. In these instances, bullion banks would have acted as intermediaries just as Veneroso describes. They would borrow gold from a central bank, sell it spot, invest the proceeds, and then go long the forward market with a speculator on the short side of that contract. Howe notes:

> In the case of transactions with non-producers or the gold carry trade, the banks' counterparties have no obvious source of future gold for repayment other than what they can purchase in the market.[30]

While the hedge funds and other speculators can buy call options from bullion banks to partially offset their risk, there remains a physical short position due to the gold loan that ultimately might have to be covered.

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[29] Frank Veneroso, *Facts, Evidence and Logical Inference A Presentation On Gold Supply/Demand, Gold Derivatives and Gold Loans* (May 2001), 2-3: http://www.gata.org/fv.pdf.
[30] Reginald H Howe, *Gold Derivatives: Moving towards Checkmate* (December 4, 2002): http://www.goldensextant.com/commentary23.html#anchor19855

6. Excessive Gold Lending Leading to Large Short Position

According to GFMS Ltd., gold lending by central banks has resulted in a physical short position of approximately 4000 tonnes. To put this number in perspective, annual mine supply is only 2600 tonnes. However, GFMS apparently never saw their figure for aggregate gold lending as cause for concern. This is probably because GFMS maintains that the majority of gold loans were used for the purpose of producer hedging.[31] Given that these companies can usually deliver mined gold in order to settle their forward sales commitments, the possibility for a significant short squeeze under the GFMS market framework was unlikely.

The same cannot be said for Frank Veneroso's work. His research in the late 1990s indicated that central bank gold loans had grown dramatically.[32] Of particular importance was Veneroso's belief that speculative trades represented the bulk of the total physical short position. The shorts could not realistically cover without sending the price of gold soaring.

Because producer hedging is identified as responsible for the majority of gold loans, GFMS by definition sees little carry-trade related lending. This view was reiterated by the Virtual Metals/ World Gold Council study in 2000. At the time, Virtual Metals concluded: "The mining industry is thus the greatest user of lent gold. Short speculative positions exist but appear to be of lesser size."[33]

Producer hedging is fairly transparent, so gold lending as a result of those transactions is not difficult to approximate. Another way to consider the situation is that the physical impact of producer hedging can be seen as the minimum quantity of gold lent. Admittedly, the onus falls upon an analyst to prove that speculative borrowings dwarf similar mining company-related activity. We believe Frank Veneroso achieves this.

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[31] See, e.g., GFMS Ltd., *Press release: Central bank gold lending declined last year, for the first time since 1993, according to GFMS' Gold Survey 2002 report* (April 24, 2002): http://www.gfms.co.uk/Press%20Releases/GS02%20Press%20Release%20-%20Official%20Sector.pdf. GFMS states: "Miners' forward and derivative hedge contracts still account for over 60% of all gold borrowing." See also GFMS Ltd., *Press Release*:*GFMS DATA ON SIZE OF LENDING MARKET CONFIRMED BY WGC STUDY* (September 5, 2000): http://www.gfms.co.uk/Press%20Releases/050900-derivs.PDF. In this press release from 2000, GFMS maintains that at the end of 1999, producer hedging accounted for 3207 tonnes of a total lending market estimated to be 5200 tonnes.

[32] See, e.g., Frank Veneroso, *The Gold Book Annual 1998* (Jefferson Financial, 1998).

[33] Jessica Cross (Virtual Metals Research and Consulting Ltd.), *Gold Derivatives: The Market View* (August 2000), 9: http://www.gold.org/pub_archive/pdf/gold%20derivatives%20-%20the%20market%20view.pdf

7. Evidence Indicating that Gold Loans are Higher than Consensus Estimates

Frank Veneroso has provided compelling reasons for total gold loans being substantially larger than the estimates put forth by consultancies such as GFMS. What follows is a brief summary of his arguments, as well as other points that we consider to be persuasive.

a) The higher gold loan estimates of Veneroso Associates were confirmed by internal market studies conducted by the Bank of England.

Veneroso has made note of the fact that internal Bank of England studies indicated central bank gold lending was far greater, both on an annual and aggregate basis, than consensus GFMS estimates suggested.[34] In fact, the Bank of England data implied that total gold lending in 1995 amounted to over 9000 tonnes.[35] This compared with the consensus 1995 figure of approximately 2200 tonnes.[36] The difference was enormous. Not only was the short position much larger than most realized, but the annual deficit was greater as well. The huge central bank flows were satisfying a huge structural deficit in the gold market. Mine and scrap supply were not sufficient to meet annual demand. Further, the loans were generally not being repaid. They were accumulating, taking the physical position to stratospheric levels as a result.

b) Drawdowns from visible official sector gold depositories are consistent with the estimates of Veneroso and indicate that consensus figures are far too low.

Veneroso explained in 2001 that

> …in keeping with their unwillingness to be transparent, the central banks don't like to tell us what physical gold is in these depositories. However, we have data on what is in two of these depositories---the BIS and New York Fed. The physical gold in these two vaults at the beginning of the 1990's accounted for about one third of the officially held gold. Now, if you take a look at that 1/3 window on the total, what you find out is that we have lost almost four thousand [tonnes] of gold. The amount that has left those depositories that comprise only a third of all the gold in official depositories is almost equal to all the gold (5000 tonnes plus) that has supposedly left the official sector vaults in this decade through both selling and lending. If we prorate this drawdown from one third of the official depositories---that is, if we assume basically that there was the same kind of drawdown out of the other depositories (the country vaults, the Bank of England depository, etc.)---we come up with a draw down or liquidation that is consistent with OUR numbers on total gold lending and gold sales and not the official statistics. I should add, however, that this inference supports our more conservative estimates of outstanding gold loans (10,000 tonnes) and not our more aggressive estimates.[37]

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[34] For details of the discrepancies between the GFMS and Bank of England gold lending estimates, see Frank Veneroso, *Facts, Evidence and Logical Inference A Presentation On Gold Supply/Demand, Gold Derivatives and Gold Loans* (May 2001), 8-9: http://www.gata.org/fv.pdf

[35] Ibid., 9. It is worth noting that in order to be conservative, Veneroso reduced the Bank of England figure to 6000 tonnes.

[36] Ibid.

[37] Ibid., 15.

Speaking of official sector depositories, research by gold analyst James Turk established that combined dishoarding from the Federal Reserve Bank of New York and United Kingdom from 1991-2002 amounted to a staggering 7287.2 tonnes.[38] According to the World Gold Council, net official sector sales for this period totaled 3186.8 tonnes.[39] Thus, from these two visible drawdowns, we can essentially account for the entirety of GFMS' current lending estimate of approximately 4000 tonnes. Clearly though, these sources of supply are only partial. Given the existence of other gold depositories from which lent metal flows, the total stock of borrowed gold must be larger than consensus estimates claim.

James Turk's research brought to light previously unknown gold outflow statistics for the United Kingdom. Examining export figures for 1997, he discovered that 2472.9 tonnes of gold were shipped from the U.K. that year.[40] Virtually all of this would have been from central banks. In addition, outflows from the BIS and Federal Reserve Bank of New York totaled 237.2 tonnes and 143 tonnes respectively for 1997.[41] Thus, dishoarding from the Fed, the U.K., and BIS amounted to 2850 tonnes for that year. Reg Howe puts these figures in perspective:

> Excluding net official sales in 1997 of just over 400 tonnes… some 2450 tonnes that year must have entered the market through borrowing or swaps. Since even at its peak forward selling by producers is unlikely to have reached more that 500 tonnes in any single year, roughly 2000 tonnes must have entered the physical market largely through the gold carry trade in 1997 alone.[42]

A 1997 *Business Times* interview with the World Gold Council's George Milling-Stanley sheds more light on the gold market activities of central banks at that time. The article observed that "gold lending has taken off recently as central banks seek to increase the return available on their gold holdings."[43] In addition, it stated:

> Milling-Stanley hears only whispers of defaulters on these gold loans. "There is some nervousness in the gold market, some concern about the depth of the liquidity."

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[38] James Turk (Freemarket Gold and Money Report #323), *More Proof* (April 21, 2003: http://www.fgmr.com/moreproof.htm. The Federal Reserve Bank of New York holds gold under earmark for foreign central banks and other international financial institutions.
[39] For historical World Gold Council data on official sector reserves, see http://www.gold.org/deliver.php?file=/value/stats/statistics/xls/Gold%20reserves%20main%20holders.xls. Total reserves as of 1991 were 35,544.8 tonnes while the figure for 2002 was 32,358 tonnes.
[40] James Turk (Freemarket Gold and Money Report #323), *More Proof* (April 21, 2003: http://www.fgmr.com/moreproof.htm.
[41] For information on reductions in gold held by the BIS, see the BIS Annual Reports of 1997 and 1998: http://www.bis.org/publ/ar67f01.pdf (page 186) and http://www.bis.org/publ/ar98f02.pdf (page 186). Refer to balance sheet item for gold titled "Held in Bars". For statistics on the quantity of earmarked gold held by the New York Fed, see November 1999 *Federal Reserve Bulletin*, Table 3.13: http://www.federalreserve.gov/releases/bulletin/1199pg51.pdf.
[42] Reginald H Howe, *Long Con: Mother of all Bank Runs* (May 11, 2003): http://www.goldensextant.com/commentary25.html#anchor522925
[43] "A tale of two precious metals: Lending emerges as new element in gold supply", *Business Times*: http://www.btimes.co.za/97/1123/comp/comp7.htm.

> He notes more than 3 000 tons and maybe even 10 000 tons have been borrowed and are owed back.[44]

Milling-Stanley also stated:

> I believe hedge-fund short sales are largely responsible for substantial increase in the supply of gold to the market-gold that has been borrowed back from central banks and sold to finance these short positions.
>
> This is what has been depressing the price so far in 1997. There is no doubt the large speculators are taking advantage of the market's fear of central bank sales to bully the gold price down and make huge profits.[45]

Importantly, Milling-Stanley further confirms that speculative carry-trade borrowing was far more responsible for gold's descent than either reported gold sales by central banks or forward sales in conjunction with producer hedging. A Lehman Brothers report from January 2000 explains why so many investment banks and hedge funds participated in the gold carry-trade:

> Data from the Comex implies that, except for brief periods of time, the gold market has consistently been in a net short position since 1996. Why? We believe that the incredibly high liquidity of the gold market suggests that a net short position is the natural equilibrium for the time being. The reason is that **gold can consistently be borrowed much cheaper than money**. For example, it is currently possible to borrow gold for one year at a lease rate of 1.8% while a one-year bond is yielding about 6.6.%. Borrowing gold, selling it, and investing the proceeds at the risk-free rate is an attractive trade. Essentially, the price of gold could rise 4.8% or about $13 per ounce and a bearish speculator would still break even on a short position established today. Clearly, ***ceteris paribus***, **the risk/return profile of the gold market favors the short side**. We expect this to continue for the foreseeable future.[46] [Emphases in Original.]

c) Official Sector Data on Gold Derivatives Supports Higher Gold Lending Estimate of Frank Veneroso.

In recent years, some gold market observers have tracked and tried to explain data on gold derivatives published separately by the U.S. Office of the Comptroller of the Currency and Bank for International Settlements. In its most recent semi-annual report, the BIS recorded total gold derivatives on dealers' books as having a notional value of $344 billion.[47]

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[44] Ibid. Most likely, Milling-Stanley was referring to *tonnes* of gold, as opposed to *tons*. One metric "tonne" of gold equals 32,151 troy ounces. (Aaron L. Task, "Solid Gold: The Incredible, Malleable Metal", *TheStreet.com* (September 29, 1999): http://www.thestreet.com/pf/comment/taskmaster/789110.html). This apparent error is made by others cited later in the report.

[45] Ibid.

[46] David J. Hully and Peter D. Ward (Lehman Brothers), *Reverse Alchemy: The Commoditization of Gold Accelerates* (January 18, 2000), 9.

[47] Bank for International Settlements, *OTC derivatives market activity in the second half of 2003* (May 14, 2004), 49: www.bis.org/publ/otc_hy0405.htm. The $344 billion figure is comprised of $154 billion in forwards and swaps

The report by Virtual Metals in 2000 attempted to provide an explanation for the gold derivatives statistics published by the BIS and OCC. (The BIS figure for gold derivatives at the end of 1999 was $243 billion. This survey covers the major banks and dealers in the G-10, while the OCC report only collects data at American banks.) [48] Referring to the end of year 1999 OCC gold derivatives figure of $87.6 billion, Virtual Metals stated:

> The figures represent grossed-up total turnover statistics associated with substantially smaller net exposures and thus, if misconstrued, can give a very distorted picture of the actual underlying derivative positions.
>
> The concept of grossed-up turnover requires further discussion since if taken at face value an exposure of 9,600 tonnes could appear worrying. (Together with the US$243 billion or some 25,000 tonnes of derivative "exposures" reported by the BIS covering major banks and dealers in the G10 the figures look even more alarming). In this regard we believe that this outstanding position should not be described as "exposure" as it certainly could have negative if not alarmist connotations.[49]

Reiterating this belief, Virtual Metals wrote:

> In a sense, these figures are very similar to the enormous trading volumes reported by Comex/Nymex where we know one ounce of gold gets traded over and over again but delivered or settled for only once.[50]

Virtual Metals did not, and apparently could not, provide one shred of evidence justifying their assertion that the statistics on gold derivatives published by the BIS and OCC represented "grossed up total turnover…associated with substantially smaller net exposures…."[51]

The fact is that contrary to the claim of the World Gold Council-sponsored study, the published data on gold derivatives does not represent transaction data. In a scathing commentary titled *Jessica Double-Cross Study Puts Q(uisling).E.D. on the World Gold Council*, Reg Howe made the important point that the gold derivatives data published by the BIS and OCC reflect positions on the books of banks and dealers.[52] He cites and quotes from a BIS publication:

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and $190 billion of options (see the June issue of the *BIS Quarterly* Review-table 22A): http://www.bis.org/publ/qtrpdf/r_qa0406.pdf).

[48] Reginald H. Howe, *Jessica Double-Cross Study Puts Q(uisling).E.D. on the World Gold Council* (September 10, 2000): http://www.goldensextant.com/commentary14.html#anchor27297. See also Jessica Cross (Virtual Metals Research and Consulting Ltd.), *Gold Derivatives: The Market View* (August 2000), 36: http://www.gold.org/pub_archive/pdf/gold%20derivatives%20-%20the%20market%20view.pdf

[49] Ibid., 95.

[50] Ibid., 96.

[51] Ibid., 95. While Virtual Metals never explicitly refers to the BIS data as "grossed-up total turnover", they do refer to it in the appendix (page 193) as "turnover figures".

[52] Reginald H. Howe, *Jessica Double-Cross Study Puts Q(uisling).E.D. on the World Gold Council* (September 10, 2000): http://www.goldensextant.com/commentary14.html#anchor27297.

> According to the BIS (Yoshikuni Report, A2.2): "[T]he collection of turnover data is not envisaged as part of the regular reporting framework." Nevertheless, Ms. Cross asserts that notional value figures are "grossed-up total turnover." According to the BIS, it decided to require data on notional values because (Yoshikuni Report, B3.1): "A sum of notional amounts outstanding thus provides a rough approximation to the scale of gross exposures to price risk transferred between the contracting parties, just as adding the principal amounts of a group of cash market assets offers a picture of the price risk embedded in those assets." Ms. Cross disagrees.
>
> Speaking about the US$243 billion total notional value of gold derivatives reported by the BIS for the major banks and dealers in the G-10 at year-end 1999, Ms. Cross asserts: "[W]e believe that this outstanding position should not be described as 'exposure' as it certainly could have negative if not alarmist connotations. A more objective reference would be a commercial banking presence in gold-based derivatives." She is entitled to her (wrong) opinion, but it does not change what the BIS and relevant national banking authorities require.[53]

He continues to comment:

> Ms. Cross suggests that the publicly reported notional value figures "...are very similar to the enormous trading volumes reported by Comex/Nymex where we know one ounce of gold gets traded over and over again but delivered or settled for only once." The proper analogy, however, is not to volume but to open interest. On an exchange with standardized contracts, counting the number of open or outstanding contracts gives a good measure of market size and individual exposures at any given point in time. For custom-tailored OTC derivatives contracts, summing notional values is an effort to do substantially the same thing.[54]

Soon after the above commentary, Howe received the definitive word that the World Gold Council/Virtual Metals interpretation of gold derivatives data was incorrect:

> Stating the obvious, a BIS official confirmed to a U.S. gold analyst on September 13, 2000, that the data it reports on gold derivatives is position data as set forth in a prior commentary, Jessica Double-Cross Study Puts Q(uisling).E.D. on the WGC, not turnover or transactions data as claimed by Jessica Cross in her study for the WGC, Gold Derivatives: The market view. In June, GFMS refused to debate GATA on gold derivatives. Now, in a press release[55] dated September 5, 2000, issued on the heels of the fatally flawed Cross/WGC study, GFMS embraces it as

[53] Reginald H. Howe, *Jessica Double-Cross Study Puts Q(uisling).E.D. on the World Gold Council* (September 10, 2000): http://www.goldensextant.com/commentary14.html#anchor27297.
[54] Ibid.
[55] GFMS Ltd., *Press Release*: *GFMS DATA ON SIZE OF LENDING MARKET CONFIRMED BY WGC STUDY* (September 5, 2000): http://www.gfms.co.uk/Press%20Releases/050900-derivs.PDF.

> proof that the publicly reported gold derivatives data is essentially meaningless and that its proprietary unreported and unverifiable figures are correct.[56]

Howe discussed the meaning of the reported gold derivatives figures, stating that

> …interpreting the BIS data leaves considerable room for questions, debate and disagreement, especially when the data is used to work backwards to an estimate of total gold lending by central banks. Just converting dollar notional value figures into tonnes requires an assumed gold price. While the BIS tries to eliminate the double-counting of contracts where reporting banks or dealers are on both sides of the same instrument, the process is unlikely to be error free, and other forms of double-counting may exist. What is the reporting, for example, if gold swapped by a central bank with one bullion bank is loaned by that bank to another, which then sells the gold in connection with a forward contract?
>
> Any interpretation of the BIS data must recognize the different financial mechanics of forwards and swaps as compared to with those of options. Forwards imply a sale of borrowed gold by a bullion bank in order to raise funds that can be invested to earn a spread. Similarly, swaps are spot sales of gold combined with simultaneous forward purchases of equal weight. The proceeds from sale of the leased or swapped gold are essential to earning a return on the transaction. Options, at least from the perspective of a sophisticated writer like a bullion bank, are normally an attempt to capture the premium paid by the buyer while eliminating adverse price risk through delta hedging. Option writers do not require leased or swapped gold to earn a return. What is more, in many cases purchasers of call options are hedging future repayment obligations arising from forwards or swaps.
>
> The options data reported by the BIS almost certainly reflects much of the same borrowed gold that is covered by its data on forwards and swaps. However, not all the options data can be dismissed as mere double-counting of the short physical position implied by the figures on forwards and swaps. In addition to leasing gold, some central banks also write call options as a method of earning a return on their gold. Before hedging became a dirty word, gold mining companies frequently wrote call options, and in many cases applied premiums earned on the calls to purchases of put options for downside price protection. Call writing by central banks or producers, while not immediately adding to the short physical position, creates further contingent liabilities against both the gold supplies that have funded it and those being looked to for repayment.
>
> Taking the gold derivatives data reported by the BIS as [a] whole, the totals for forwards and swaps when converted to tonnes at some reasonable price appear to offer a pretty good proxy -- admittedly imprecise -- for the total short physical position. Viewed in this light, these figures align quite closely with Mr. Veneroso's estimate of a total short physical position in the range of 10,000 to 15,000 tonnes.

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[56] Reginald H. Howe *Snakes Writhing: More and Bigger Tremors* (September 17, 2000): http://www.goldensextant.com/commentary14.html#anchor305634

> So far as I am aware, except for the discredited argument in a WGC study addressed in a prior commentary that the BIS figures represent turnover rather than position data, no one has undertaken in print to reconcile or explain the 5000 tonnes of total gold lending estimated by GFMS with the gold derivatives figures reported by the BIS.[57]

Frank Veneroso provided the following explanation for a reasonable way to interpret the BIS data on gold derivatives:

> Now we believe we have figured out what this data means. Let us go back to the process of bullion banking. The central bank deposits its gold with the bullion banker. The bullion banker sells the physical gold into the spot market, and then goes long forward to hedge his physical short. That forward is a derivative. If all that was done by a bullion banker was to go long forward against the gold deposited with him by the central banks, there would be a one to one correlation between his gold deposits and his gold derivatives. But in fact that is not what happens. What happens is that sometimes he hedges with options rather than forwards. In the latter case the hedge is the delta on those options. I won't go into the details---basically these options will have a nominal or face value that is several times the value of the gold deposit operation being hedged. Now if we mixed together some option hedges and some forward hedges, a bullion bank's gold derivatives would be a small whole number multiple of the deposits (or at least those deposits that were hedged). I want to say that what James Turk was talking about earlier today---that some bullion bankers will borrow gold, sell it spot, and take positions in currencies like the dollar without a hedge---these operations, these gold carry trades, carry no associated derivative. Gold derivatives are only spawned if bankers choose to hedge their physical gold shorts. But based on the way I described the operation you will see that it is likely that the derivatives would be perhaps two or three times a bullion banker's deposits, assuming that they hedge most of the physical gold shorts generated out of their gold deposits. Now it is likely that there is some double counting in this data due to duplicative positions that would make this ratio somewhat higher. On the other hand, some bullion bankers presumably have unhedged physical shorts and, in this case, there would be deposits without an associated derivative that would tend to make this ratio somewhat lower.
>
> Now we have a survey of our own of gold deposit taking from central banks, not deposit taking from other bullion banks, but just from central banks. The survey encompasses only a partial sub-set of the gold dealers. Of importance is that some of those gold dealers are also among the ones who report their gold derivatives. We took a ratio of what we thought were their deposits and what were their derivatives disclosed to the BIS, and that ratio came out almost exactly to what you would think given my description of bullion banking operations. It turned out that, for this small sub-set (and it was small and it could be unrepresentative), the face value of gold derivatives was maybe three times our estimates of gold deposits.

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[57] Reginald H Howe, *Gold Derivatives: Moving towards Checkmate* (December 4, 2002): http://www.goldensextant.com/commentary23.html#anchor19855

> That meant that, from the derivative data that had fallen into the public domain, we could infer a number on total gold loans from official lenders outstanding based on our analysis of the data on the gold derivatives. Once again, our sample is partial--- it is not total---but we believe it's pretty representative. We estimated from BIS data that the total amount of the gross gold derivatives of the bullion bankers, all 37 of them, has been somewhat more than 40,000 tonnes. That would suggest something like 10 to 16 thousand tonnes of gold have departed from the official sector as a result of official gold lending. This is an inference from a small sample, but it's an interesting corroborative piece of evidence.[58]

The questionable Virtual Metals/World Gold Council interpretation of the gold derivative statistics has served to greatly underestimate total gold loans. As the forwards and swaps largely reflect bullion banks hedging such transactions, their size, when properly viewed as position data supports the more aggressive gold loan estimates of Frank Veneroso. In addition, it must be recalled that some gold borrowings were unhedged. These transactions are not included in the BIS derivatives statistics, but nonetheless are/were short positions.

Finally, the rapid recent growth in the value of gold derivatives proves that the consensus view of the lending market is incorrect. Given that the majority of market participants believe that producer hedging accounts for the majority of gold borrowing, the derivatives statistics reported to the BIS should be decreasing due to rapid de-hedging. They are not. For the fourth quarter of 2001, GFMS reported that the delta-adjusted[59] hedge book stood at 2924 tonnes.[60] At this point, the notional value of gold derivatives reported to the BIS was $231 billion.[61] However, as of December 31, 2003, the BIS reports gold derivatives of $344 billion.[62] Producer hedging, meanwhile, declined from 2001 to reach 2166 tonnes at year-end 2003.[63]

The conventional interpretation of the gold lending market simply does not square with the above statistics. Therefore, as Reg Howe noted:

> That producer hedge book reductions have had little if any impact on total gold derivatives reported by the BIS suggests, as does the absolute data itself, that

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[58] Frank Veneroso, *Facts, Evidence and Logical Inference*: *A Presentation On Gold Supply/Demand, Gold Derivatives and Gold Loans* (May 2001), 12: http://www.gata.org/fv.pdf

[59] For an explanation of delta hedging, see Adam Hamilton, *Gold Delta Hedge Trap (Part 2)* (December 15, 2000): http://www.gold-eagle.com/gold_digest_00/hamilton121500.html. See also Virtual Metals Research and Consulting, *Gold Mine De-hedging Steams Ahead, says Gold Hedging Indicator* (August 15, 2003): http://www.minesite.com/archives/features_archive/2003/Aug-2003/dehedging150803.htm. Referring to the "net delta", Virtual Metals states that it: "…calculates the impact in terms of an equivalent sale of gold into the spot market. It thus gives a more accurate portrayal of the true size of a producer's hedge book." In other words, the delta-adjusted calculation is a measure of the market impact of producer hedging, as opposed to ounces that merely have been committed.

[60] GFMS Ltd., *Global Hedge Book Analysis*, Q4 2001. Data reprinted in Reginald H. Howe, *Gold Derivatives: Hitting the Iceberg* (December 20, 2003): http://www.goldensextant.com/commentary26.html#anchor25233.

[61] Reginald H Howe, *Gold: Cover or Cover-up?* (*January 29, 2003*): http://www.goldensextant.com/commentary23.html

[62] Bank for International Settlements, *OTC derivatives market activity in the second half of 2003* (May 14, 2004), 49: http://www.bis.org/publ/otc_hy0405.pdf

[63] GFMS Ltd., *Gold Survey 2004 Presentation* (April 20, 2004), 6: http://www.gfms.co.uk/Market%20Commentary/GS%2004%20presentation.pdf

> producer hedging never accounted for much more than the very visible tip of a gold derivatives iceberg consisting in major part of transactions related to the gold carry trade, which never could have grown to the size implied by the BIS data without the active support of the G-10 central banks.[64]

d) Bank of Portugal Disclosure is Inconsistent with the GFMS Lending Estimate.

In its 2001 annual report, the Bank of Portugal disclosed that more than 70% of its then 606 tonne gold reserve had either been lent or swapped.[65] Only 173 tonnes remained in the vault. As Veneroso notes, if GFMS is correct, Portugal comprises approximately 10% of the lending market despite only owning roughly 2% of all official sector gold.[66] This appears far too disproportionate to be credible.

e) Consensus Estimates Wrongly Assert That the U.S. Has Not Mobilized its Gold.

In its report for the World Gold Council, Virtual Metals stated: "The [gold lending] figures exclude the United States which maintains a policy of total inactivity."[67] We will discuss this topic in much greater detail later in this report, but for now this much should suffice: given the information uncovered by GATA and its associates, it is clear that the U.S. Exchange Stabilization Fund has been dealing in the gold market. Some evidence suggests that at least part of the American reserve may have been pledged as collateral pursuant to ESF gold swaps. The fact that consensus forecasters ignore this evidence when compiling lending statistics should be of the utmost alarm to gold investors. By claiming, apparently erroneously, that the largest gold owner in the official sector is inactive in the market, firms such as Virtual Metals[68] have greatly underestimated the extent of total lending.

f) Partial Reports on Bullion Bank Loan Books Received by Veneroso Associates Confirm Higher-End Loan Estimates.

From Veneroso's contribution to GATA's *Gold Derivative Banking Crisis Report*:

> By way of third parties we have slowly compiled the official deposit and swap positions of many bullion dealers. The results are astonishing. This partial window on the world of gold lending indicates a global total of official deposits and swaps

[64] Reginald H. Howe, *Gold Derivatives: Hitting the Iceberg* (December 20, 2003): http://www.goldensextant.com/commentary26.html#anchor25233
[65] Bank of Portugal, *2001 Annual Report*. See *Chapter IV, Financial Statements* (p. 281): www.bportugal.pt/publish/relatorio/Chap_IV_01.pdf. Refer also to Reg Howe's discussion of the Bank of Portugal situation: *Gold: Cover or Cover-up?* (January 29, 2003): http://www.goldensextant.com/commentary23.html#anchor77962).
[66] Frank Veneroso, *An Update on the Commodity Case for Gold* (September 4, 2003): http://goldmoney.com/en/commentary/2003-09-04.html
[67] Jessica Cross, (Virtual Metals Research and Consulting Ltd.), Gold Derivatives: The Market View (August 2000), 56: http://www.gold.org/pub_archive/pdf/gold%20derivatives%20-%20the%20market%20view.pdf
[68] As seen in the following press release, GFMS and Virtual Metals have published very similar statistics on the gold market: GFMS Ltd., *GFMS DATA ON SIZE OF LENDING MARKET CONFIRMED BY WGC STUDY* (September 5, 2000): http://www.gfms.co.uk/Press%20Releases/050900-derivs.PDF

> outstanding that exceeds, perhaps by a large margin, our current estimate of 7500-8000 tonnes for year-end 1998.[69]

In September 2003, he stated:

> …we have encountered more bullion bankers who have disclosed to us their gold deposit and swap positions with official sector lenders. All of these inputs have confirmed our extrapolations from our earlier smaller, partial sample. Now the picture is more complete. We classify this as information derived from the public domain since I presume that, if we have obtained so much of this information, others have been able to as well.[70]

These two pieces of information corroborate the surveys conducted by the Bank of England and cited above.

g) The Demand Estimates of Veneroso Associates "are consistent with 200 years of gold demand income and price elasticities; majority opinion estimates are not."[71]

As Veneroso noted in 2001:

> …if you apply the income elasticities that we have estimated from 200 years of data and the income and price elasticities that we have estimated from 25 years of data to the last four years---1996 to 2000---demand should have risen by something like 40% - 45% over those four years. Income went up, and the real gold price went down by a lot. The World Gold Council's demand series shows that demand went up by 20%---not 45 %---but the Gold Fields data contends that demand only went up by 10%. To assume it went up by only 10% implies that gold's income elasticity and gold's price elasticity have totally changed relative to history. We don't think that's plausible. We think at a minimum that the Gold Council's data is more reasonable; it allows for a certain amount of reduction in demand versus historical trends, perhaps because gold has gone somewhat out of fashion. But the "official" Gold Fields data is almost unbelievable. Now remember, the Gold Council's data shows an increase in demand much less than history would suggest; yet, it implies much higher levels of demand and much higher levels of supply.[72]

Given the historical gold demand elasticities with respect to both price and income cited by Veneroso, total demand should be much higher than GFMS reports. If demand has been higher, supply must also be higher because the two must obviously balance. That added supply is not coming from mine supply, scrap supply, or officially declared sales. As a result, it can only be

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[69] Veneroso Associates, *Gold Watch*: *Gold Deposits and Swaps, Gold Demand and the Gold Market Deficit*. Reprinted in the Gold Anti-Trust Action Committee's *Gold Derivative Banking Crisis Report* (p. 41): http://www.gata.org/congress.pdf

[70] Frank Veneroso, *An Update on the Commodity Case for Gold* (September 4, 2003): http://goldmoney.com/en/commentary/2003-09-04.html

[71] Ibid.

[72] Frank Veneroso, *Facts, Evidence and Logical Inference A Presentation On Gold Supply/Demand, Gold Derivatives and Gold Loans* (May 2001), 14: http://www.gata.org/fv.pdf.

coming from the official sector via gold loans, swaps, and deposits. As we will discuss in a later section, pertinent IMF accounting guidelines for such technically reversible gold transactions obscure the quantity of physical gold entering the market.

Thus far we have confined our analysis and survey of the gold market to competing supply and demand frameworks and opposing estimates of total central bank gold loans. Arguably, reckless mismanagement of national gold reserves by central banks, coupled with excessive speculative borrowing, could have led to the situation described by Veneroso (i.e. one-third to one-half of all official sector gold effectively gone). Now we will evaluate material suggesting that gold's prolonged weakness beginning in the mid-1990s was not the result of free market forces gone awry. There is strong evidence that there was intent by central banks to influence prices behind the large official sector gold flows.

8. Long Term Capital Management's Gold Short Position

Long Term Capital Management denied they ever traded gold. In a letter sent to attorneys for the Gold Anti-Trust Action Committee, LTCM's attorney James G. Rickards maintained:

> None of LTCM, LTCP, nor their affiliates, has ever entered into any transaction involving the purchase or sale of gold, including without limitation, spot, forwards, options, futures, loans, borrowings, repurchases, coin or bullion, long or short, physical or derivative or in any other form whatsoever.[73]

However, in September 1999, *TheStreet.com* quoted Nesbitt Burns gold analyst Jeff Stanley as saying on a conference call: "We've learned **Long Term Capital Management** is short 400 tons."[74]

In addition, Frank Veneroso stated:

> I have received many testimonies that LTCM had extensively used gold borrowings to fund its leveraged positions, and believe it likely that the Fed removed these shorts from LTCM's books in the course of the bailout of LTCM.[75]

Reg Howe also spoke of the apparent LTCM gold short position:

> Recent confidential information from a highly reliable source confirms rumors that at the time of its collapse, LTCM was short a substantial amount of gold (300 to 400 tonnes is the range most often mentioned), and that this position was covered in some type of arranged off-market transaction.[76]

Crucial to the allegations of gold price manipulation is a statement Veneroso made in 2002:

> We conclude from our argument based on the development of an inadvertent corner in the gold markets, from a "prison of the shorts", that, since the Long Term Capitol Management crisis in late 1998, the official sector has been managing the price of gold.[77]

The "prison of the shorts" cited by the renowned gold analyst is the situation that developed due to the large speculative gold short positions. Given the gold market's structural deficit, the accumulated loans were too large to ever be repaid. Just to remain in equilibrium, the gold market required a

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[73] Bill Murphy (Gold Anti-Trust Action Committee), *Café des Scandales*: http://www.gata.org/cafe_des_scandales.html

[74] Aaron L. Task, "Solid Gold: The Incredible, Malleable Metal", *TheStreet.com* (September 29, 1999): http://www.thestreet.com/pf/comment/taskmaster/789110.html

[75] Frank Veneroso, *An Update on the Commodity Case for Gold* (September 4, 2003): http://goldmoney.com/en/commentary/2003-09-04.html

[76] Reginald H. Howe, *Gold or Dross?: Political Derivatives in Campaign 2000* (August 2000): http://www.goldensextant.com/campaign2000.html#anchor48727

[77] Declan Costelloe and Frank Veneroso, *Gold Derivatives, Gold Lending, Official Management Of The Gold Price* and *The Current State of the Gold Market* (May 17th, 2002): http://www.gata.org/Veneroso1202.html

positive flow of borrowed gold from central banks. Repayment of the loans, or even cessation of new borrowings, would have withdrawn a crucial component of supply.

It is worthwhile noting again the huge discrepancy between the consensus estimate of speculative gold borrowing and the more aggressive figures compiled by Frank Veneroso and associates of GATA. According to Virtual Metals, “the implied net short position held by the major hedge funds and any other proprietary trading” was only 387 tonnes as of December 1999.[78] By contrast, the information referenced above indicates that one fund, LTCM, was short 300-400 tonnes. Needless to say, the Virtual Metals estimate appears to be incorrect. They and GFMS seem to have almost completely missed or disregarded huge speculative carry-trade positions.[79]

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[78] Jessica Cross, (Virtual Metals Research and Consulting Ltd.), *Gold Derivatives: The Market View* (August 2000), 18-19: http://www.gold.org/pub_archive/pdf/gold%20derivatives%20-%20the%20market%20view.pdf

[79] For evidence that GFMS also believed speculative short positions to be comparable to the Virtual Metals estimate, see GFMS Ltd., *Press Release: GFMS DATA ON SIZE OF LENDING MARKET CONFIRMED BY WGC STUDY*: *(September 5, 2000)*: http://www.gfms.co.uk/Press%20Releases/050900-derivs.PDF

9. The Bank of England Announcement

Reg Howe provided the context of an announcement that shocked the gold market:

> On May 6, 1999, gold again nears $290 and is threatening to explode above $300 due in part to increasing doubts that the proposed IMF gold sales will be approved. Short positions are in grave peril. Then comes a wholly unexpected bombshell which will have even more unexpected consequences.
>
> On May 7, 1999, the British announce that the Bank of England on behalf of the British Treasury will sell 415 tonnes of gold in a series of public auctions ostensibly to diversify its international monetary reserves. The manner of the British sales -- periodic public auctions instead of hidden sales through the BIS -- belie any effort to get top dollar and smack of intentional downward manipulation of the gold price. All indications are that these sales were ordered by the British government over the objection of BOE officials.[80]

Officially, the British government has maintained that the gold sale decision was made after consulting with the Bank of England. On July 14, 1999, Prime Minister Tony Blair said the following in the House of Commons: "We sold gold on the technical advice of the Bank of England, and lots of other countries have also sold gold."[81]

This was reiterated by HM Treasury. In a letter to Peter Hambro of Zoloto Mining Limited, Melanie Johnson, Economic Secretary to the Treasury, stated: "…the Government looks to the Bank of England to provide its technical advice on the reserves."[82]

Questioned about the sales, Blair chided the Opposition, claiming:

> It is only Tory obsession that makes them raise this matter. We acted on technical advice, and sales were carried through perfectly sensibly. We got the best deal for the country.[83]

First of all, the British government did not get the best deal for the country. The current gold price of approximately $400/ounce proves this. More importantly, Blair was wrong to suggest that it was merely "Tory obsession" that caused them to raise the issue. The fact is that many people believed the surprise gold sales announcement was timed to bail out banks that were heavily short gold.

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[80] Reginald H. Howe, *Two Bills: Scandal and Opportunity in Gold?* (February 1, 2000): http://www.goldensextant.com/commentary8.html#anchor21262

[81] British House of Commons, *Hansard Debates for July 14, 1999*. Refer to *Column 403*: http://www.publications.parliament.uk/cgi-bin/ukparl_hl?DB=ukparl&STEMMER=en&WORDS=bank+england+technic+gold+&COLOUR=Red&STYLE=s&URL=/pa/cm199899/cmhansrd/vo990714/debtext/90714-20.htm#90714-20_spmin20

[82] Letter from Melanie Johnson, MP, Economic Secretary to the Treasury, to Peter Hambro, Zoloto Mining Limited (December 11, 1999). Scanned copy available at http://www.gata.org/hambro.html

[83] British House of Commons. *Hansard Debates for July 14, 1999*. Refer to *Column 403*: http://www.publications.parliament.uk/cgi-bin/ukparl_hl?DB=ukparl&STEMMER=en&WORDS=bank+england+technic+gold+&COLOUR=Red&STYLE=s&URL=/pa/cm199899/cmhansrd/vo990714/debtext/90714-20.htm

Suspicions ran so high that chief executives and chairmen of Placer Dome, Newmont Mining, Ashanti Goldfields, Homestake Mining, Gold Fields, and Anglogold wrote an open letter to Tony Blair. Included was the following:

> On 16 June 1999, in the House of Commons, Mr. Quentin Davies, from the Opposition Front Bench, speaking in the debate on gold sales, said that there is a persistent rumor concerning the position of international investment banks. Mr. Davies said:
>
> > "...We cannot allow the rumors to grow, because they are extremely dangerous to public confidence. It has been suggested that the market is very short of gold, that the short positions may be a substantial multiple of the total amount of gold currently held by the Bank of England, and that the Bank's real motive is to save the bacon of firms that are running those short positions. ...Has the Government's whole plan been simply to drive down the gold price by whatever means, fair or foul, to save the position of certain figures in the city which apparently, are so short and potentially in such trouble?"
>
> The fact these rumors stem from the timing of your government's announcement, coupled with the methodology selected to conduct the sales leads us to ask your government's assistance in this matter. We believe it would be helpful for you to make a public denial of these rumors or investigate them publicly.[84] [End.]

One of the chief executives who signed the letter, John Willson of Placer Dome clearly believed at the time that the price of gold was being manipulated. From a *Financial Times* article dated May 18, 1999:

> John [Willson], president and chief executive of Canadian gold group Placer Dome, avoids words such as conspiracy, but believes malign forces are depressing world gold prices, writes Gillian O'Connor. "I find it difficult to believe, given what (Alan) Greenspan said in the middle of last year, concerning the central banks intention to maintain a low gold price, that there is not some concerted action going on between central banks to hold inflation down through hold down the price of gold," Mr. [Willson] says.[85]

Chris Thompson of Gold Fields also saw forces working against the gold price:

> There are parts of this conspiracy theory that I am sure are not true," said Chris Thompson, chairman of Gold Fields, one of South Africa's biggest gold companies. But he said that there was a large amount of circumstantial evidence that investment banks were involved in a plot.[86]

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[84] For a copy of the letter, see Newmont Mining Corporation press release, *OPEN LETTER TO PRIME MINISTER TONY BLAIR* (July 7, 1999): http://www.newmont.com/en\ /investor/releases/newmont/release.asp?id=168553

[85] Frank Veneroso, *The Bank of England Gold Sale...A Blow To Market Sentiment: A Green Light For More Bear Speculation?* (June 9, 1999): http://www.gold-eagle.com/gold_digest_99/veneroso060899.html.

[86] Kirstie Hamilton, "Conspiracy Theorists Pan Net for Gold Price Scandal", *Sunday Times* (London, England), May 16, 1999.

Thompson's comments post-Bank of England sale echo a Gold Fields' press release from April 16, 1999:

> JOHANNESBURG, South Africa, April 16 /PRNewswire/ --
>
> Chris Thompson, Chairman of Johannesburg-based South African gold producer, Gold Fields Limited, today announced that, other than regular sales of production, the company has made no new forwards sales of gold whatsoever during 1999.
>
> Thompson said that the company had found it necessary to make this statement in response to persistent allegations that Gold Fields had recently sold large amounts of gold forward.
>
> ``These rumours appear to be emanating from New York-based bullion dealers", said Thompson.
>
> ``The seeming explanation for these unfounded and persistent rumours is a desire by the short end of the market, or the dealers, to talk the gold price down. We do not wish to be associated with these efforts," he said."[87]

A Bloomberg article extensively quoted Anglogold's Kelvin Williams on the Bank of England announcement. An excerpt follows:

> ``Unlike other central bank sales that have taken place during the past 10 to 12 years, which have usually been placed quietly and [discreetly] in the market over a period a time and then announced after completion, the BOE instead elected to announce in advance that (through) a process of public auction, they would sell about 125 tons of metal over a period of 18 months. This is unusual, absolutely unusual."
>
> The planned auction ``means that they are going to get a far worse price than if they had done this [discreetly].
>
> ``This calls into substantial question the judgment of the BOE, which isn't a major player in the gold market, though they were viewed historically with some awe. Still, they are not large holders of metal.
>
> ``They argue that they are doing this in the interests of transparency in the gold market and quite frankly that's naive. The gold market is not a transparent market generally and for one person to stand up and be transparent simply allows all the other players to take positions against you."
>
> ``There are those others who will question the timing even more aggressively than I am.

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[87] Gold Fields Limited, "Gold Fields Responds to Hedging Rumours", *PR Newswire* (April 16, 1999): http://www.gata.org/4_20_99.html

> ``Why, when the (gold) market looks robust and looks as if it has the bad news built into does (Bank of England Governor) Eddie George chose this time to drop this news in the market?"[88]

Kelvin Williams did not say that the Bank of England announcement was aimed at gold price suppression. However, an unnamed company spokesman did cite the issue of market manipulation a few months later (though the reference relates to price manipulation by speculators pre-Washington Agreement). The following appeared in an article published by *The Independent* on October 10, 1999:

> AngloGold is understandably proud of its part in persuading the central banks to cease their selling [i.e. the Washington Agreement]. "It would be arrogant in the extreme to say that we arrived like Moses, read them the tablets and that was it", says an AngloGold spokesman. "***It's just that for a long time we, as producers, saw people manipulating our market and had no part in the game.*** What happened in 1996 was that we and our peers decided that we were abrogating responsibility for our own market. Now this has generated a momentum, and we're cautiously optimistic that the debate is starting to result in a better level of understanding."
>
> The market manipulators he describes are probably the hedge funds, which have made hay by selling gold short and watching the price plummet. Rumours abound that the funds have been caught on the hop by gold's recovery. Certainly the suddenness and severity of the rally suggests that many players have had to buy back large short positions. [89] [Emphasis Supplied.]

Frank Veneroso astutely observed at the time that the gold producers quoted above.

> …are typically very cautious and conservative. It is not like them to make public statements alluding to an "intention" to manipulate the gold price that cannot be proven. It is our guess that they have heard rumors similar to those now circulating in the markets from sources they consider credible enough to embolden them to make such public statements.[90]

Respected market observer Don Coxe also suggested that the gold market was far from free. The day of the Bank of England announcement, an article from *TheStreet.com* included the following:

> Gold left to its own devices would have moved solidly through $300 in response to a rise in oil and chaos in the Balkans," says Don Coxe, chairman of **Harris Investment Management** and **Jones Heward Investments**, both of Chicago. "The fact it hasn't is a case where I believe the people involved are trying to

[88] Samantha Zee, "Anglogold's Williams on BOE Gold Sale Plan: Commodity Comment", *Bloomberg* (May 7, 1999).
[89] Dan Gledhill, "Gold digs its own grave", *The Independent* (October 10, 1999).
[90] Frank Veneroso, *The Bank of England Gold Sale...A Blow To Market Sentiment: A Green Light For More Bear Speculation?* (June 9, 1999): http://www.gold-eagle.com/gold_digest_99/veneroso060899.html.

> prevent it from giving an inflation signal. ***It's not a conspiracy, but I'd say it's pretty well orchestrated.***
>
> Coxe notes nearly every major player in the gold market -- from central banks to producers -- is short the metal. "There are no bulls in gold," he says. "Yet the alternatives to gold, the only three currencies in the world that matter -- the U.S. dollar, yen and euro -- don't look like strong currencies. This should be the time for a move in gold."[91] [Emphasis Supplied.]

Tony Blair's claim that the gold sale announcement was made "on the technical advice of the Bank of England" is highly dubious, in our opinion. Indeed, *The London Telegraph* reported on May 8, 1999: "Sources in the gold market claimed that Mr Brown had acted against the advice of Eddie George, the governor of the Bank of England, but this was denied."[92] This is supported by the words of Terry Smeeton, the man formerly in charge of gold operations for the Bank of England. According to a *Reuters* report dated May 13, 1999, Smeeton said of the sales: "It's clearly a Treasury decision in which the Bank has had to acquiesce."[93] In addition, during a hearing of the U.K. Parliament's Select Committee on Treasury, Sir Teddy Taylor, referring to the gold sales, asked Eddie George: "Was this your idea or did you agree with it? Did the board agree with it and if not were you consulted?"[94] The Bank of England governor responded by saying, "Certainly we were consulted."[95] Clearly, neither the Bank or Treasury wanted to accept responsibility for the decision to sell almost half of Britain's gold.

Further contradicting Blair's claim that the decision was made pursuant to the advice of the central bank, Frank Veneroso wrote:

> We understand that the Bank may not only have been forced to acquiesce to the Treasury's decision; it may have been taken by surprise. We understand that, in their public hearing on this issue, the Bank appeared to be unprepared for the questions that were raised.[96]

This was not the first British attempt to throw gold onto the market. A *London Telegraph* article from April 27, 1999 stated:

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[91] Aaron L. Task, "Gold Bugs Light Up as they Forecast a Short Squeeze", *TheStreet.com* (May 7, 1999): http://www.thestreet.com/pf/markets/marketfeatures/744621.html

[92] Robert Shrimsley and George Trefgarne, *London Telegraph*. **"**Brown to sell half UK gold reserves", (May 8, 1999): http://www.telegraph.co.uk/htmlContent.jhtml?html=/archive/1999/05/08/ngol08.html

[93] Patrick Chalmers, "INTERVIEW-Ex-BOE forex head decries UK gold sale", *Reuters News* (May 13, 1999). Excerpt reprinted in Frank Veneroso, *The Bank of England Gold Sale...A Blow To Market Sentiment: A Green Light For More Bear Speculation?* (June 9, 1999): http://www.gold-eagle.com/gold_digest_99/veneroso060899.html.

[94] The United Kingdom Parliament, Select Committee on Treasury [Minutes of Evidence] (May 25, 1999): http://www.publications.parliament.uk/pa/cm199899/cmselect/cmtreasy/480/9051813.htm

[95] Ibid.

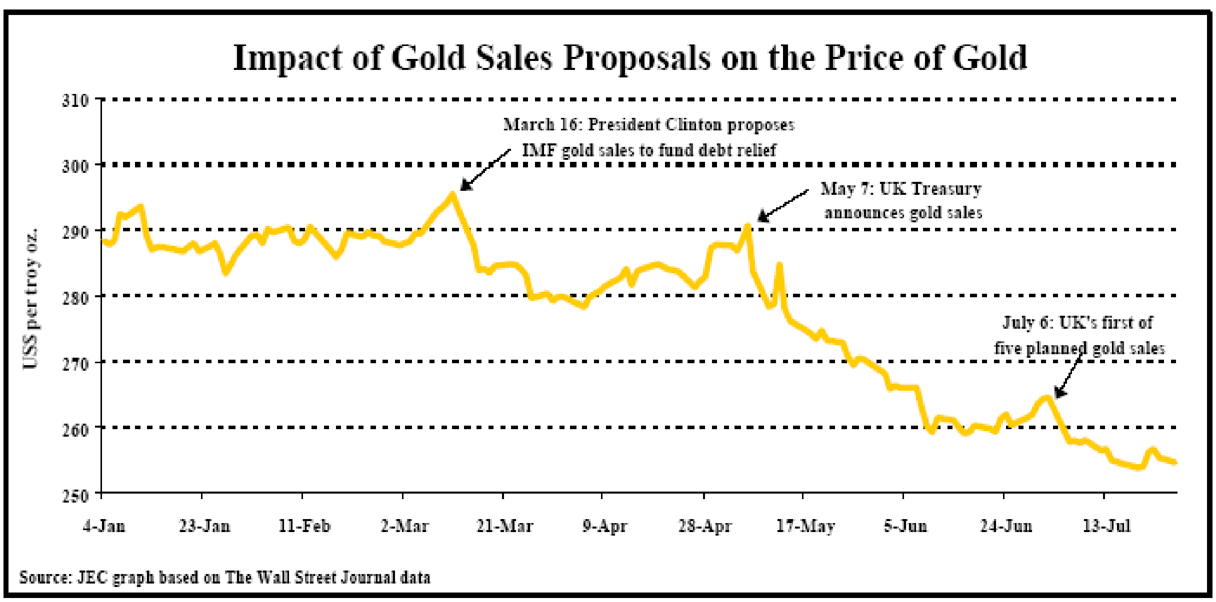
[96] Frank Veneroso, *The Bank of England Gold Sale...A Blow To Market Sentiment: A Green Light For More Bear Speculation?* (June 9, 1999): http://www.gold-eagle.com/gold_digest_99/veneroso060899.html.

> Britain is pressuring the International Monetary Fund to sell $3 billion worth of its gold reserves - double the figure initially suggested - to help fund debt relief for highly indebted nations.[97]

The proposed IMF gold sale was in itself suspect. As the World Gold Council's George Milling-Stanley noted in testimony before the U.S. Congress:

> Gold sales from the International Monetary Fund would harm, rather than help, the economies of the Heavily Indebted Poor Countries (HIPCs). Gold mining is a viable and productive sector in the economies of more than half of the 41 countries included in the HIPC initiative. In 10 of those countries, gold mining accounts for between 5 and 40 per cent of exports. It is consequently crucial to national economic well-being and employment not to mention their ability to honor debt service payments. The sale of gold, even a small quantity, from the IMF's reserves would bring further deterioration in the gold price. It would be a bitter irony if the assistance that is being offered to the world's poorest countries in fact did further damage to the already troubled economies of the recipients.[98]

Even Congress criticized the proposed IMF gold sales. In August 1999, the Joint Economic Committee wrote that the IMF gold sales proposal "has put downward pressure on gold prices and harmed poor nations that are also gold producers."[99] Included in the committee's report on the matter was the following graph[100]:



[97] Andrew Cave, "UK puts heat on IMF to sell $3bn of gold reserves", *London Telegraph* (April 27, 1999): http://www.telegraph.co.uk/htmlContent.jhtml?html=/archive/1999/04/27/cnimf27.html

[98] George Milling-Stanley (World Gold Council), *Congressional Testimony on the IMF Gold Sales Proposal* (April 21, 1999): http://www.gold.org/sp_archive/html/Testimon.html

[99] Joint Economic Committee, United States Congress, *IMF Gold Sales in Perspective* (August 1999), 1: http://www.house.gov/jec/imf/gold.pdf

[100] Ibid., 10.

The chronology surrounding the Bank of England sales is suspicious to say the least. Recall the words of Reg Howe:

> On May 6, 1999, gold again nears $290 and is threatening to explode above $300 due in part to increasing doubts that the proposed IMF gold sales will be approved. Short positions are in grave peril.[101]

Just as efforts to mobilize IMF gold were faltering, Britain apparently decided to depress the market using its own bullion.

[101] Reginald H. Howe, *Two Bills: Scandal and Opportunity in Gold?* (February 1, 2000): http://www.goldensextant.com/commentary8.html#anchor21262

10. Post-Washington Agreement Central Bank Response

On September 26, 1999, 15 European central banks surprised the gold market with an agreement to limit sales over a 5-year period to 400 tonnes per year and not expand gold leasing activities.[102] This accord is generally referred to as the Washington Agreement. The price of gold exploded, rising from $268.40 prior to the announcement to over $336 by October 5.[103] An epic short squeeze was under way.

Referring to those banks caught short when the Washington Agreement was announced, John Hathaway, manager of the Tocqueville Gold Fund, wrote:

> We have encountered numerous anecdotal indications that ***there was much pleading by this beleaguered group to the Bank of England and the US Treasury***.[104] [Emphasis Supplied.]

A September 30, 1999 *Financial Times* article displayed the chaos in the gold market as well as the urgings of the bullion banks that the central banks reconsider their agreement:

> A second day of chaos in the gold market left some analysts arguing that European central banks would have to revise the restrictions on gold sales and lending announced on Sunday.
>
> "This is now a disorderly market," said Andy Smith of Mitsui, one of the most respected gold analysts. "Gold is still a reserve asset. If you had conditions like this in the bond or foreign exchange markets, it would not be allowed to continue.
>
> Over the last three days gold has been trading like a commodity, not like money. Volatility has shot up; the cost of options has shot up; the cost of borrowing has shot up. The situation is untenable." Mr Smith called for the European banks to urgently review their strategy.[105]

Concerned about possible systemic risk, the central banks decided to act. The following is from a *Dow Jones* article dated October 11, 1999:

> London (Dow Jones) October 11 -- ***Central Banks are selling gold in order to prevent a further sharp rise in prices from causing a major financial crisis***, according to Ted Arnold, analyst at Prudential Bache Securities Ltd.

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[102] For the text of the Washington Agreement, see European Central Bank, *Joint statement on gold* (September 26, 1999): http://www.ecb.int/press/pr/date/1999/html/pr990926.en.html

[103] For historical gold prices, see http://www.kitco.com

[104] John Hathaway (The Tocqueville Funds), *J.P. Morgan to the Rescue?* (May 2000): http://www.tocquevillefunds.com/press/printversion.php?id=5

[105] Gillian O'Connor, "GOLD: Banks urged to rethink ban", *Financial Times* (September 30, 1999). Excerpt reprinted in John Hathaway (The Tocqueville Funds), *J.P. Morgan to the Rescue?* (May 2000): http://www.tocquevillefunds.com/press/printversion.php?id=5

> Many funds and banks sustained heavy losses over the past two weeks as gold surged after 15 European central banks stunned the market by saying they would cap sales of gold for the next 5 years.
>
> If gold prices continue to rise sharply they could cause major losses at U.S. and European investment and bullion banks and cause a domino effect that could lead to a major financial crisis, said Arnold.
>
> "Central banks, according to our sources, have acted swiftly to prevent a repeat of an LTCM-type of crisis by making sure that gold prices remain in a tight range. Enough selling is done by agents of the monetary authorities involved to cap gold...around the $330 area basis spot London while the floor is very solid in around the $315-$316 (a troy ounce) area basis spot," Arnold said.
>
> Central bank "regulation" of the bullion market always seems very far fetched to most observers, but it is a "cheap" option compared with the potential cost of bailing out banks and generally injecting liquidity into an economy if there were a full-blown financial crisis, he said.[106] [Emphasis Supplied.]

Just as Arnold claimed they would, the central banks managed to cap the gold price around the $330 level. His words confirm other anecdotal reports of central bank intervention after the Washington Agreement. From *Howe vs. Bank for International Settlements*, *et al*:

> According to reliable reports received by the plaintiff, this effort [by the Federal Reserve, Bank of England and BIS to turn back the gold price] was later described by Edward A. J. George, Governor of the Bank of England and a director of the BIS, to Nicholas J. Morrell, Chief Executive of Lonmin Plc:
>
> > ***We looked into the abyss if the gold price rose further***. A further rise would have taken down one or several trading houses, which might have taken down all the rest in their wake. Therefore ***at any price, at any cost, the central banks had to quell the gold price, manage it***. It was very difficult to get the gold price under control but we have now succeeded. ***The U.S. Fed was very active in getting the gold price down. So was the U.K***."[107] [Emphasis Supplied.]

Frank Veneroso also reported hearing about central bank efforts to turn back the gold price, stating:

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[106]Vanya Dragomanovich, "Central Banks Selling Gold To Avoid Crisis Says Analyst", Dow Jones Commodities Service (October 11, 1999), Article reprinted at http://www.purebytes.com/archives/realtraders/1999/msg24351.html and in Bill Murphy, *Speech Given to Alaska Miners Association* (March 10, 2000): http://www.gata.org/alaska_speech.html

[107] *Howe vs. Bank for International Settlements, et al*: http://www.goldensextant.com/Complaint.html

> It is our information that there was an intense coordinated effort by the official sector to turn the gold price down at that time to avert financial instability.[108]

In addition, a major gold mining company also spoke of gold market manipulation in the aftermath of the Washington Agreement. The following is an excerpt from a *Reuters* article dated October 27, 1999:

> Adelaide, Oct 27 (Reuters) - ***Australia's biggest gold producer, Normandy Mining Ltd, on Wednesday said manipulation of the gold market by banks was causing bullion prices to fall****….* "***I think you'll find this is banks manipulating the price, because of the financial trouble two gold companies are in***," Normandy executive Robert Champion de Crespigny told reporters…."[109] [Emphasis Supplied.]

Normandy's chief executive was certainly correct that banks were artificially depressing the gold price. Indeed, the institutions he spoke of were no doubt the "agents of the monetary authorities" referred to by Ted Arnold as used to 'cap gold... around the $330 area'. The two gold companies cited by Normandy as being in "financial trouble" were almost certainly Ashanti Goldfields and Cambior. Both had structured derivative contracts such that their balance sheets were susceptible to a huge spike in the gold price. Given a potential bankruptcy, the companies could have defaulted on their obligations to counterparty bullion banks.

Reg Howe discussed this topic in his price-fixing lawsuit. The following excerpt suggests the possibility that one of these companies could have failed if the gold price rose, thereby triggering a situation of systemic risk:

> Canadian Imperial Bank of Commerce ("CIBC"), which apparently has assumed overall responsibility from Goldman for managing Ashanti's hedge book, is advising Ashanti regarding sale of a 50% interest in its Geita gold project in Tanzania to AngloGold. This transaction, which became unconditional on November 30, 2000, and is expected to close by December 15, required the approval of Ashanti's bullion banks and its shareholders, including Lonmin and the Government of Ghana. ***According to reliable reports received by the plaintiff, representatives of CIBC held discussions with Fed officials while this transaction was pending. In the course of these discussions, Mr. Greenspan's desire to hold down gold prices was expressed. Ashanti's financial problems presented a major risk not only to its survival but also to the balance sheets of its bullion banks***.[110] [Emphasis Supplied.]

The central bank intervention due to the excessive gold short positions was clearly meant to avoid and defuse possible systemic risk. Summarizing their efforts, Frank Veneroso believes that "the

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[108] Frank Veneroso, *An Update on the Commodity Case for Gold* (September 4, 2003): http://goldmoney.com/en/commentary/2003-09-04.html

[109] "Normandy blames banks for gold price drop", *Reuters News* (October 27, 1999). Excerpt reprinted in Bill Murphy, *Speech Given to Alaska Miners Association* (March 10, 2000): http://www.gata.org/alaska_speech.html

[110] *Howe vs. Bank for International Settlements, et al*: http://www.goldensextant.com/Complaint.html

official sector intervened to prevent an explosive gold derivative crisis."[111] While admitting that it is only conjecture, in 2003 he provided a possible explanation for how the gold shorts were rescued by the central banks:

> The shift of some gold derivatives to the larger bullion banks in the fourth quarter of 1999 suggests they played a role in whatever arrangements were made by the official sector to relieve the shorts in the gold forward market of their position.
>
> Though the bullion banks may have housed these gold short positions, it is our guess that somehow ownership of these positions was taken on by the official sector. The bullion banks probably acted only as financial agents and intermediaries.[112]

Describing the likely position of the central banks today, Veneroso continued:

> The central banks would have gold loans (which are contracts to have physical gold delivered back to them) and they would have a short gold forward position (which is a contract to pay back physical gold to someone else).
>
> The bullion banks have counterpart positions. They have a gold liability (which is an obligation to deliver gold), a long gold forward position (which is a contract to receive physical gold), and a cash position that is the counterpart to their gold liability. If one closed out all these positions, all of these several gold IOUs would cancel out, and the central bank would wind up with a cash position that is now on the books of the bullion bank.
>
> In effect, by picking up the shorts in the gold forward market, the central banks convert their combined gold loan and short gold forward position into a cash position. Their gold holdings are reduced to their holdings of physical gold, and their phantom or paper gold reserve position is reduced to a cash reserve position. So, in the end, the official institution's gold reserve position will have been reduced to their holdings of physical gold.[113]

The litany of information indicating a concerted central bank effort to turn back the gold price stands in sharp contrast to a claim made in *Gold Derivatives: The Market View*. In that report, Virtual Metals asserted:

> The fact that the rally stalled at the $330/oz level and did not break much higher levels is probably the most reliable empirical evidence suggesting that the short

[111] Declan Costelloe and Frank Veneroso, *Gold Derivatives, Gold Lending, Official Management Of The Gold Price* and *The Current State of the Gold Market* (May 17th, 2002): http://www.gata.org/Veneroso1202.html
[112] Frank Veneroso, *An Update on the Commodity Case for Gold* (September 4, 2003): http://goldmoney.com/en/commentary/2003-09-04.html
[113] Ibid.

> position held by the hedge funds was nothing like the levels claimed by some in the market….[114]

This was ostensibly supported by the following footnote:

> Furthermore, the liquidation this year of two large hedge funds known to be active in the gold market without any dramatic impact on the gold price is further evidence of a more conservative short position than otherwise claimed.[115]

Frank Veneroso does not agree with this statement, and we believe he is correct. In his contribution to GATA's *Gold Derivative Banking Crisis* report, he argued that for some gold market participants to have covered short positions in the immediate aftermath of the Washington Agreement, there must have been "huge selling" to offset this.[116] Given that hedge funds, producers and dealers were reducing short positions, he concluded that, "Such selling must have been official in origin."[117]

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[114] Jessica Cross, (Virtual Metals Research and Consulting Ltd.), *Gold Derivatives: The Market View* (August 2000), 19: http://www.gold.org/pub_archive/pdf/gold%20derivatives%20-%20the%20market%20view.pdf
[115] Ibid.
[116] Veneroso Associates, *Gold Watch*. Issue 12.03 (December 23, 1999). Reprinted in contribution to the Gold Anti-Trust Action Committee's *Gold Derivative Banking Crisis Report* (p. 26) (May 2000): http://www.gata.org/congress.pdf
[117] Ibid.

11. Evidence of Surreptitious U.S. Government Gold Market Involvement

The material covered to this point has focused on central bank management of the gold market from late 1998-onward in order to prevent a financial crisis. However, a large body of evidence suggests that in the mid-1990s, the United States moved to suppress the gold price, possibly as part of an economic policy framework. Before such information surfaced, some speculation existed that the U.S. did not maintain the "total inactivity" in the gold market that consensus market researchers such as Virtual Metals believed.[118] In 2000, Frank Veneroso suggested that

> …one must consider it possible that the US is the undisclosed seller as it may be the only official body with the resources to sustain the supplies implied by the prevailing supply/demand framework. This possibility is strengthened by the US open policy in recent years of encouraging a lower gold price. When most of the European signatories to the Washington accord were planning last summer to act to improve gold market sentiment and restrict gold supply, the US Treasury was aggressively pushing for IMF gold sales, knowing full well that its words and actions were depressing market sentiment and the gold price.[119]

He continued:

> If the US Fed or Treasury is manipulating the gold price, our supply/demand analysis suggests they will eventually fail and in a fairly spectacular fashion. We could conceive of no outcome that could be more bullish for gold. If the Fed or Treasury thought gold was so important as to manipulate its price, the disclosure of its manipulation would lend greater luster to gold. When the manipulation was eventually overwhelmed by market forces, the failure of the clandestine official effort would lend greater luster to gold. If this all occurred amid a bursting of the US stock market bubble and the long and deep decline of the dollar that inevitably must follow in the wake of a record US current account deficit, yet greater luster would be restored to gold. Under such circumstances, investment demand for gold, which we have always disparaged, would probably soar.[120]

What follows is a brief summary of possible motives for the U.S. Treasury and/or Federal Reserve to surreptitiously depress gold prices:

(1) **To prevent rising gold prices from sounding a warning on U.S. inflation**. Gold has long been considered a hedge against inflation, and a low gold price generally indicates that inflation is benign. Given that the Fed will likely inflate in the face of potential asset price deflation, hard assets like gold should react positively in anticipation. By stifling a barometer of inflation, the Fed can theoretically fool the bond market into keeping long-term rates low. This would allow the central bank to reflate without the bond vigilantes raising rates and thereby stunting the economy's

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[118] Jessica Cross, (Virtual Metals Research and Consulting Ltd.), *Gold Derivatives: The Market View* (August 2000), 56: http://www.gold.org/pub_archive/pdf/gold%20derivatives%20-%20the%20market%20view.pdf

[119] Frank Veneroso (Gold Watch, Veneroso Associates), *The Gold Conspiracy Question*: *GATA Provokes Interesting Responses From the Fed and Treasury* (January 29, 2000): http://www.gata.org/veneroso.html

[120] Ibid.

recovery. A *CBSMarketwatch* interview with Frank Veneroso in 2003 touched on this subject. Veneroso stated:

> Asset bubbles create private debt bubbles. When people feel wealthier, they are more likely to spend more out of their income. And so they have to borrow. We saw this in Japan in the '80s. We see it in the U.S. When the asset bubble bursts, wealth disappears but the debt burden does not go away. Price deflation is really dangerous when you have rising private debt. That's why the Federal Reserve is so concerned about price deflation. It becomes a crushing burden that sends the economy into a debt-deflation spiral. Faced with this, the central banks realize they have to employ unconventional methods -- helicopter money it's called, the electronic printing press. More and more investors are catching onto this and the threat of a deliberate debt-alleviation inflation that will confiscate their paper money, and they see in this positive implications for the price of gold.[121]

(2) **To prevent rising gold prices from signalling weakness in the international value of the dollar**. The Treasury Department has never articulated the mechanisms by which the "strong dollar policy" has been implemented. As John Hathaway notes: "…there can be little doubt the low [gold] price has been one of the most important sound bytes for mass consumption underpinning the low inflation mythology of the new economy and the strong dollar."[122] Hathaway continues:

> Gold retains its financial market role as the "canary in the coal mine." A sharply rising gold dollar price would send a clear message to even the most casual observer that something is awry with the Fed's " fine tuning" of the economy and financial markets.[123]

(3) **To keep interest rates artificially low**. In an academic paper published during his tenure at Harvard, future Treasury Secretary Lawrence Summers (along with Robert B. Barsky) concluded that in a free gold market unaffected by "government pegging operations," the price of gold would move inversely to real interest rates.[124] This relationship broke down in 1996, indicating that central banks moved at that point to suppress gold prices. The following graph, designed by Reg Howe and constructed by Nick Laird, displays the breakdown of the relationship described by Summers and Barsky:

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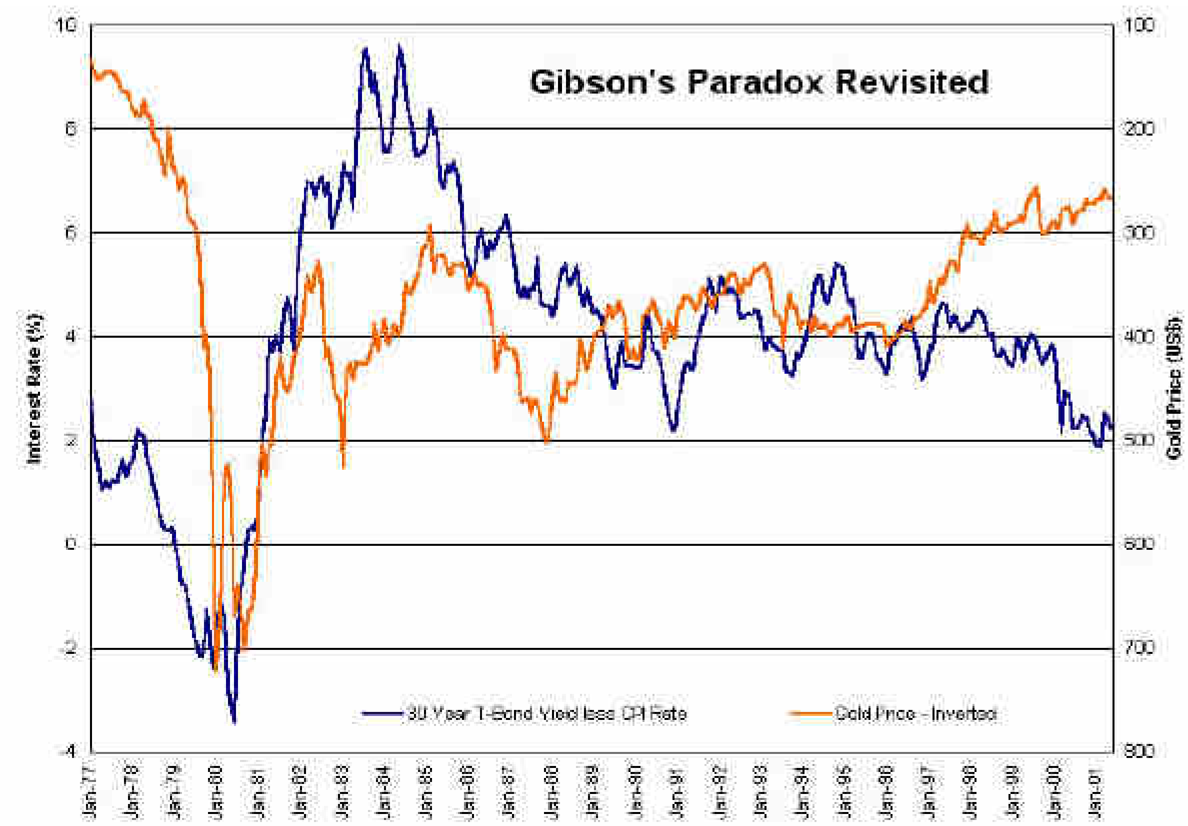
121 Thom Calandra, "Noted strategist sees gold bull market", *CBS MarketWatch* (September 30, 2003): http://cbs.marketwatch.com/news/story.asp?guid={6FEFCC80-A7C1-4102-8B07-B962F76BC15A}&siteid=mktw&dist=&archive=true

122 John Hathaway (The Tocqueville Funds), *The Investment Case for Gold* (January 23, 2002): http://www.tocqueville.com/brainstorms/brainstorms.php?id=108

123 Ibid.

124 A copy of the essay, *Gibson's Paradox and the Gold Standard*, is available at http://www.gata.org/gibson.pdf. For an analysis of Summers' work, see Reginald H. Howe, *Gibson's Paradox Revisited: Professor Summers Analyzes Gold Prices* (August 13, 2001): http://www.goldensextant.com/commentary18.html#anchor196905



Speaking of the phenomena apparent in the above graph, Reg Howe wrote in an August 2001 commentary:

> As the chart shows, Gibson's paradox continued to operate for another decade after the period covered by Barsky and Summers. But sometime around 1995, real long-term interest rates and inverted gold prices began a period of sharp and increasing divergence that has continued to the present time. During this period, as real rates have declined from the 4% level to near 2%, gold prices have fallen from $400/oz. to around $270 rather than rising toward the $500 level as Gibson's paradox and the model of it constructed by Barsky and Summers indicates they should have.
>
> The historical evidence adduced by Barsky and Summers leaves but one explanation for this breakdown in the operation of Gibson's paradox: what they call "government pegging operations" working on the price of gold. What is more, this same evidence also demonstrates that absent this governmental interference in the free market for gold, falling real rates would have led to rising gold prices which, in today's world of unlimited fiat money, would have been taken as a warning of future inflation and likely triggered an early reversal of the decline in real long-term rates.[125]

[125] Reginald H. Howe, *Gibson's Paradox Revisited: Professor Summers Analyzes Gold Prices* (August 13, 2001): http://www.goldensextant.com/commentary18.html#anchor196905

Responding to inquiries, both the U.S. Treasury and Federal Reserve have denied any recent gold market activities. On March 20, 2000, a Treasury official wrote the following in response to a citizen's inquiry:

> Regarding Question 1, the Treasury Department does not, either on its own behalf or on behalf of others, including other government agencies such as the Exchange Stabilization Fund, lend gold or silver, facilitate the lending of gold or silver, or trade in any securities, such as futures contracts and call and put options, involving gold and silver.[126]

And later:

> Question 11 asks whether the Treasury, either directly or through its management of foreign custody accounts, collaborated with the Bank for International Settlements, the Bank of England, or any other central bank with a view to managing, smoothing, or otherwise affecting the price of gold. The answer to Question 11 is no.[127]

This denial is not surprising given remarks by Prudential Bache's Ted Arnold after the Washington Agreement. An October 1999 *Dow Jones* article cited earlier concluded with the following:

> The one thing that is absolutely certain, however, is that ***no central bank is going to announce that it is acting in the market to achieve stable and range-bound prices, said Arnold***.[128] [Emphasis Supplied.]

Then-Secretary of the Treasury Paul O'Neill made the following claim in a court filing dated March 15, 2001:

> Although unnecessary at this juncture, the secretary specifically denies that the Treasury or the [Exchange Stabilization Fund] since 1978 has traded in gold or gold derivatives for the purpose of influencing the price of gold or the exchange value of the dollar. In fact, the ESF has not held any gold since 1978.[129]

The Federal Reserve also made such a denial. Alan Greenspan wrote to Senator Joseph I. Lieberman in 2000:

> Most importantly, the Federal Reserve is in complete agreement with the proposition that any such transactions on our part, aimed at manipulating the price

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[126] Gold Anti-Trust Action Committee, *Treasury Department starts to answer GATA* (March 26, 2000): http://groups.yahoo.com/group/gata/message/415

[127] Ibid.

[128] Vanya Dragomanovich, "Central Banks Selling Gold To Avoid Crisis Says Analyst", London, Dow Jones Commodities Service (October 11, 1999), Article reprinted at http://www.purebytes.com/archives/realtraders/1999/msg24351.html

[129] *Howe vs. Bank for International Settlements, et al.* ***Memorandum of Secretary of The Treasury In Support of Motion To Dismiss*** (March 15, 2001): http://www.zealllc.com/files/HvBD0001.pdf (page 3, footnote 4.)

> of gold or otherwise interfering with the free trade of gold, would be wholly inappropriate.[130]

Before providing evidence contrary to the claims of the Fed and Treasury, it will be useful to outline the ability and legal authority of each to deal in the gold market. A further issue, whether the government is legally permitted to surreptitiously manipulate the price of gold, remains in apparent legal limbo.[131]

The U.S. gold reserve is owned by the Treasury Department; the Federal Reserve does not own any gold.[132] However, there are still ways the Fed can influence gold prices. These could include, for example, persuading foreign central banks to sell or lend their gold reserves. Alternatively, it has been suggested that the Fed may have been writing call options on gold, thereby facilitating increased gold leasing by bullion banks.[133] Finally, the Federal Reserve Bank of New York normally acts as the fiscal agent for the Exchange Stabilization Fund.[134] As a result, if the ESF deals in gold, the Fed is likely involved.

The Exchange Stabilization Fund "was created and originally financed by the Gold Reserve Act of 1934 to contribute to exchange rate stability and counter disorderly conditions in the foreign exchange market."[135] The original Complaint in *Howe vs. Bank for International Settlements, et al* noted that

> [p]ursuant to 31 U.S.C. s. 5302, the Secretary of Treasury has exclusive control of the Exchange Stabilization Fund ("ESF") subject only to the approval of the President.[136]

The following was included in the Treasury's Budget for Fiscal Year 2005:

> The Secretary of the Treasury is authorized to deal in gold and foreign exchange and other instruments of credit and securities as deemed necessary, consistent with

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130 For a copy of the letter, see Gold Anti-Trust Action Committee, *Alan Greenspan's Response, and Commentary from GATA Chairman, Bill Murphy and GATA Treasurer/Secretary, Chris Powell*: http://www.gata.org/greenspan_response.html

131 Reginald H. Howe, *Money in Court: Paving the Road to Ruin* (June 1, 2002): http://www.goldensextant.com/commentary21.html#anchor22027. Referring to the dismissal ruling in the BIS price-fixing case, Howe writes: "Do these [government] officials in fact have statutory or constitutional authority to manipulate gold prices? The judge did not say."

132 It should be noted that the Federal Reserve does own gold certificates equal to the entire U.S. gold reserve. According to the 2003 Consolidated Financial Statements of the U.S. government: "Gold totaling $10.9 billion for each year ended September 30, 2003, and 2002, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury. Treasury may redeem the gold certificates at any time." See p. 104, http://www.gao.gov/special.pubs/03frusg.pdf.

133 Reginald H. Howe, *Fed Options: The Plot Thickens* (December 1, 1999): http://www.goldensextant.com/commentary6.html#anchor47175. Howe writes: "Why might the Fed have engaged in writing call options on gold? Their immediate purpose and effect would be to facilitate gold leasing by enabling the bullion banks to hedge more easily short positions resulting from the sale of leased gold."

134 Federal Reserve Bank of New York, *Fed Point: Exchange Stabilization Fund* (June 2004): http://www.ny.frb.org/aboutthefed/fedpoint/fed14.html

135 Ibid.

136 *Howe vs. Bank for International Settlements, et al*: http://www.goldensextant.com/Complaint.html#anchor3130

> U.S. obligations in the International Monetary Fund (IMF), regarding orderly exchange arrangements and a stable system of exchange rates. An Exchange Stabilization Fund, with a capital of $200 million, is authorized by law for this purpose (31 U.S.C. 5302).[137]

The key point is that the Treasury Secretary may deal in gold without Congressional approval. The courts, however, have not clarified whether such dealing is allowed for the purpose of manipulation.

Despite numerous government denials, much evidence indicates that the ESF *has* dealt in gold since 1978, the year that Paul O'Neill effectively claimed that they had ceased gold trading.[138] For example, according to U.S. Treasury Directive 27-07, "dated November 17, 1996, describing the functions of the Office of Under Secretary (International Affairs) and the duties of the Deputy Assistant Secretary (International Monetary and Financial Policy) (part 5.h)"[139]:

> ***Provides direction to the Federal Reserve Bank of New York concerning Exchange Stabilization Fund (ESF)*** operations under the authority of the Secretary of the Treasury and other Treasury officials who are delegated such ***authority to assure that operations of the Federal Reserve System concerning the ESF are coordinated.*** In this regard, the incumbent intensively monitors foreign exchange markets and ***maintains continuing monitoring of gold markets and related developments.***[140] [Emphasis Supplied.]

As noted above, in March 2001 Paul O'Neill claimed in a court filing that "…the ESF has not held any gold since 1978."[141] This is demonstrably false. The Federal Reserve's *Statement of U.S. Reserve Assets* for January 2001 contains the following line item*:* "Gold Stock, including Exchange Stabilization Fund."[142]

One month prior to the January 2001 report, Reg Howe filed suit against (among others) the Secretary of the Treasury. The original Complaint first cited the issue of gold held by the ESF as proof that the U.S. government was active in the gold market.[143] That might explain why the above

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[137] United States Department of the Treasury, *The Budget for Fiscal Year 2005* (Page 834 (8 of 42 using Acrobat Reader): http://www.whitehouse.gov/omb/budget/fy2005/pdf/appendix/tre.pdf.

[138] O'Neill denied that after 1978 the ESF either held gold or traded gold in order to influence the exchange value of the dollar. While perhaps not encompassing transactions in which the ESF may have acted as an intermediary or facilitator, we nonetheless believe the intent of the Secretary's denial is clear: he was essentially telling the court that the ESF has not been active in the gold market since 1978.

[139] Gold Anti-Trust Action Committee, *What U.S. and Foreign Officials Have Said About the Fed's Activities in the Gold Market*: http://www.gata.org/fedsact.html

[140] U.S. Treasury, *Treasury Directive TD 27-04 (Organization and Functions of the Office of the Under Secretary (International Affairs)* (November 16, 1996)*:* http://www.ustreas.gov/regs/td27-04.htm

[141] *Howe vs. Bank for International Settlements, et al, Memorandum of Secretary of The Treasury In Support of Motion To Dismiss* (March 15, 2001) (page 3, footnote 4.): http://www.zealllc.com/files/HvBD0001.pdf

[142] Federal Reserve, *U.S. Statement of Reserve Assets* (January 2001): http://www.federalreserve.gov//Releases/bulletin/0101assets.pdf.

[143] James Turk (Freemarket Gold and Money Report, Issue #276), *The Smoking Gun* (December 11, 2000): http://www.fgmr.com/smokegun.htm Turk states in this essay that he discovered the ESF gold trading a few weeks prior to publicizing it, as he waited for Reg Howe to file his BIS price-fixing lawsuit.

line item was altered for the February 2001 Statement of U.S. Reserve Assets to read: "Gold Stock."[144]

As is apparent, the Federal Reserve removed the explanation, "including Exchange Stabilization Fund." No reason was provided when the line item was altered. More importantly perhaps, the Fed has provided unsatisfactory explanations when queried on the matter. Responding to a letter by James Turk (he wrote to Alan Greenspan), Karen Johnson, Director of Division of International Finance, stated:

> With the publication of the February, 2001[145], Bulletin, the stub line for line 1 on Table 3.12: U.S. Reserve Assets was changed from "Gold stock, including Exchange Stabilization Fund" to "Gold Stock." This change was to reflect the fact that the ESF does not hold any gold. (Gold was removed from the ESF in December, 1974.) In the February Bulletin, the figures reported in line 1 were changed slightly to reflect routine data revisions/corrections. These revisions/corrections in no way reflect a change in the types of assets reported in this line.[146]

Turk's reply, sent again to the Fed chairman remarked that "...Ms. Johnson's disingenuous response defies belief."[147] Among others, he included the following reasons for saying so:

1. As only the Secretary of the Treasury and the President have the authority to speak for the ESF, as it is under their control, Ms. Johnson is in no position to state, "the ESF does not hold any gold." She may be stating what she believes to be true, but she does not have the knowledge or authority to be declaring any factual statement about ESF gold positions.

2. Ms. Johnson said "the figures reported in line 1 were changed slightly". While that may have been true for the Bulletin restatements in the few months immediately before you stopped reporting this data, the ESF gold position one year earlier was $41million, which at the so-called official price is a 971,000-ounce position. A position of this size is anything but 'slight'.[148]

The Fed did not simply remove the reference to gold held by the ESF. As Turk observes in *What is Happening to America's Gold?*:

> ***The US Reserve Assets report now excludes all reference to the ESF, and previous reports already published have been changed. Not only were the figures adjusted, but all reference to the ESF has been eliminated.*** Reg Howe posted to his website http://www.goldensextant.com/commentary18.html#anchor12493

[144] Federal Reserve, *U.S. Statement of Reserve Assets* (February 2001): http://www.federalreserve.gov//Releases/bulletin/0102assets.pdf.

[145] Ms. Johnson clearly made an error. The Federal Reserve removed the reference to the ESF in the February 2001 Federal Reserve Bulletin.

[146] James Turk, *Freemarket Gold and Money Report, Letter No. 294* (November 5, 2001).

[147] Ibid.

[148] Ibid.

> an excellent article addressing this change, and says: "…the figures could not be changed without a change in description, proof that the earlier discrepancies were indeed on account of gold held by the ESF."[149] [Emphasis Supplied.]

Reg Howe addressed the issue of gold held by the ESF in a commentary titled *Judicial Holding Pattern: Giving the Defendants Plenty of Rope*. A relevant excerpt follows:

> **Fed Stops Reporting Gold Held by ESF.** Paragraphs 62-64 of the Complaint identify instances of month-end discrepancies from 1974 through January 2000 between the Fed's gold certificate account, which by law must include certificates for all gold held by the Treasury, and the total U.S. gold stock, including gold held by the Exchange Stabilization Fund, as reported in tables 1.18 and 3.12, respectively, of the **Federal Reserve Bulletin**. By definition, these discrepancies reflect positive or negative month-end gold balances at the ESF, and thus necessarily imply corresponding gold trading activities by the ESF.[150]

The discrepancies cited by Howe were the basis for James Turk's essay *The Smoking Gun.*[151] By comparing the Fed's gold certificate account with the total U.S. gold stock as reported in the *Federal Reserve Bulletin*, Turk concluded that the ESF was indeed active in the gold market. For example, on December 31, 1999, the ESF appears to have held 971,000 ounces of gold.[152] Not surprisingly, the discrepancies indicate that increased ESF activity began in 1996. This was the same year that the Treasury's Under Secretary (International Affairs) was directed to "[***maintain***] ***continuing monitoring of gold markets and related developments.***"[153] [Emphasis Supplied.]

Research by Reg Howe provided further circumstantial evidence that the ESF was active in the gold market. From *Gold or Dross? Political Derivatives in Campaign 2000:*

> As detailed in a prior commentary, The ESF and Gold: Past as Prologue, and updated recently in another, the ESF's results over the past couple of years show a pattern of trading losses in quarters containing sharp or incipient rallies in gold prices and trading profits during quarters with generally weak or falling prices. This pattern was especially dramatic in 1999, when a trading loss of $1.6 billion in [the] last calendar quarter (the first quarter of fiscal year 2000) wiped out not just the trading profit of $1.3 billion earned in the prior quarter but the entire trading profits for the prior fiscal year. In other words, the ESF's best recent quarterly trading results coincide with the price collapse caused by the May 7 announcement of British gold sales, and its worst with the sharp rally and complete reversal of

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149 James Turk , *What is Happening to America's Gold?*: (July 23, 2001) http://www.fgmr.com/whatgold.htm

150 Reginald H. Howe, *Judicial Holding Pattern: Giving the Defendants Plenty of Rope* (July 20, 2001)*:* http://www.gata.org/enough_rope.html.

151 James Turk (Freemarket Gold and Money Report, Issue #276), *The Smoking Gun* (December 11, 2000): http://www.fgmr.com/smokegun.htm

152 Ibid.

153 U.S. Treasury, *Treasury Directive TD 27-04 (Organization and Functions of the Office of the Under Secretary (International Affairs)* (November 16, 1996)*:* http://www.ustreas.gov/regs/td27-04.htm

> sentiment brought about by the September 26 announcement of the European central banks.[154]

While the discrepancies between the Fed's gold certificate account and the total U.S. gold stock first proved Exchange Stabilization Fund gold market involvement, a more startling discovery was made in 2001. In the course of conducting research for his price-fixing lawsuit, Reg Howe uncovered a reference to undisclosed ESF gold market activity in the transcript of a January 1995 Federal Open Market Committee meeting. From *What U.S. and Foreign Officials Have Said About the Fed's Activities in the Gold* Market[155]:

> Responding to a question raised by then Federal Reserve Board Governor Lawrence Lindsey about the legal authority of the ESF to engage in the financial rescue package for Mexico then under discussion, J. Virgil Mattingly, general counsel of the Fed and FOMC, stated (p.69):
>
> > It's pretty clear that these ESF operations are authorized. I don't think there is a legal problem in terms of the authority. The statute [31 U.S.C. s. 5302] is very broadly worded in terms of words like 'credit' -- ***it has covered things like the gold swaps*** -- and it confers broad authority. Counsel at the White House called the Treasury's General Counsel today and asked "Are you sure?" And the Treasury's General Counsel said "I am sure." Everyone is satisfied that a legal issue is not involved, if that helps.[156] [Emphasis Supplied.]

On behalf of a constituent, Senator Jim Bunning of Kentucky wrote to Fed Chairman Alan Greenspan, asking for details about the gold swaps cited in the January 1995 FOMC meeting transcript. Greenspan's reply reiterated his assurance to Senator Lieberman that the Fed does not manipulate the gold market.[157] In addition, he included a memo from Virgil Mattingly, the FOMC's General Counsel, to whom the gold swaps remark is attributed in the transcript. According to that memo:

> Given the passage of time, some six years, I have no clear recollection of exactly what I said that day ***but I can confirm that I have no knowledge of any "gold swaps" by either the Federal Reserve or the ESF. I believe that my remarks***, which were intended as a general description of the authority possessed by the Secretary of the Treasury to utilize the ESF, ***were transcribed inaccurately or otherwise became garbled.***[158] [Emphasis Supplied.]

This claim is simply not credible when FOMC transcript procedures are considered. According to the prefatory note to the January 1995 FOMC transcript:

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154 Reginald H. Howe, *Gold or Dross?: Political Derivatives in Campaign 2000* (August 2000): http://www.goldensextant.com/campaign2000.html#anchor48727

155 Gold Anti-Trust Action Committee, *What U.S. and Foreign Officials Have Said About the Fed's Activities in the Gold Market*: http://www.gata.org/fedsact.html

156 Federal Reserve, *Transcript of Federal Open Market Committee meeting for January 31, 1995* (p. 69): www.federalreserve.gov/fomc/transcripts/1995/950201Meeting.pdf

157 For the text of Greenspan's reply to Senator Bunning's letter, see http://groups.yahoo.com/group/gata/message/827.

158 For the text of the Mattingly memo, see http://groups.yahoo.com/group/gata/message/827

> The 1995 transcripts, prepared shortly after each meeting or conference call, were produced by the FOMC Secretariat from recorded proceedings of the meetings. The Secretariat lightly edited the speakers' original words to facilitate the reader's understanding. This editing involved some rewording, primarily for syntax purposes, or in some instances to complete or clarify a speaker's thought or to correct an obvious misstatement. ***But in no case did the editing alter the substance of the comments made. Meeting participants were then given an opportunity to review the transcripts for accuracy.***[159] [Emphasis Supplied.]

Unfortunately, it appears that the tape recording of the meeting in question no longer exists. At the January 1995 meeting, the FOMC discussed procedures for transcript publication and retention. A revealing exchange between Governor Cathy Minehan and Fed counsel Mattingly follows:

> MS. MINEHAN: We have tapes and we have lightly edited transcripts. Do we have to keep both of these? Are both the full record, or do we get rid of the tapes upon the development of the lightly edited transcripts? Would a potential subpoena, assuming it did not cover a recently completed meeting for which we have a tape but not yet a lightly edited transcript, cover only the lightly edited transcript? Or do we have to keep the tapes too?
>
> MR. MATTINGLY: No. Once the edited transcript is approved by the participants, the tape can be dispensed with.[160]

An article in Barron's confirmed that a complete record of the January 1995 FOMC meeting no longer exists. Written by Robert Auerbach, formerly an economist on the Senate Banking Committee, the piece notes that, "The FOMC…has shredded its unedited transcripts for 1994, 1995, and 1996."[161] It is quite possible that Fed officials made other references to ESF gold market activity during the January 31, 1995, meeting, only to be redacted later. The failure to redact Mattingly's "gold swaps" remark was probably an oversight.

A statement on the Treasury's website raises the troubling possibility that if the Secretary of the Treasury did not inform Congress about these gold swaps, a federal law may have been broken:

> The Gold Reserve Act further requires the Secretary of the Treasury, within 30 days after the end of each month, to transmit to the House and Senate Banking Committees a detailed financial statement of the ESF, including all agreements entered into and renewed and all liabilities projected to occur.[162]

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[159] Federal Reserve, *Transcript of Federal Open Market Committee meeting for January 31, 1995* (p. 1): www.federalreserve.gov/fomc/transcripts/1995/950201Meeting.pdf
[160] Ibid., 18.
[161] Robert D. Auerbach, "That Shreddin' Fed", *Barron's* (December 2001): http://groups.yahoo.com/group/gata/message/940
[162] U.S. Treasury Department (Office of International Affairs), "Exchange Stabilization Fund": http://www.treas.gov/offices/international-affairs/esf/congress_reports/index.shtml

In his *Consolidated Opposition to Motions to Dismiss*, Reg Howe explained the significance of the 1995 discovery:

> Ordinarily the term "gold swap" refers to the spot exchange of gold for cash or securities together with a promise that the transaction will be unwound at an agreed future date and price (P.A. 32). Gold swaps are sometimes used by central banks in the developing world to acquire needed foreign exchange, effectively offering gold as security for repayment. In recent years, however, gold swaps have also been used as an alternative to gold loans by certain central banks, which then earn interest on the cash or securities deposited with them while a bullion bank or other party has use of the gold. Another kind of gold swap is a "location swap" in which gold in one depositary or storage facility is temporarily swapped for that in another.
>
> It is not clear whether Mr. Mattingly was speaking of ordinary gold swaps, location swaps, or some combination of the two. Nor is it clear whether he was referring to a program of gold swaps known to some or all participants in the meeting, or to one or more special transactions with respect to which he had issued an opinion, or to some other set of transactions. What is clear is that he was referring to gold swaps that, so far as the plaintiff is aware, have never been identified or disclosed in any other publicly available materials relating to the ESF or the Federal Reserve….[163]

Unless these gold swaps involved the exchange of currency held by the ESF for gold held by another organization (foreign or domestic), American gold would have been involved in the transactions. As Howe noted, one possibility is that the ESF was used to set up location swaps in which title to U.S. gold was swapped for foreign gold. Alternatively, the U.S. could have obtained currency in exchange for American gold.

Supporting the location swap hypothesis is an accounting change made in September 2000. GATA consultant Michael Bolser discovered that the U.S. Mint re-designated approximately 1700 tonnes of gold at West Point, New York, from "Gold Bullion Reserve" to "Custodial Gold Bullion".[164] This change occurred without explanation and implied that the Mint was holding the gold for someone else. Notably, the portions of the U.S. gold reserve held in Denver or at Fort Knox were not reclassified.

While not indicative of location swaps, we have found further information on the public record suggesting that the U.S. monetary authorities may have jeopardized a portion of the American gold reserve. FOMC meeting minutes from January 2002 show that the central bank considered the use of "unconventional policy measures" in response to the possibility of a protracted deflationary environment.[165] A *Financial Times* article at the time revealed that

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[163] *Howe vs. Bank for International Settlements, et al. Plaintiff's Consolidated Opposition to Motions to Dismiss* (filed April 19, 2001): http://www.gata.org/r1.html#anchor257110.

[164] *Howe vs. Bank for International Settlements, et al. Plaintiff's Affidavit*, Paragraph 29 (filed April 12, 2001): http://www.goldensextant.com/Plaintiff%27sAffidavit.html#anchor28690.

[165] Federal Reserve, *Minutes of the Federal Open Market Committee* (January 29-30, 2002) http://www.federalreserve.gov/fomc/minutes/20020130.htm

> …a senior Fed official who attended the meeting said the reference to "unconventional means" was "commonly understood by academics". The official, who asked not to be named, would not elaborate but mentioned "buying US equities" as an example of such possible measures, and later said ***the Fed "could theoretically buy anything to pump money into the system" including "***state and local debt, real estate ***and gold mines***-any asset".[166] [Emphasis Supplied.]

When this article was published, the reference to official sector-buying of gold mines seemed merely to be an example of the Fed's apparent willingness to monetize anything as a means of staving off a Japan-style deflation. However, a Federal Reserve research paper raises the possibility that this was not an off-hand remark after all, but the continuation of a policy framework outlined publicly in 1997. That year, the Federal Reserve published *Can Government Gold Be Put To Better Use?: Qualitative And Quantitative Effects Of Alternative Policies*.[167] Its authors suggested the following:

> Under the hypothetical policy, governments sell to mine owners the additional amount of gold they would have mined in the initial mining phase with a later sale between the times of the earlier sale and the later sale until government stocks are exhausted and mine owners sell this gold to private users. In exchange, governments receive (1) an amount per ounce equal to the cost of extraction and (2) title to an equal amount of underground gold. Governments invest their proceeds at the prevailing rate of interest and extract all the underground gold they have acquired in the period after their stocks run out.[168]

To summarize, they propose that central banks sell gold to mine owners, who will then presumably liquidate these holdings on the spot market. In consideration for this gold, mine owners would pay the central banks an amount equal to their cash costs and transfer title to an equivalent amount of gold held below the ground in reserve form. The central banks would essentially be selling spot and buying forward.[169] This is essentially the definition of a gold swap. Considering Virgil Mattingly's 1995 FOMC reference to gold swaps, we find the combination of the *Financial Times* quote and the Federal Reserve study more than highly coincidental.

Also supporting the possibility that the 1997 Fed research paper has been a general roadmap for U.S. gold policy is another curious accounting change made by the U.S. Mint. Before explaining why approximately 1700 tonnes of gold had been re-designated as "Custodial Gold Bullion", the government agency made another change in the nomenclature describing the U.S. reserve. In May

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[166] Peronet Despeignes, "Fed considered emergency measures to save economy", *Financial Times* (Mar 25, 2002). For the text of the article, see http://www.ohman.se/pdf/pkm/alert_reports/2002-03-26/ft.doc

[167] Dale Henderson, Stephen Salant, John Irons, and Sebastian Thomas, (1997), *Can Official Gold Be Put to Better Use?: Qualitative and Quantitative Effects of Alternative Policies* (1997), 21: http://www.federalreserve.gov/pubs/ifdp/1997/582/ifdp582.pdf

[168] Ibid.

[169] Admittedly, the central banks may take delivery of the title to the gold mines immediately. Nevertheless, the transaction would still essentially amount to a gold swap (at least in the colloquial sense), as gold in one location is being exchanged for gold in another depository (or deposit in the case of a mine). The only key difference, as Howe's definition implies, is that these transactions would be permanent, whereas technically, gold swaps are reversible.

2001, 94% of the total U.S. gold stock was reclassified as being in "Deep Storage".[170] Once again, no explanation was provided for this change. Not surprisingly though, it has been suggested that "Deep Storage" may refer to gold owned not in a vault, but in the form of mineral deposits.

The belief that gold swaps have jeopardized the ownership of a significant portion of the U.S. reserve was further substantiated in an essay by James Turk entitled *Accounting for the ESF's Gold Swaps*.[171] Turk uncovered what appears to be a gold liability of up to $20 Billion in the Consolidated Financial Statements of the U.S. Government. In *The Investment Case for Gold*, mutual fund manager John Hathaway assessed the implications of Turk's discovery:

> While his complex analysis of the mechanics and the accounting may be less than perfect, it is in my opinion substantially on the money. ***The bottom line is that US government official gold reserves have been mobilized through swap and loan arrangements to suppress the gold price, particularly in the aftermath of the Sept. 1999 Washington Agreement, which triggered a violent short squeeze.***[172] [Emphasis Supplied.]

Previous essays and articles have mostly noted that the 1997 Federal Reserve study advocates the selling of all government gold. What has apparently not been examined, save for one 1999 essay by Reg Howe[173], is the authors' suggestion that a more effective policy would be to lend out all government gold and conduct the technical sale at a later date. They wrote:

> Governments can achieve a welfare gain roughly equal to that from an immediate sale through alternative policies….Under this alternative policy, governments loan out all their remaining gold in each period.[174]

The paper also explained the advantages to lending, as opposed to selling, gold, arguing:

> Government uses might require gold *ownership* but not gold *storage*. If so, any loss in welfare from government uses would be much smaller under the policy involving lending and selling gradually.[175] [Emphasis in original]

The above quote is significant, as it explains why precise estimates of central bank gold lending are practically impossible. Historically, central banks have not reported a reduction in their gold reserves when they conduct gold loans or gold deposits. Indeed, the balance sheet of the German

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[170] Financial Management Service (U.S. Department of the Treasury), *Status Report of U.S Treasury.Owned Gold* (May 31, 2001): http://www.fms.treas.gov/gold/01-05.html

[171] James Turk, *Accounting for the ESF's Gold Swaps* (January 7, 2002): http://www.gata.org/esf_gold.html

[172] John Hathaway (The Tocqueville Funds), *The Investment Case for Gold* (January 23, 2002): http://www.tocqueville.com/brainstorms/brainstorms.php?id=108

[173] Reginald H. Howe, *Gold Leasing by Central Banks: Reaching the* Limit (September 18, 1999): http://www.gold-eagle.com/editorials_99/howe091899.html

[174] Dale Henderson, Stephen Salant, John Irons, and Sebastian Thomas, Non-Technical Summary of *Can Official Gold Be Put to Better Use?: Qualitative and Quantitative Effects of Alternative Policies* (1997), 5: http://www.federalreserve.gov/pubs/ifdp/1997/582/ifdp582.pdf

[175] Henderson, Dale, Stephen Salant, John Irons, and Sebastian Thomas, Non-Technical Summary of *Can Official Gold Be Put to Better Use?* (1997)*: Qualitative and Quantitative Effects of Alternative Policies* (p. 19 using Acrobat Reader): http://www.federalreserve.gov/pubs/ifdp/1997/582/ifdp582.pdf

Bundesbank records as a one-line item, "Gold and Gold Receivables".[176] However, the treatment of gold swaps appears to have changed.

In October 1999, less than one month after the post-Washington Agreement gold price explosion, the Statistics Department of the IMF published *The Macroeconomic Statistical Treatment of Securities Repurchase Agreements, Securities Lending, Gold Swaps and Gold Loans*. The IMF noted in the document that, "…the present treatment is to record a transaction."[177] This draft paper recommended the opposite: that central banks continue to record as a reserve asset gold that had left their vaults by way of a swap. Thus, member nations would be advised not to differentiate at all between gold in the vault and gold receivables.[178] This proposed treatment appears to have been made official in January 2000. The following can be found on the website of the Philippines' central bank:

> Beginning January 2000, in compliance with the requirements of the IMF's reserve and foreign currency liquidity template under the Special Data Dissemination Standard (SDDS), gold swaps undertaken by the [Banko Sentral ng Pilipinas] with foreign financial institutions shall be treated as collateralized loan[s]. Thus, gold under the swap arrangement remains to be part of reserves and a liability is deemed incurred corresponding to the proceeds of the swap.[179]

Given that the Washington Agreement seems to have excluded gold swaps[180], it is possible that the official sector mobilized gold in the aftermath of the agreement using these transactions. Technically, this probably would not have been a breach of the accord.

This policy of combining receivables and gold on hand has had two key effects. First, it has allowed official sector gold to flow into the market without government statistics registering these drawdowns for the public to see. Just as important though, central banks have retained the benefits of "owning gold but not physically possessing it", to use a phrase from the eerily prescient Federal Reserve research.[181]

With this in mind, it is worth reconsidering an oft-cited statement by Alan Greenspan in 1998. Testifying in July 1998 before Congress about the Over-The-Counter derivative markets, the Fed

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[176] Deutsche Bundesbank, *2003 Annual Report* (p. 174):
http://www.bundesbank.de/vo/download/gb/2003gb_bbk_en.pdf

[177] International Monetary Fund (Statistics Department), *The Macroeconomic Statistical Treatment of Securities Repurchase Agreements, Securities Lending, Gold Swaps and Gold Loans* (October 27-29, 1999), 23:
http://www.imf.org/external/bopage/pdf/99-10.pdf

[178] The IMF regulations drafted in October 1999 and formalized in January 2000 merely standardized the existing gold loan accounting practice by most central banks. The IMF states in the draft paper (p. 10): "Country statistical practice has tended to continue to record the gold loan receivable/deposit as if it were still part of monetary gold, in situations where the authorities are confident that the terms of the gold loan/deposit meet reserve asset criteria (availability, liquidity, etc.)."

[179] Bangko Sentral ng Pilipinas, *Foreign Exchange and Interest Rates* (footnote 1):
http://www.bsp.gov.ph/statistics/sefi/fx-int.htm.

[180] The text of the Washington Agreement does make reference to the 15 European central banks not expanding "their use of gold futures". Most likely, this was meant to limit forward sales by central banks, rather than the forward purchase leg of gold swaps. Nevertheless, there is some ambiguity on this issue.

[181] Dale Henderson, Stephen Salant, John Irons, and Sebastian Thomas, Non-Technical Summary of *Can Official Gold Be Put to Better Use?: Qualitative and Quantitative Effects of Alternative Policies* (1997), 5:
http://www.federalreserve.gov/pubs/ifdp/1997/582/ifdp582.pdf

Chairman ostensibly commented on the risk of private investors creating an artificial bullion shortage:

> Nor can private counterparties restrict supplies of gold, another commodity whose derivatives are often traded over-the-counter, where ***central banks stand ready to lease gold in increasing quantities should the price rise***.[182]
> [Emphasis Supplied.]

In dissecting Greenspan's Congressional testimony, Frank Veneroso made the following point:

> Central banks who admit to leasing gold indicate they do so to earn interest on an otherwise barren asset. Earning interest is their avowed motivation. The lease rate on gold has always fallen on gold price rallies. Therefore, the propensity of central banks to lease gold should fall, not rise, on such rallies.[183]

In other words, central banks that lease gold in response to price increases are not acting to maximize their income. Rather, they are mobilizing reserves in order to quell a rally. But Veneroso also demonstrates that leasing as a means of diffusing a manipulation-geared gold shortage is not realistic:

> Greenspan appeared to be arguing that there was no need to extend CFTC powers to the OTC gold market since a Hunt-type manipulation of the gold market could be prevented by the authorities through the leasing of gold. However, even if central banks stand ready to lease gold in increasing quantities should the price rise, this will not in and of itself curb any rise in the gold price due to a restriction of supplies by private counter parties. Though central banks might be willing to lease gold on a price rise, there must be willing parties to borrow that gold if the increased propensity to lease of these central banks…is to matter in any way to the gold market.
>
> The historical record suggests that, when the gold price rises, private market participants in aggregate do not add to short positions.[184]

Writing to Senator Joseph Lieberman, Greenspan provided this explanation for his statement about gold leasing:

> The observation simply describes the limited capacity of private parties to influence the gold market by restricting the supply of gold, given the observed willingness of some foreign central banks – not the Federal Reserve -- to lease gold in response to price increases.[185]

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[182] U.S. Congress. Senate. Hearing before the Committee on Agriculture, Nutrition and Forestry. *Testimony by Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve*. 105th Congress, 2nd Session, July 30, 1998: http://agriculture.senate.gov/Hearings/Hearings_1998/gspan.htm

[183] Frank Veneroso (Veneroso Associates), *The Gold Conspiracy Question: GATA Provokes Interesting Responses From the Fed and Treasury* (January 29, 2000): http://www.gata.org/veneroso.html

[184] Ibid.

[185] Reginald H. Howe, *The Fed: Up to its Earmarks in Gold Price Manipulation?* (May 15, 2000): http://www.goldensextant.com/commentary11.html#anchor17479

Before declaring, "The debate about whether the Fed is part of a manipulation of the gold market has now blown wide open"[186], Veneroso posed some important questions arising from Greenspan's congressional testimony:

> How does Greenspan know that other such central banks stand ready to lease gold in "increasing quantities should the price rise"?[187]

And later:

> How would Greenspan know about such official short selling of increased gold available for lease? Is there an implication here that the Fed knows of such contingency measures to preserve gold price stability that the market is unaware of? Is there an implication that the US need not extend CFTC supervision to the OTC gold market because other US government bodies (the Fed, the Treasury?) stand willing to sell leased official gold should the gold price rise?[188] [End.]

Greenspan's awareness of central banks that "stand ready to lease gold in increasing quantities should the price rise" could come from numerous vantage points available to him. First, the Fed chairman would have access to non-public details regarding the outflows of earmarked official sector gold from the Federal Reserve Bank of New York. While the public can only observe the net flows, Greenspan would be privy to information concerning the identities of those central banks removing gold from the Fed's vault. A second possibility relates to the Fed's assumption in 1994 of two seats on the board of the Bank for International Settlements.[189] Often called "the central banks' central bank"[190], the BIS often implements gold transactions on behalf of sovereign monetary authorities.[191] Finally, Greenspan's knowledge of official sector willingness to lease gold should the price rise would be guaranteed if the U.S. government, acting through the Exchange Stabilization Fund, U.S. Treasury, or Federal Reserve have conducted gold swaps with foreign central banks. So as James Turk suggested in *Behind Closed Doors*, the leasing of gold by another nation may in fact be directed by the United States.[192]

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186 Frank Veneroso (Veneroso Associates), *The Gold Conspiracy Question: GATA Provokes Interesting Responses From the Fed and Treasury* (January 29, 2000): http://www.gata.org/veneroso.html
187 Ibid.
188 Ibid.
189 See, e.g., U.S. Department of Justice. *Service by Federal Officials on the Board of Directors of the Bank For International Settlements*: *Memorandum Opinion for the General Counsel, Federal Reserve Board*: http://www.usdoj.gov/olc/fed208.htm
190 See, e.g., *Howe vs. Bank for International Settlements, et al*: http://www.goldensextant.com/Complaint.html#anchor3130
191 Ibid.
192 James Turk, *Behind Closed Doors* (April 23, 2001): http://www.fgmr.com/clsddoor.htm

12. Trading Anomalies Indicating Gold Price Manipulation

In addition to the preceding evidence of official sector manipulation of the gold price, a significant amount of statistical research also strongly indicates that the gold market has been subjected to long-term price management. This section summarizes key conclusions from many of the important articles concerning anomalous trading in the gold market.

December 2000 marked the publication of a landmark study regarding gold market manipulation. GATA consultant Michael Bolser's *Anomalous Selling in COMEX Gold, 1985 to November 2000* looked at gold trading solely from a statistical perspective, and found unusually heavy selling in New York trading of gold. Addressing the study's notion of so-called "preemptive selling", the Howe lawsuit noted that it is "defined as the COMEX closing price falling by more than three times the decline in the London PM fix from the AM fix on the same day."[193] Among his important findings, Bolser found that

> …numerous episodes of anomalous COMEX selling and buying have exceeded three standard deviations in frequency where none occurred at the LBMA. Moreover, there is an asymmetry between extreme COMEX buying and selling events. In addition, the extreme COMEX selling events are biased towards the second half of the period compared with a random distribution pattern at the LBMA. Six of the seven highest COMEX preemptive selling episodes greater than two standard deviations have occurred since 1994.[194]

The original Complaint in the Howe lawsuit analyzed Bolser's statistical findings in the context of important gold market and macroeconomic events:

> 50. The first wave of preemptive selling in excess of three standard deviations occurred in mid-1994, coincident with Mr. Greenspan's decision to assume the two seats on the BIS's board allocated to the American issue. Gold prices, which had been in a generally rising mode for the prior year and a half, went into an extended sideways move that lasted until 1996. The OCC reports on gold derivatives only go back to the first quarter of 1996, at the end of which the total notional amount of gold derivatives held by reporting U.S. commercial banks stood at $57.6 billion. Thus by mid-1994 it is probable that American bullion banks had already established a short position in physical gold of sufficient size and risk to concern the Fed.
>
> 51. The second and third waves of preemptive selling took place in 1996. At the beginning of the year, there was an episode (wave 2) in excess of two standard deviations, followed in mid-1996 by an episode (wave 3) in excess of three standard deviations. The first took place as gold threatened to push significantly over $400/ounce. The second started gold prices on a long downward course to under $300 by late 1997. According to reliable reports received by the plaintiff, the Fed was telling certain persons in early 1996 that gold would not pass $415/ounce.

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[193] *Howe vs. Bank for International Settlements, et al*: http://www.goldensextant.com/Complaint.html#anchor3130
[194] G. Michael Bolser, *Anomalous Selling in COMEX Gold, 1985 to November 2000* (December 6, 2000): http://www.goldensextant.com/commentaryBA.html#anchor51667

> At the same time, the near zero interest rate policy adopted by Japan in mid-1995 to try to address its deepening financial problems was impacting the gold market in three ways: yen gold prices on the Tokyo Commodities Exchange were moving into backwardation; dollar gold prices were rising; and lease rates were climbing, suggesting strong demand for physical gold.[195]

Later in the lawsuit, Howe continued:

> 53. The fourth wave of preemptive selling in excess of two standard deviations, occurred with the collapse of Long-Term Capital Management ("LTCM") during the Russian default crisis of October 1998. According to reliable reports received by the plaintiff, LTCM had funded itself using the gold carry trade and was short 300 to 400 metric tonnes of gold at the time of its collapse. To prevent the covering of this short position from driving gold prices higher, the N.Y. Fed arranged an off-market transaction, probably involving Chase. It is similarly reported that the principals of LTCM received some form of immunity or accomodation on condition that they not reveal or discuss LTCM's short gold position.[196]

Howe also observed that the

> …fifth wave of preemptive selling in excess of two standard deviations occurred in response to [the post-Washington Agreement] rally as the Fed, the Bank of England and the BIS struggled to halt and reverse it."[197] Finally, the "…sixth and [then] most recent wave of preemptive selling, this time in excess of three standard deviations, occurred in mid-2000, driving gold prices from $290/ounce to below $270.[198]

Recall that at this time, Ashanti Goldfields was in the process of selling its interest in a Tanzanian gold project. Quoted previously was an excerpt from the Howe lawsuit regarding this transaction. The plaintiff reported that the Fed was concerned that the financial difficulties experienced by Ashanti could pose a threat to the balance sheets of its bullion banks.

Bolser updated his study in 2001 and 2002.[199] Both reports confirm his earlier work. Preemptive selling on the COMEX continued, defying statistical probabilities. Given the emergence of this phenomenon in 1994 and its prevalence since, it is reasonable to infer that the price has been actively influenced on the COMEX. Reg Howe explained that the high international visibility of the

[195] *Howe vs. Bank for International Settlements, et al*: http://www.goldensextant.com/Complaint.html#anchor3130
[196] Ibid.
[197] Ibid.
[198] *Howe vs. Bank for International Settlements, et al*: http://www.goldensextant.com/Complaint.html#anchor3130
[199] See Michael Bolser, *Preemptive Selling in COMEX Gold: An Update* (June 18, 2001): http://www.goldensextant.com/commentaryBA.html#anchor65565 and Michael Bolser, *Upon Further Review: Preemptive Selling -- 1985 through March 2002* (May 8, 2002): http://www.goldensextant.com/commentaryBA.html#anchor65565

exchange, combined with the fact that it is a paper market, makes the COMEX the logical target for price manipulation.[200]

Gold's weakness during COMEX trading has been noted by many observers. Indeed, then-CBS MarketWatch editor Thom Calandra relayed in 2002 that "one longtime gold banker in New York told me the bad price behavior of the metal almost always centers on manipulation of the gold futures pits."[201]

In addition to Michael Bolser's work, other pieces of statistical research have confirmed the tendency for gold to sell off in COMEX trading. For example, in February 2000, Dr. Harry J. Clawar published *NY Strangulation of World Gold Market - 1 Year*. He noted:

> Even though overall, losses in New York are more likely to occur than gains, they are MUCH more probable if there has been an Overseas gain. This is a highly likely combination of patterns if the goal is to keep the price of gold low.[202]

Research published by Dmitri Speck confirmed the above-cited studies into odd New York gold trading patterns.[203] Summarizing *Tracks in the Trading: When Did the Gold Price Manipulation Begin?,* Reg Howe wrote that the

> …article provides further evidence that from 1993 to the present date, there has existed anomalous downward pressure on COMEX gold prices in comparison to overseas prices, and thus lends further support to the conclusions of Dr. Clawar and Mr. Bolser.[204]

Speck's research identified COMEX suppression by noting the gold price

> …is losing during the New York session in comparison with the remainder of the day: averagely $0.59 for the last seven years and $1.33 for the last one and a half years a day.[205]

The evidence compiled by Bolser, Clawar, and Speck allows for only one possible conclusion: over the past several years, the price of gold has been abnormally weak on the COMEX compared to other major gold exchanges such as the LBMA. There is no apparent free market explanation for the emergence of this phenomenon. Market manipulation stands as the logical answer.

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[200] *Howe vs. Bank for International Settlements, et al*: http://www.goldensextant.com/Complaint.html#anchor3130
[201] Thom Calandra, "Drawing gold lines in the sand; Futures sellers at heart of bullion collapse, some say", *CBS MarketWatch*, November 15, 2002. Copy available at http://groups.yahoo.com/group/gata/message/1294
[202] Dr. Harry J. Clawar, *NY Strangulation of World Gold Market - 1 Year"* (February 2, 2001): www.gold-eagle.com/editorials_01/clawar020201.html
[203] Dmitri Speck, *Tracks in the Trading: When Did the Gold Price Manipulation Begin?* (February 23, 2001): www.gold eagle.com/editorials_01/speck022301.html
[204] *Howe vs. Bank for International Settlements, et al*: Plaintiff's Affidavit (filed April 19, 2001): http://www.goldensextant.com/Plaintiff%27sAffidavit.html#anchor28690
[205] Dmitri Speck, *Tracks in the Trading: When Did the Gold Price Manipulation Begin?* (February 23, 2001): www.gold eagle.com/editorials_01/speck022301.html

13. The Gold Market Recently

Much of this report has dealt with evidence indicating that beginning around the mid-1990s, the gold market has been actively managed by the official sector. Of course, an important question is whether this intervention continues. We believe it does.

More Suspicious Trading Patterns on the COMEX

Perhaps the most logical argument that the price of gold remains under central bank control was made by Frank Veneroso in September 2003:

> How do I know this intervention continues? There are 500 or 600 metric tons of speculative long positions on the COMEX, but that is the tip of the iceberg. The big market is the over-the-counter market. The total net speculative position is probably many times what we see on the COMEX. Thousands of metric tons? Who is taking the other side of that trade? In the old days, it used to be the producers, setting up their hedge books and selling forward. Now, they're covering hedges. Who else? There are gold dealers, and a lot of the people think these are the short-sellers in the market. After the price spike in '99, they have closed such positions. So there is only one possible counterparty now, and that is the official sector. This is just like currency intervention.[206]

Admittedly, the COMEX speculative long position has decreased from the 500-600 metric tonne level cited by Veneroso in 2003. Nevertheless, Veneroso's point stands: who was on the short side of most of these trades? Clearly, it must have been the official sector.

A commentary by Reg Howe in December 2003 also referred to Commitment of Traders statistics suggesting that the gold shorts may have government backing. From *Gold Derivatives: Hitting the Iceberg*:

> Since 2001, open interest in COMEX gold futures has moved sharply higher along with rising gold prices. These trends have been accompanied by equally sharp increases in the open positions of the commercial shorts and the non-commercial longs. Indeed…open interest in COMEX gold futures is at its highest level since 1984, as are the open positions of the commercial shorts and non-commercial longs as well.
>
> Recently a professional off-the-floor COMEX gold trader published an analysis estimating that from October 14, 2003, when COMEX gold closed at $377, to December 2 when it closed at $404.60, the commercial shorts accumulated unrealized losses of over $480 million on their nearly 216 million open gold futures contracts representing more than 670 tonnes. See D. Norcini, "Hot Shot Commercial Losers on the COMEX," **LeMetropoleCafe** (December 7, 2003).

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[206] Thom Calandra, "Noted strategist sees gold bull market", *CBS MarketWatch* (September 30, 2003): http://cbs.marketwatch.com/news/story.asp?guid={6FEFCC80-A7C1-4102-8B07-B962F76BC15A}&siteid=mktw&dist=&archive=true

> What is more, Mr. Norcini has advised me in private correspondence that the same analysis from the beginning of August when COMEX gold closed at $351 puts their losses at nearly $1 billion.
>
> Clearing house rules require that losses to trading accounts be posted each day at settlement. Losses of the size incurred by the commercial gold shorts over the past few months beg two tough questions: What risk management system would allow losses of this magnitude to accrue without mandating the closure of losing positions? And are the central banks, directly or indirectly, assuming the burden of these losses?[207]

A recent article by Dan Norcini, the commodity trader mentioned by Reg Howe in the above commentary, discussed more unusual trading patterns on the COMEX.[208] Specifically, he noted that increased fund buying was being met with an incredible wall of selling by the so-called commercials. While the open interest increased, the heavy resistance kept the price of gold from exploding. In addition, it has taken much more buying to push the price up a comparable amount than it did back in March.

Norcini notes that for the August COMEX gold contract, the "…open interest bottomed at 226, 780 on March 8, 2004."[209] He then observes that

> …on March 16, just shy of two weeks later, gold closed at $404.50, an increase of just about $10.00/ounce. What was the open interest figure on that date? Answer-245,495 [contracts]. In other words, it took a total of 18,715 contracts (245,495 – 226,780) to drive the gold price to a $10 gain.[210]

Norcini continues:

> As of last Friday, July 16, gold closed for the day at $406.80. It had moved $13.80 from its closing price on June 29 in a bit more than two weeks. Simultaneously, open interest had increased from 224,251 to 263,574 or an increase of 39,323 contracts. In other words, this time around it required more than TWICE the amount of new buying to move the gold price a mere $3.80 higher than it did four months previously.[211]

After noting that the commercials "are currently selling at a rate of more than 2X the pace of their selling a mere four months ago",[212] Norcini further explains that the huge selling by the commercials is inconsistent with a proceeds-maximizing strategy of a legitimate hedger:

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[207] Reginald H. Howe, *Gold Derivatives: Hitting the Iceberg* (*December 20, 2003*): http://www.goldensextant.com/commentary26.html#anchor25233
[208] Dan Norcini, *A Visual Measure of the Recent Selling Pressure in Gold, LeMetropole Café* (July 20, 2004): www.lemetropolecafe.com/pfv.cfm?PfvID=3975 (Subscription or Trial Membership required to access site).
[209] Ibid.
[210] Ibid.
[211] Ibid.
[212] Ibid.

By nature, sellers obviously want the highest price possible for their product. They do not fight bull markets. On the contrary, they sell scale up with lighter amounts of sales done at lower levels while SLOWLY increasing levels of selling as the market rises.[213]

Central Bank Intervention and the Iraq War

In the run-up to the Iraq war, a news story suggested, albeit in a subtle manner, that coordinated central bank intervention in the gold market continues. A *BBC* report included the following:

> **US and Japan to protect markets**
>
> Just days ahead of a war, the US and Japan are prepared to co-operate to support the financial markets if there is a crisis.
>
> A deal was struck last week in the US between a former Japanese finance minister and the head of the US central bank, the Federal Reserve's Alan Greenspan.
>
> ***"There was an agreement between Japan and the US to take action co-operatively in foreign exchange, stocks and other markets if the markets face a crisis***," Chief Cabinet Secretary Yasuo Fukuda said.[214] [Emphasis Supplied.]

This agreement was apparently not reported in any major American newspaper, but would represent a huge shift in official U.S. government policy if publicly confirmed. While intervention in the currency markets is very common and known by all market participants, interference in the stock market is not. More importantly for this purpose of this report is the article's reference to "other markets." Past central bank manipulation of the gold market (e.g. London Gold Pool), makes it reasonable to believe that it is one of the "other markets" cited by Japan's Chief Cabinet Secretary in the BBC article.

The same day that the BBC report was published, an article in the London *Evening Standard* questioned whether numerous markets were being manipulated as the Iraq conflict neared. That piece, *Plunge Protection and Rallying Shares*, observed:

> The more astute watchers of markets say that the only explanation for what began last week and continued yesterday was a US government-inspired support action to get markets where they wanted before the outbreak of hostilities.
>
> The trick about buying and selling in markets is to complete the trade without moving the price. The massive and sudden surge of activity last week and yesterday only made sense if it was intended to shift the price. Last week and again precisely at 3.30pm yesterday, massive selling undermined the euro on the currency markets and made the dollar correspondingly stronger. To the minute, there was similar

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[213] Dan Norcini, *A Visual Measure of the Recent Selling Pressure in Gold, LeMetropole Café* (July 20, 2004): www.lemetropolecafe.com/pfv.cfm?PfvID=3975 (Subscription or Trial Membership required to access site).
[214] "US and Japan to Protect Markets", *BBC* (March 19, 2003): http://news.bbc.co.uk/2/hi/business/2863051.stm

> sudden heavy selling in the gold market. Last week this bashed the metal's price from $350 to nearer $330 and yesterday it killed off the recovery.

So much for gold as a safe haven in times of war.[215]

[215] Anthony Hilton, "Plunge Protection and Rallying Shares", *Evening Standard* (March 19, 2003): http://www.thisislondon.com/news/business/articles/timid60605

14. Conclusion

After examining and considering the preceding material, we do not believe it is possible to conclude that the gold market has not been subjected to severe long-term manipulation. This body of evidence is not illusory, and certainly not the work of paranoid people. We believe that it is the only explanation for gold's prolonged weakness in the face of superb fundamentals. Excessive gold lending, unexplained trading anomalies, documented U.S. government gold market activity, and blatant interventions post-Washington Agreement are but some of the signs that the visible hand of government has temporarily overtaken the invisible one of Adam Smith.

Whereas the London Gold Pool was an overt attempt to maintain a fixed price of gold, there is strong evidence to indicate that today's gold price managers are working covertly to fix an ostensibly free price. While the Gold Pool used central bank sales as the preferred method of price stability, the recent attempts to suppress gold have largely been implemented with undisclosed gold loans. The results of these two gold market management eras are strikingly similar. Just as the Gold Pool lost a tremendous amount of metal in an impossible attempt to keep the price low, so too the central banks of today keep feeding their reserves into the market in a scheme destined to end with their gold permanently gone. Given a huge supply/demand deficit whereby the official sector is needed simply to keep the market in equilibrium, it is highly unlikely that many central banks will ever get their gold back at anywhere near the current price.

We find troubling the consistent unwillingness by mainstream gold analysts to debate, or even acknowledge, the manipulation viewpoint in any depth. Such market watchers pretend, not convincingly, that the people marshalling the price management thesis do not possess either the knowledge or research with which to make a strong case for price-fixing in the gold market. Nothing could be further from the truth. Only GATA and its associates have conducted in-depth studies on the U.S. gold reserve, and only they have explored and analyzed the very technical meaning of gold derivatives statistics published by the official sector. And they alone have long warned that central bank loans stand at levels far greater than consensus forecasters claim. Therefore, we believe it is imperative that gold investors cast their eyes outside what has become an ignorant and stale mainstream towards a fringe whose thinking is far more intellectual than well-known gold market commentators have long been able to muster.

Like all manipulations, this one too will fail. When it does, the price of gold will explode. Until then, we urge the news media, gold industry and relevant arms of government to further investigate and expose what appears to be price-fixing on a scale of truly epic proportions.

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