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"I may disapprove of what you say, but I will defend to the death your right to say it." --Voltaire

BUSINESS & FINANCE

The Golden Hedge A Conspiracy of Gold

Part III

LYNNEA M. BYLUND
Las Vegas Tribune Contributing Editor

(Editor's note: Ms. Bylund is Strategic Advisor to the Las Vegas Tribune and an ongoing Contributing Editor on issues dealing with Small Business, Barter, and the 'New Economy.' If you have missed any of the previous installments they may be found in the 'archives' section of Las Vegas Tribune Online at www.lasvegastribune.com)

In Golden Hedge Part 2 "Where's The Gold?" (Las Vegas Tribune December 24, 2005), we revealed the essence-existence of a golden global shell-game being perpetrated at the highest levels of the world's central banks, and why this means that the price of gold is going skyward, perhaps well beyond $1000 an ounce in soon coming years, largely because the gold is gone - the central banks no longer holding nearly as much as they claim.

To be sure, the reason why central banks exist is to 'counterfeit' and 'inflate' the supply of money. And while the connotations behind these 'trigger' words are open for debate, it is undeniable that bankers become worried whenever people begin to choose gold over their brand of money (paper).

Central banks endeavor to tarnish gold's 'safe haven' reputation to ensure that during times of crisis people will transfer assets from paper to paper (i.e. Dollars to Euros, Loonies to Japanese Bonds, etc), not paper to gold.

Long considered the domain of "gold bugs," "kooks," and crank fringe "conspiracy theorists," imagine the excitement late last fall at the headquarters of GATA the Gold Anti-Trust Action Committee when noted Royal Bank mutual fund manager John Embry issued a report referring to a price-manipulation conspiracy in the global gold market.

For GATA, which has been preaching that message for years now, it was probably a bit like the U.S. government admitting that yes, there was a top-level CIA plot to assassinate president Kennedy, and the whole lone-gunman theory was just a crock.

Mr. Embry is not a crank he is one of Canada's leading fund managers. In his report, he lists several reasons why gold prices should rise, including "increasing evidence of unsustainable gold price manipulation." He refers to gold sales by New York's Federal Reserve Bank, the timing of gains in the government's Exchange Stabilization Fund, and a statistical analysis that shows "high probability of price suppression."

In his "gold conspiracy compendium," Embry provides what he believes is irrefutable evidence of a global gold price suppression scheme. The

Embry report is "tremendous credibility," GATA chairman Bill Murphy explains. "Most of the gold world thought we were idiots. It turns out we're right."

Gold conspiracy theorists might not like being compared with the Kennedy conspiracy crowd, but GATA is seen in a similar light by traditional gold watchers.In a covering note to clients, Embry and co-author, Andrew Hepburn, explain that anecdotal evidence such as "counterintuitive price action" is one indicator pointing to a gold market that is "not free" based on a decade of evidence.

The report says initially disconnected activity by powerful gold market players has essentially synchronized. "A potentially highly dangerous situation developed which now requires expedient collaboration to stave off the inevitable bad ending."

The report says the market manipulation hurts all gold investors, but its true victims are communities that depend on gold mining. It says the beneficiaries are central banks intent on camouflaging "increasingly reckless monetary policies", whilst financial institutions are profiting by gulling investors who think the gold market is free.

In 2001 GATA launched an anti-trust lawsuit against the Bank for International Settlements the central bank of central banks as well as Fed chairman Alan Greenspan and a number of commercial banks, alleging that they engaged in a conspiracy to manipulate gold prices. Why would a global conspiracy want to keep the gold price low? A couple of reasons, GATA says. For one thing, banks such as J.P. Morgan and Goldman Sachs make a nice return lending their gold and investing the proceeds in other financial instruments, and they generate better returns if the price of gold is low.

GATA also says the U.S. and other governments are concerned that the world's banks have sold so much gold in the past that a run on bullion could trigger a global financial meltdown. According to the group, world gold demand exceeds supply by 1,500 tonnes, and if there were no price manipulation, bullion would be $800 (U.S.) an ounce instead of $ 450. GATA also says the "notional value" of the gold contracts held by U.S. banks is $87-billion, or greater than the country's entire gold reserves of 8,140 tonnes. The World Gold Council, of course, disputes most of these figures.

The driving force behind GATA is chairman William J. Murphy III a former wide receiver for the Boston Patriots football team who later became a futures trader. Other executives with the group include Chris Powell, managing editor of a daily newspaper in Connecticut, and Reginald Howe, a graduate of Harvard Law School who runs a private investment fund. Proponents of its price-manipulation theories have included such market luminaries as John Willson, the former CEO of major gold producer Placer Dome.

Part of what makes GATA's arguments attractive is that the gold market is notoriously shadowy and complex even more so than other commodities.

So if there's a global effort to manipulate the price of gold in order to keep it low, why has gold been climbing ever higher for the past few years? Simple: the plot is finally coming apart at the seams, and as it unravels it will push the gold price ever higher.

Entitled: Not Free, Not Fair: The Long Term Manipulation of the Gold Price, the Embry/Hepburn report runs to 63 pages. The report says market manipulation has capped even those impressive gains that we've seen gold achieve since its last bottom in 2001. Only when the manipulation is ended, by intervention or accident, will gold soar to an equilibrium value which is seen as a four-digit number.

The report dates the gold price suppression conspiracy to the rescue of Long-Term Capital Management in 1998 - having borrowed gold nearly limitlessly to sell forward and invest the proceeds in higher interest bearing instruments, the parties and their de facto insurers, central banks, realized that the positions could not be easily unwound.

LTCM's apparent gold short position of 300-400 tonnes, which is equivalent to nearly a whole year of South African new mine production, could not have been settled without causing a run on the gold price that might have triggered a collapse of the entire world financial system.

The belief is that central banks and the primary financial institutions agreed on a scheme to manage down or conceal the risks without causing a panic. As part of this arrangement, the Bank of England agreed, on behalf of the UK Treasury, to sell a large quantity of gold through a series of bizarrely structured auctions. Apparently aiding and abetting the Brits were the super-secretive US Exchange Stabilization Fund and the Federal Reserve. The IMF also provided cover by allowing governments to misreport the status of gold reserves and gold swaps.

Not Free, Not Fair concludes that there can be no other explanation for the apparently erratic behavior of gold but "severe long-term manipulation." Embry and Hepburn's report concludes with confidence that when the scheme unravels, as it must, the gold price 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."

To paraphrase Will Rogers: buy gold now, the central banks are running out of the stuff.

Lynnea Bylund is the president of Las Vegas-based Catalyst House www.catalysthouse.com, a strategic teaming and capital formation consulting agency. She may be reached at 702-349-4786 or lynnea@ catalysthouse.com