VIDEOS: LBMA Bullion Market Ponzi Scheme. Financial Manipulation in the Gold and Silver Markets

By Adrian Douglas
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Here is running commentary from Douglas based on a transcript of this part of the hearing:

S. O'MALIA: Both Mr. Organ and Mr. Epstein in the second panel, raised the concerns that short positions exceed the physical supply. The second panel kind of argued that that wasn't a concern. Are you concerned that the shorts will not be able to deliver if called upon?

J. CHRISTIAN: No. I am not at all concerned. For one thing it has been persistently that way for decades. Another thing is that there are any number of mechanisms allowing for cash settlements and problems and a third thing is as many people who are actually knowledgeable about the silver market and the gold market have testified today that almost all of those short positions are in fact hedges, the short futures positions are hedges, offsetting long positions in the OTC market. So I don't really see a concern there.

[Note: It is interesting that Mr. Christian is not concerned about the ability of the shorts to deliver because they can cash settle! He clearly has no understanding that when someone wants to buy precious metals giving them cash instead is a failure to deliver. It is a default! But he is not concerned! He says that the short position is actually hedged by a long position on the OTC but we will see later in this testimony how he describes the "OTC Physical Market" and we will see that the long position is not bullion but is in fact an unbacked (or only partially backed) I.O.U. bullion.]

S. O'MALIA: Mr Organ would you like to respond?

H. Organ: I do see a risk on this, and I think it is a risk that we have to be very, very careful of. As countries like China, South Korea and Russia start demanding and taking physical delivery of their gold and moving it offshore to their shores and putting pressure on the Comex, and we will probably come to a point in time where we will have a failure to deliver.

A DOUGLAS: Mr. Chairman, could I make a comment?

CHAIRMAN GENSLER: No! Who are you?

A DOUGLAS: I would…

CHAIRMAN GENSLER: No! I said “No!”

A DOUGLAS: Oh! You said “No”?

CHAIRMAN GENSLER: I don’t know who is this?

A DOUGLAS: I am Adrian Douglas; I am assisting Harvey.

CHAIRMAN GENSLER: Alright, Sir. Yes.

A DOUGLAS: I would just like to make a comment. We are talking about the futures market hedging the physical market. But if we look at the physical market,the LBMA, it trades 20 million ozs of gold per day on a net basis which is 22 billion dollars. That’s 5.4 Trillion dollars per year. That is half the size of the US economy. If you take the gross amount it is about one and a half times the US economy; that is not trading 100% backed metal; it’s trading on a fractional reserve basis. And you can tell that from the LBMA’s website because they trade in “unallocated” accounts. And if you look at their definition of an “unallocated account” they say that you are an “unsecured creditor”. Well, if it’s “unallocated” and you buy one hundred tonnes of gold even if you don’t have the serial numbers you should still have one hundred tonnes of gold, so how can you be an unsecured creditor? Well, that’s because its fractional reserve accounting, and you can’t trade that much gold, it doesn’t exist in the world. So the people who are hedging these positions on the LBMA, it’s essentially paper hedging paper. Bart Chilton uses the expression “Stop the Ponzimonium” and this is a Ponzi Scheme. Because gold is a unique commodity and people have mentioned this, it is left in the vaults and it is not consumed. So this means that most people trust the bullion banks to hold their gold and they trade it on a ledger entry. So one of the issues we have got to address here is the size of the LBMA and the OTC markets because of the positions which are supposedly backing these positions which are hedges, but it is essentially paper backing paper.

[8 seconds of silence]

CHAIRMAN GENSLER: Oh! I guess I get time. Errr…Umm. I don’t have any other questions. Commissioner Dunn.

M. DUNN: I appreciate the difficulty of trying to do this by remote but at the end of your testimony you start talking about bona fide hedge exemptions for commercial traders and must be part of position limits and not to grant hedge exemptions to swap dealers would be devastating for liquidity of exchanges and the price discovery capacity, and we got into who determines what is legitimate, but could you amplify on that a bit and what you see as a danger there?

J. CHRISTIAN: Yes I can amplify on it; but amplify on it a bit is more difficult because it is a very big subject. The first thing is that precious metals, copper, other metals, energy these are all traded internationally and are fungible commodities by and large. There are a lot of strange things that have been misspoken about the difference between the wholesale and the retail market and we don't really have the time to go over those, I think. But the fact of the latter is...

[The lights go off]

J. CHRISTIAN: Oh excuse me. I am in a building with motion sensitive lighting and it doesn't recognize what I do as human activity.

CHAIRMAN GENSLER: Those were your words not anybody's here.

J. CHRISTIAN: No, they were my wife's! If you start putting position limits on bona fide hedgers for example, the bullion banks, and the previous fellow was talking about hedges of paper on paper and that is exactly right. Precious metals are financial assets like currencies, T-Bills and T-bonds they trade in the multiples of a hundred times the underlying physical and so people buying them are voting and giving an economic view of the world or a view of the economic world and so when you start saying to a bank I have a number of people... [

Note: This is mind blowing. He openly admits that the LBMA OTC market is not trading in physical gold or silver; it is trading in paper promises. Gold is not intended to be a "financial asset" like T-Bills and currencies. That is the whole point of owning it. Actual physical bullion is a tangible asset with intrinsic value that doesn't have counterparty risk. He believes the purpose of trading paper promises in gold is for investors to "vote" on their view of the economic world! He confirms that the LBMA trades hundreds of times the real underlying physical. This is even a higher estimate than I have previously made! It is, as I asserted before the Commission, a giant Ponzi Scheme.]

J. CHRISTIAN: well, actually let's go back to a concrete example of Mr. Organ when he was talking about August of 2008 when there was an explosion in the short positions in gold and silver held by the bullion banks on the futures market and he seemed to imply that that was somehow driving the price down. If you understand how those bullion banks run their books the reason they had an explosion in their short positions was because they were selling bullion hand over fist in the forward market, in the physical market, and in the OTC options market. Everyone was buying gold everywhere in the world so the bullion banks who stand as market makers were selling or making commitments to sell them material and so they had to hedge themselves and they were using the futures market to do that. So if you place position limits on the futures market they will have to find some other mechanism to hedge themselves ...and they will. And someone else will provide that market...

M. DUNN: Jeffery, I am going to cut you off because I want to ask another question of Mr. Organ.

[It is hard to imagine more inane drivel than this. He conjures up the image of bullion bankers selling bullion like crazy to the general public who are in a feeding frenzy and the bullion bankers are “hedging themselves” by selling gold short on the COMEX!!! Did he get that idea from a blonde? A little while later Chairman Gensler also realized that this was the biggest baloney ever concocted as a cover for massive gold market manipulation by JPMorgan and HSBC in 2008 and so poses a follow up question]……

And here is the second must watch clip:

CHAIRMAN GENSLER: I would like to follow up on Commissioner Dunn’s question for Mr. Christian, if I might, because I didn’t quite follow your answer on the bullion banks. You said that the bullion banks had large shorts to hedge themselves selling elsewhere, and I didn’t understand; I might just not have followed it and you’re closer to the metals markets than me on this, but how do you short something to cover a sale, I didn’t quite follow that?

J. CHRISTIAN: Well, actually I misspoke. Basically what you were seeing in August of 2008 was the liquidation of leveraged precious metals positions from a number of places and the bullion banks were coming back to buy it, and they were hedging those positions by going short on the COMEX and that is really what it was.

[Even on a second attempt Mr. Christian invents the most ridiculous poppycock to explain away the blatant manipulation of the precious metals in 2008. If, in his own words, investors were buying gold hand over fist everywhere in the world why would leveraged long holders dump all their long holdings? They would have ordinarily been making a fortune. The bank participation report of August 2008 shows that 2 or 3 bullion banks sold short the equivalent of 25% of world annual silver production in 4 weeks and the equivalent of 10% of world annual gold production. There was simultaneously a decrease in their long positions, which were almost non-existent anyway, which is incoherent with a notion the bullion banks were mopping up dumped leveraged investments. For an intelligent and coherent explanation of what happened in August 2008 read my CFTC written testimony here]

CHAIRMAN GENSLER: So I am glad I asked because I really didn’t follow that. But if I think of the earlier charts of the positions of the bullion banks that Mr. Sherrod had these concentrated shorts have been, well you know, reasonably consistent, they are not exactly the same on every day, but his charts showed a similarity across a couple of years. So what are bullion banks, I mean I am just trying to understand, what are bullion banks hedging on the other side, we heard from other panels, but you seem to be familiar, is it warehouse receipts, what is it?

J. CHRISTIAN: Well it’s a tremendous number of things. You were at Goldman shortly after me and we had an MIS system that kicked out a daily gold book.

CHAIRMAN GENSLER: That’s really remarkable because we don’t seem to have a lot of similar views, but you know, a lot of people were at Goldman Sachs.

J. CHRISTIAN: Well I didn't like the trends at Goldman so I left in 1986. But honestly, and bad jokes aside, if you look at a bullion bank's book, its gold book for example, you will see an enormous number of things; there will be gold forward purchases from mining companies, there will be forward purchases from refineries, there will be gold that has been leased out to electronics manufacturers, component manufacturers, and countless manufacturers and jewelers. As gold flows through the beneficiation process and again these are all long complex issues that are hard to reduce, but you know, a lot of producers will sell their gold the moment it leaves their possession at the mine. It might be in concentrate form or it might be in dore form. It then goes to a smelter or a refinery. The bullion bank buys that and it agrees a price at the time it is buying it but it won't be allowed to sell that metal until the refinery outturn which maybe two weeks but it could be six months. So they will go into the market and short the market in order to cover the commitment they have made to buy at that price and then when they get the metal in the physical market then they can either sell that metal in the physical market and unwind the hedge in the futures market or the forward market or do something else. There are all sorts of other derivative contracts that investment banks and bullion banks will sell to investors, to other banks, pension funds, to insurance companies and each of those will often have a long exposure in gold which will be hedged with an offsetting short position [note: There he goes again with that blonde idea that when you sell gold to someone you hedge that with a short position!]. So if you look at a bullion bank's gold book or silver book you would find a large range of topics. One of the things that the people who criticize the bullion banks and talk about this undue large position don't understand what is the nature of the long positions of the physical market and we don't help it; the CFTC when it did its most recent report on silver used the term that we use "the physical market". We use that term as did the CFTC in that report to talk about the OTC market in other words forwards, OTC options, physical metal and everything else. People say, and you heard it today, there is not that much physical metal out there, and there isn't. But in the "physical market" as the market uses that term, there is much more metal than that…there is a hundred times what there is. If I look at the large short positions on the COMEX my question is where are the other shorts being hedged? because the short position, that I believe the bullion banks use to hedge their physicals, is larger than their short position on the COMEX and the answer is that they hedge it in the OTC market in London.

CHAIRMAN GENSLER: I thank you for that detailed discussion

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The CFTC position limits hearing was supposed to usher in a new era of transparency and honesty into the dealings of the gold market. In a very ironic way, it did just that.

Here is Douglas' must read conclusion – and a warning for anyone who believes that following a wholesale run on commodities, investors will be able to have access to what is contractually theirs.

This is a stunning revelation. Mr. Christian confirms that the "physical market" is not in fact a physical market at all. It is a loose description of all the paper trading and ledger entries and some physical metal movements that occur each day on behalf of people who believe they own bullion in LBMA vaults but in fact they don't. They are told they have "unallocated gold" or "unallocated silver" but that does not mean the LBMA has physical metal set aside for those customers and has just not given specific bar numbers to the customers. No, it is the most cynical and corrupt definition of “unallocated”...the customer has NO bullion allocated to him. NONE! The LBMA defines the owners of “unallocated accounts” quite clearly as “unsecured creditors”. That means they have NO collateral. NONE. Can it be any clearer? It is a giant Ponzi scheme.

Mr. Christian confirms what many analysts and GATA have been alleging that there is not much REAL physical metal, but testifies that there is actually one hundred times the REAL Physical metal being sold based on the much more “loose” definition of what “physical” means to the bullion banks.

The last sentence of his statement is mind-blowing. He says the “physical” positions of the bullion banks are so huge that they are much bigger than the COMEX short position. He says the “physicals” are hedged on the OTC market in London! Did you get that? Let me walk you through it. The bullion banks are selling what is supposed to be vault gold but it is just a ledger entry if the customer never asks for delivery. They must balance their exposure with a ledger deposit entry. This has to be some paper promise of gold from a third party, or some derivative, or even some real gold bullion. If all the ledger entries balance out then the bullion bank has no net exposure in exactly the same way the futures market works with a short offsetting a long. A futures market can never default if no one asks for delivery as only paper contracts are traded. The loosely defined “physical” London market is an identical scheme. As long as everyone is prepared to buy and sell “ledger entries” for imaginary gold in the vault no one will ever discover the fraud.

The LBMA does, however, buy and sell some real physical metal as well. But we now know form Mr. Christian’s testimony that this is one one-hundredth the size of the paper gold trading. The LBMA states on its website that it trades 20 million ozs of gold each day on a net basis. We can calculate the net trade of REAL physical gold should be about 200,000 ozs each day; that is 6.25 tonnes per day or 1625 tonnes per year. This is very much in line with the size of total global mining output of approximately 2200 tonnes per year.

So the giant Ponzi trading of gold ledger entries can be sustained only if there is never a liquidity crisis in the REAL physical market. If someone asks for gold and there isn’t any the default would trigger the biggest “bank run” and default in history. This is, of course, why the Central Banks lease their gold or sell it outright to the bullion banks when they are squeezed by high demand for REAL physical gold that can not be met from their own stocks.

Almost every day we hear of a new financial fraud that has been exposed. The gold and silver market fraud is likely to be bigger than all of them. Investors in their droves, who have purchased gold in good faith in “unallocated accounts”, are going to demand delivery of their metal. They will then discover that there is only one ounce for every one hundred ounces claimed. They will find out they are “unsecured creditors”.

GATA has long advocated the ownership of real physical bullion. The “bombshells” dropped in the CFTC Public Hearing have only served to reinforce that view. We believe we have made significant new inroads into exposing the fraud, and the suppression of precious metals prices and it is documented in the CFTC’s own hearing.

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Adrian Douglas
Director of GATA
Proprietor of Market Force Analysis
www.MarketForceAnalysis.com
info@marketforceanalysis.com

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