

# Surge in the Price of Gold: The Inner Workings of the International Gold Market

By [Bob Chapman](#)

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We recently saw gold at \$1,300.00 an ounce. That is a long way from \$35.00 an ounce on August 15, 1971, just a year shy of 40 years, from when President Nixon closed the gold window. Over the past ten years gold has been up about 20% a year. Shares and mint state graded numismatic coins have certainly outperformed gold bullion. We suppose we'll know in the final analysis what government manipulation has done to prices and results. We believe that what they have done has been criminal for which they will never be prosecuted. On the other hand buyers have had an unprecedented opportunity to buy gold and silver, bullion, coins and shares at artificially suppressed prices. That condition still exists. Year-to-date in 2010 gold is up about 17%.

The struggle over the past 16 months between the US dollar and gold to represent the world reserve currency has already been won by gold. The dollar is fast on its way to being dethroned as it loses momentum in trying to maintain its place in history. Historically all fiat currencies have failed and there have been no exceptions. For the past seven years the Federal Reserve, in order to stave off the strong undertow of deflation, has continued to create colossal amounts of money and credit. That has continued to depreciate the dollar versus gold and other major currencies. The only reason the dollar didn't fail years ago is that it has served as the world's reserve currency. During the past 39 years the US economy has suffered one recession after another and we are now mired in depression for the second time in less than 100 years, by the poor stewardship of the Federal Reserve. The credit bubbles created by the Fed do not work anymore and so the dollar system will soon come to an end. The Fed has been handily assisted on this downward journey by the US Treasury, which has created colossal debt, most of which has been created over the past 12 years. In order for the economy to survive the Fed has also implemented zero official interest rates. All of the above events are the last gasp of a failing fiat currency. The corporatist fascist economic philosophy of Keynesianism is about to be thrown on to the scrap heap of monetary history.

We do not have to give you the details of gold's journey since 1980, but we will say that it has traveled from \$252.00 to \$1,300.00 over the past 22 years in the face of massive central bank sales suppression. As gold launched forward, year after year, through a veil of lies and propaganda it was signaling a warning that all was not well in the world of money and wealth creation. The deliberate suppression of both gold and silver prices gave the elitists time to create a one-world currency and one-world government, but thus far those efforts have been unsuccessful and the world is learning via talk radio and the Internet exactly what these people are up to and the public worldwide is outraged that they have

deliberately perpetrated such a crime. These dark powers didn't plan on the public finding out what they were up too. The result has been slowly rising gold and silver prices, which has only served to allow many to purchase these metals at prices far below their true worth. Major financial changes are beginning to manifest themselves, and no matter what those in charge do, they can no longer control the value of the dollar, or gold and silver.

The result of this gold and silver suppression, which is finally coming to light, has been ten years of upward movement in these metals. The fall in the dollar has been totally offset by gains in gold and silver and that will continue with the inclusion of a catch up factor that will be startling in its scope and force. You haven't seen anything yet as we enter phase two of a three to five phase bull market. Over the past eight years, in what will prove to be the biggest bull market in history, gold and silver have risen a compounded just under 20% annually. When compared to all real estate, stocks and bonds this is phenomenal and this was just the beginning.

In five days the fiscal year ends on 9/30/10, and the Washington Agreement in its new form will be one year old. It will be in place for five years. The agreement allows members of European central banks to sell 400 tons of gold a year. Thus far in fiscal 2010 very little has been sold.

In this agreement for the first time officially, gold derivative transactions can be entered into to mask activity among the banks and particularly involving sales. That could be why the sales have been so low. Here to fore banks have leased gold and then continued to carry the leased gold on their books as still belonging to the bank, when in fact the bullion bank sold the gold the minute they received it. The central bank, which leased the gold, receives dollars, but still carries the gold on the books as existing inventory. We know that is absurd, but that is what they do. As you can see, central banks may have sold much more gold this year than they reported. Our guess is out of 32,000 tons they and the IMF may have 5,000 to 10,000 tons left and that includes US holdings. The bottom line is there is no restraint on European central bank selling.

As a result as well gold swaps have come into use, which means lenders of gold to the BIS, Bank for International Settlements, by commercial banks points up they have to be under severe pressure. These obvious problems have to be a factor in gold currently preparing to break out above \$1,300 and silver above \$21.00. As October becomes the spot month for gold, December becomes the main outside contract month for both gold and silver. December is one of the largest months for physical delivery. In gold two million ounces could be called for delivery in December. Comex only has 2.6 million in inventory. If such a call was made the transfer of physical gold could drive up spot prices and might force central banks to be sellers, which would cause a crisis of confidence and a run on currencies, particularly the US dollar into gold. These possibilities hang like a sword over the heads of international elitists, who have in effect abandoned gold as a backing of currencies. That has turned all currencies into chips in a casino, where such a situation via leverage could bring down the world monetary system. Such an overt act would bring the fury of the world public down squarely onto their heads.

There is no question that more and more buyers of gold and silver contracts are opting to take delivery in spite of being offered 25% to 30% premiums to roll or curtail their contracts. In time, due to the leverage, and the fact that sellers have little or no inventory, a two-tier market will develop. There would be two different prices, one for the paper gold play and the other for delivery. This has already been rejected in the market from time to time, as gold has gone into backwardation. In time we could see continual backwardation as gold for delivery goes to permanent premiums, of \$50.00 to \$100.00 an ounce. That also means non-delivery contracts could fall to a discount and perhaps not participate in the move to the upside in the way that physical contracts will. The sale of leveraged contracts, or naked sales, are really tantamount to fraud if not identified as such. Once no gold is available for delivery, and that is possible, the Comex and LBMA contracts could collapse. Then to be death with is the naked sellers of derivatives. This is what we believe GLD and SLV have been involved in and if they call for delivery they may well find out they cannot get delivery and that could end in failure for the ETFs. As we look down the road we can see some real problems looming. It should be noted that naked short sellers are playing a very dangerous game in the midst of a ten-year bull market in gold and silver. All the gold in the world is only valued at 1% of all assets and what is still in the ground only equals another 1%. Historically that figure has been higher than 20%. What do the naked shorts do when that gap begins to close? They will default of course putting more upward pressure on prices. Dealers are about to find out that gold is not a barbaric relic but the only real money. The game of creating unlimited paper money is coming to a close because people will stop accepting it, or as in Weimer Germany, spend it as quickly as possible creating hyperinflation. The foundation of the world's financial system will prove to be bogus and irredeemable. That ends in bankruptcy leaving gold and silver as the mediums of exchange.

Eventually the Ponzi scheme will be exposed and you do not want to be left holding only dollar assets. People will then ask where are the regulators? They will then be told they are there to protect the government, not the investor. Anyone who has been paying any attention at all has known this for years. The CFTC may as well not even exist.

The reason for concern is that there simply is not enough gold and silver to satisfy buyers and thus we have a paper-market based on the premise that 98% of those participating in the gold and silver markets just want to gamble and have no intention of taking delivery. Historically that has been true, but changes are taking place, because buyers fear if they want delivery they won't be able to get it. As a result, more investors are demanding delivery, in spite of a 30% premium not to do so. The result is tremendous pressure on existing supplies for physical delivery. These conditions in time, will lead to the closure of Comex and the LBMA and cause a scandal at GLD and SLV. As we have seen previously on the LBMA the exchanges will appeal to government to bail them out. That has happened before in England as government delivered melt gold of about 88% purity, which could only have come from the US government. All of these events will happen. Just be patient and prepare yourself.

The same thing is occurring in the naked shorting of producing gold and silver mining companies, which has also spread to juniors and even exploration companies. We have been involved in these shares for over 50 years and we see very unusual things going on. You

have all the important things going on that would make these shares move up strongly, but yet they hardly move to the upside. We ask how does a stock trade at \$83.00 two and a half years ago with gold at \$850.00 an ounce, trade today at \$69.00 when gold is \$1,300 an ounce. The only thing that can cause that is government naked shorting. As you know government can do anything it wants and that includes stealing from its citizens.

The media is totally unwilling to report the manipulative affects of government intervention in all of these precious metals and share markets. Never are the real fundamentals reported. The same is true regarding the general stock market and in the Forex market, both of which are in perfect head and shoulders formations on long-term charts. This is called lying by omission. This avoidance of the facts will come to an end as gold and silver bullion become harder to locate and prices move ever higher. The flight to quality, gold, silver and shares, has been underway for ten years, and nothing can stop it. That movement just ended its first phase and has three or more phases yet to be completed.

The gold and silver shares are an explosion waiting to happen. They have been suppressed for 2-1/2 years and as gold and silver finally break out higher you can anticipate a doubling of prices. They'll be lots of short covering going on. The producing shares are now going to offer exponential earnings. It doesn't cost a mine much more to produce gold whether it's at \$750 or \$1,500 an ounce, so earnings can rise every quickly. Many mines are currently in that position. It should also be remembered that in the early 1930s in a deflationary environment gold and silver mining shares rose 500% and in the inflationary environment of 1978 to 1981, gold and silver shares appreciated an average 40 times more than gold bullion. In the latter there were ten times more mining companies then there are today.

We are still facing the widening and deepening of sovereign debt in the US, UK and Europe in particular. In fact at the rate of debt accumulation they probably are in the last stages prior to default. Do not forget this is not new. The US, under Nixon, on 8/15/71 defaulted on the gold backing on the dollar and that is what put the US in its current position. Today, so far there has not been another default, but a default of a different kind and that is through currency debasement. That is why America's debtors are so concerned. We have seen a tremendous accumulation of debt over the past 30 years, and it cannot continue without terrible consequences. Without gold as a barrier to monetary profligacy there can be no control of the system and eventually it turns into hyperinflation and a deflationary death spiral. Keynes and later Friedman believed the creation of money and credit would allow an economy to spend its way out of deflation. They had read economic and monetary history and they knew that wasn't possible and it is not possible today. They were wrong, as were Greenspan and Bernanke. Their dream of defying reality is going to become our nightmare. The point of no return was passed in June of 2003. There is no going back. Those who created this monstrosity and the public are going to pay dearly for what they have done. This will be the greatest unprecedented crisis in 500 years. The western empire of the US, UK and Europe are going to financially collapse.

Is it any wonder then that gold has gone from \$252 to \$1,300 an ounce over the past ten years and that was during suppression? Can you imagine where it is going to end up? It is now just a question of when. This is the implosion of an empire and all the chaos that engenders.

The bottom line is get out of the stock market except for gold and silver shares, out of bonds, real estate, CDs, cash value life policies and annuities. Move all your assets into gold and silver share, coins and bullion. If you do not do that you will end up with nothing.

China will not go quietly into the night if Congress imposes duties on their US exports.

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Articles by: [Bob Chapman](#)

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