Threat to the Hegemony of the US Dollar? Rigged Gold Bullion Market

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Over the past month there has been a statistically improbable concurrence of events that can only be explained as a conspiracy to protect the dollar from the Federal Reserve's policy of Quantitative Easing (QE).

Quantitative Easing is the term given to the Federal Reserve's policy of printing 1,000 billion new dollars annually in order to finance the US budget deficit by purchasing US Treasury bonds and to keep the prices high of debt-related derivatives on the "banks too big to fail" (BTBF) balance sheets by purchasing mortgage-backed derivatives. Without QE, interest rates would be much higher, and values on the banks' balance sheets would be much lower.

Quantitative Easing has been underway since December 2008. During these 54 months, the Federal Reserve has created several trillion new dollars with which the Fed has monetized the same amount of debt.

One result of this policy is that most real US interest rates are negative. Another result is that the supply of dollars has outstripped the world's demand for dollars.

These two results are the reason that the Federal Reserve's policy of printing money with which to purchase Treasury bonds and mortgage backed derivatives threatens the dollar's exchange value and, thus, the dollar's role as world reserve currency.

To be the world reserve currency means that the dollar can be used to pay any and every country's oil bills and trade deficit. The dollar is the medium of international payment.

This is very helpful to the US and is the main source of US power. Because the dollar is the reserve currency, the US can cover its import costs and pay for its cost of operation simply by creating its own paper money.

If the dollar were not the reserve currency, Washington would not be able to finance its wars or continue to run large trade and budget deficits. Therefore, protecting the exchange value of the dollar is Washington's prime concern if it is to remain a superpower.

The threats to the dollar are alternative monies–currencies that are not being created in enormous quantities, gold and silver, and Bitcoins, a digital currency.

The Bitcoin threat was eliminated on May 17 when the Department of Homeland Security seized Bitcoin's accounts. The excuse was that Bitcoin had failed to register in keeping with the US Treasury's anti-money laundering requirements.

Washington has stifled the threat from other currencies by convincing other large currencies to out-print the dollar. Japan has complied, and the European Central Bank, though somewhat constrained by Germany, has entered the printing mode in order to bail out the private banks endangered by the "sovereign debt crisis."

That leaves gold and silver. The enormous increase in the prices of gold and silver over the last decade convinced Washington that there are a number of miscreants who do not trust the dollar and whose numbers must not be permitted to increase.

The price of gold rose from $272 an ounce in December 2000 to $1,917.50 on August 23, 2011. The financial gangsters who own and run America panicked. With the price of the dollar collapsing in relation to historical real money, how could the dollar's exchange rate to other currencies be valid? If the dollar's exchange value came under attack, the Federal Reserve would have to stop printing and would lose control over interest rates.

The bond and stock market bubbles would pop, and the interest payments on the federal debt would explode, leaving Washington even more indebted and unable to finance its wars, police state, and bankster bailouts.

Something had to be done about the rising price of gold and silver.

There are two bullion markets. One is a paper market in New York, Comex, where paper claims to gold are traded. The other is the physical market where personal possession is taken of the metal–coin shops, bullion dealers, jewelry stores.

The way the banksters have it set up, the price of bullion is not set in the markets in which people actually take possession of the metals. The price is set in the paper market where speculators gamble.

This bifurcated market gave the Federal Reserve the ability to protect the dollar from its printing press.

On Friday, April 12, 2013, short sales of gold hit the New York market in an amount estimated to have been somewhere between 124 and 400 tons of gold. This enormous and unprecedented sale implies an illegal conspiracy of sellers intent on rigging the market or action by the Federal Reserve through its agents, the BTBF that are the bullion banks.

The enormous sales of naked shorts drove down the gold price, triggering stop-loss orders and margin calls. The attack continued on Monday, April 15, and has continued since.

Before going further, note that there are position limits imposed on the number of contracts that traders can sell at one time. The 124 tons figure would have required 14 traders with no open interest on the exchange to sell all together in the same few minutes 40,000 futures contracts. The likelihood of so many traders deciding to short at the same moment at the maximum permitted is not believable. This was an attack ordered by the Federal Reserve, which is why there is no investigation of the illegality.

Note also that no seller that wanted out of a position would give himself a low price by dumping an enormous amount all at once unless the goal was not profit but to smash the bullion price.

Since the April 12-15 attack on the gold price, subsequent attacks have occurred at 2pm

Hong Kong time and 2 am New York time. At this time activity is light, waiting on London to begin operating. As William S.Kaye has observed, no entity concerned about profits would choose this time to sell 20,000 to 30,000 futures contracts, but this is what has been happening.

Who can be unconcerned with losing money in this way? Only a central bank that can print it.

Now we come to the physical market where people take possession of bullion instead of betting on paper instruments. Look at this chart from ZeroHedge. http://www.zerohedge.com/news/2013-05-16/gold-demand-one-chart-physical-vs-etf [1] The demand for physical possession is high, despite the assault on gold that began in 2011, but as the price is set in the non-real paper market, orchestrated short sales, as in the current quarter of 2013, can drive down the price regardless of the fact that the actual demand for gold and silver cannot be met.

While the corrupt Western financial press urges people to abandon bullion, everyone is trying to purchase more, and the premiums above the spot price have risen. Around the world there is a shortage of gold and silver in the forms, such as one-ounce coins and ten-ounce bars, that individuals demand.

That the decline in gold and silver prices is an orchestration is apparent from the fact that the demand for bullion in the physical market has increased while naked short sales in the paper market imply a flight from bullion.

What does this illegal manipulation of markets by the Federal Reserve tell us? It tells us that the Federal Reserve sees no way out of printing money in order to support the federal deficit and the insolvent banks. If the dollar came under attack and the Federal Reserve had to stop printing dollars, interest rates would rise. The bond and stock markets would collapse. The dollar would be abandoned as reserve currency. Washington would no longer be able to pay its bills and would lose its hegemony. The world of hubristic Washington would collapse.

It remains to be seen whether Washington can prevail over the world demand for gold and silver. Can the dollar remain supreme when offshoring has deprived the US of the ability to cover its imports with exports? Can the dollar remain supreme when the Federal reserve is creating 1,000 billion new ones each year, while the BRICS, China and Japan, China and Australia, and China and Russia are making deals to settle their trade balances without the use of the dollar?

If the consumption-based US economy deprived of consumer income by jobs offshoring takes a further dip down in the third or fourth quarter–a downturn that cannot be masked by phony statistical releases–the federal deficit will rise. What will be the effect on the dollar if the Federal Reserve has to increase its Quantitative Easing?

A perfect storm has been prepared for America. Real interest rates are negative, but debt and money are being created hand over foot. The dollar’s demise awaits the world’s decision how to get out of it. The Federal Reserve can print dollars with which to keep the bond and stock markets high, but the Federal Reserve cannot print foreign currencies with which to keep the dollar afloat.

When the dollar goes, Washington’s power goes, which is why the bullion market is rigged.

Protect the power. That is the agenda. Is it another Washington over-reach?

Bitcoin Note: On May 16, PCWorld reported: "The seizure of funds of the largest bitcoin exchange, Mt. Gox, was triggered by an alleged failure of the company to comply with U.S. financial regulations, according to a federal court document. The U.S. District Court in Maryland on Tuesday ordered the seizure of Mt. Gox's funds, which were in an account with Dwolla, a payments company that transferred money from U.S. citizens to Mt. Gox for buying and selling the virtual currency bitcoin."

Reports subsequent to my column suggest that instead of funds being seized, a money transfer mechanism was shut down. Whatever happened, the government has demonstrated that it can disable or destroy Bitcoin at will. Bitcoin might be tolerated unless it becomes widely used. If the government regards Bitcoin as a refuge from the dollar, it can simply have its agents buy up the Bitcoins, driving the price skyhigh, and then dump the purchases all at once, just as tons of gold shorts were dumped on the gold market.

Bitcoin showed its vulnerability in April when, according to news reports, someone gave away $13,627 worth of Bitcoins, and Bitcoin values crashed from $265 to $105. Some people who watch this market concluded that the exercise was a covert central bank stress test.

The fact that I reported on Bitcoin does not mean that I oppose Bitcoin. The point of my article is to demonstrate that the government will take all steps to protect the dollar from Quantitative Easing.

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