## The US Federal Reserve is 'Fixing' the Gold Market

by Paul Craig Roberts via sal - Global Research *Monday, Apr 15 2013, 11:15am*
international / prose / post

> I was the first to point out that the Federal Reserve was rigging all markets, not merely bond prices and interest rates, and that the Fed is rigging the bullion market in order to protect the US dollar's exchange value, which is threatened by the Fed's quantitative easing. With the Fed adding to the supply of dollars faster than the demand for dollars is increasing, the price or exchange value of the dollar is set up to fall.

A fall in the dollar's exchange rate would push up import prices and, thereby, domestic inflation, and the Fed would lose control over interest rates. The bond market would collapse and with it the values of debt-related derivatives on the "banks too big too fail" balance sheets. The financial system would be in turmoil, and panic would reign.

Rapidly rising bullion prices were an indication of loss of confidence in the dollar and were signaling a drop in the dollar's exchange rate. The Fed used naked shorts in the paper gold market to offset the price effect of a rising demand for bullion possession. Short sales that drive down the price trigger stop-loss orders that automatically lead to individual sales of bullion holdings once their loss limits are reached.

According to Andrew Maguire, on Friday, April 12, the Fed's agents hit the market with 500 tons of naked shorts. Normally, a short is when an investor thinks the price of a stock or commodity is going to fall. He wants to sell the item in advance of the fall, pocket the money, and then buy the item back after it falls in price, thus making money on the short sale. If he doesn't have the item, he borrows it from someone who does, putting up cash collateral equal to the current market price. Then he sells the item, waits for it to fall in price, buys it back at the lower price and returns it to the owner who returns his collateral. If enough shorts are sold, the result can be to drive down the market price.

A naked short is when the short seller does not have or borrow the item that he shorts, but sells shorts regardless. In the paper gold market, the participants are betting on gold prices and are content with the monetary payment. Therefore, generally, as participants are not interested in taking delivery of the gold, naked shorts do not need to be covered with the physical metal.

In other words, with naked shorts, no physical metal is actually sold.

People ask me how I know that the Fed is rigging the bullion price and seem surprised that anyone would think the Fed and its bullion bank agents would do such a thing, despite the public knowledge that the Fed is rigging the bond market and the banks with the Fed's knowledge rigged the Libor rate. The answer is that the circumstantial evidence is powerful.

Consider the 500 tons of paper gold sold on Friday. Begin with the question, how many ounces is 500 tons? There are 2,000 pounds to one ton. 500 tons equal 1,000,000 pounds. There are 16 ounces to one pound, which comes to 16 million ounces of short sales on Friday.

Who has 16 million ounces of gold? At the beginning gold price that day of about $1,550, that comes to $24,800,000,000. Who has that kind of money?

What happens when 500 tons of gold sales are dumped on the market at one time or on one day? Correct, it drives the price down. Investors who want to get out of large positions would spread sales out over time so as not to lower their sales proceeds. The sale took gold down by about $73 per ounce. That means the seller or sellers lost up to $73 dollars 16 million times, or $1,168,000,000.

Who can afford to lose that kind of money? Only a central bank that can print it.

I believe that the authorities would like to drive the gold price down further and will, if they can, hit the gold market twice more next week and put gold at $1,400 per ounce or lower. The successive declines could perhaps spook individual holders of physical gold and result in actual net sales of physical gold as people reduced their holdings of the metal.

However, bullion dealer Bill Haynes told kingworldnews.com that last Friday bullion purchasers among the public outpaced sellers by 50 to 1, and that the premiums over the spot price on gold and silver coins are the highest in decades. I myself checked with Gainesville Coins and was told that far more buyers than sellers had responded to the price drop.

Unless the authorities have the actual metal with which to back up the short selling, they could be met with demands for deliveries. Unable to cover the shorts with real metal, the scheme would be exposed.

Do the authorities have the metal with which to cover shorts? I do not know. However, knowledgeable dealers are suspicious. Some think that US physical stocks of gold were used up in sales in efforts to disrupt the rise in the gold price from $272 in December 2000 to $1,900 in 2011. They point to Germany's recent request that the US return the German gold stored in the US, and to the US government's reply that it would return the gold piecemeal over seven years. If the US has the gold, why not return it to Germany?

The clear implication is that the US cannot deliver the gold.

Andrew Maguire also reports that foreign central banks, especially China, are loading up on physical gold at the low prices made possible by the short selling. If central banks are using their dollar holdings to purchase bullion at bargain prices, the likely results will be pressure on the dollar's exchange value and a declining market supply of physical bullion. In other words, by trying to protect the dollar from its quantitative easing policy, the Fed might be hastening the dollar's demise.

Possibly the Fed fears a dollar crisis or derivative blowup is nearing and is trying to reset the gold/dollar price prior to the outbreak of trouble. If ill winds are forecast, the Fed might feel it is better positioned to deal with crisis if the price of bullion is lower and confidence in bullion as a refuge has been shaken.

In addition to short selling that is clearly intended to drive down the gold price, orchestration is also indicated by the advance announcements this month first from brokerage houses and then from Goldman Sachs that hedge funds and institutional investors would be selling their gold positions. The purpose of these announcements was to encourage individual investors to get out of gold before the big boys did. Does anyone believe that hedge funds and Wall Street would announce their sales in advance so the small fry can get out of gold at a higher price than they do?

If these advanced announcements are not orchestration, what are they?

I see the orchestrated effort to suppress the price of gold and silver as a sign that the authorities are frightened that trouble is brewing that they cannot control unless there is strong confidence in the dollar. Otherwise, what is the point of the heavy short selling and orchestrated announcements of gold sales in advance of the sales?

NOTE: Gold weights are based on metric tons and Troy ounces. 500 metric tons of gold would be 16,075,000 troy ounces.



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