American Financial Markets Have No Relationship To Reality

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As we have demonstrated in previous articles, the bullion banks (primarily JP Morgan, HSBC, ScotiaMocatta, Barclays, UBS, and Deutsche Bank), most likely acting as agents for the Federal Reserve, have been systematically forcing down the price of gold since September 2011. Suppression of the gold price protects the US dollar against the extraordinary explosion in the growth of dollars and dollar-denominated debt.

It is possible to suppress the price of gold despite rising demand, because the price is not determined in the physical market in which gold is actually purchased and carried away. Instead, the price of gold is determined in a speculative futures market in which bets are placed on the direction of the gold price. Practically all of the bets made in the futures market are settled in cash, not in gold. Cash settlement of the contracts serves to remove price determination from the physical market.

Cash settlement makes it possible for enormous amounts of uncovered or "naked" futures contracts — paper gold — to be printed and dumped all at once for sale in the futures market at times when trading is thin. By increasing the supply of paper gold, the enormous sales drive down the futures price, and it is the futures price that determines the price at which physical quantities of bullion can be purchased.

The fact that the price of gold is determined in a paper market, in which there is no limit to the supply of paper contracts that can be created, produces the strange result that the demand for physical bullion is at an all time high, outstripping world production, but the price continues to fall! Asian demand is heavy, especially from China, and silver and gold eagles are flying off the shelves of the US Mint in record quantities. Bullion stocks are being depleted; yet the prices of gold and silver fall day after day.

The only way that this makes sense is that the price of bullion is not determined in a real market, but in a rigged paper market in which there is no limit to the ability to print paper gold.

The Chinese, Russians, and Indians are delighted that the corrupt American authorities make it possible for them to purchase ever larger quantities of gold at ever lower prices. The rigged market is perfectly acceptable to purchasers of bullion, just as it is to US authorities who are committed to protecting the dollar from a rising price of gold.

Nevertheless, an honest person would think that the incompatibility of high demand with constrained supply and falling price would arouse the interest of economists, the financial media, financial authorities, and congressional committees.

Where are the class action suits from gold mining companies against the Federal Reserve, its bullion bank agents, and all who are harming the interest of the mining companies by short-selling gold with uncovered contracts? Rigged markets–especially on the basis of inside information–are illegal and highly unethical. The naked short-selling is causing damage to mining interests. Once the price of gold is driven below $1200 per ounce, many mines become uneconomical. They shut down. Miners are unemployed. Shareholders lose money. How can such an obviously rigged and manipulated price be permitted to continue? The answer is that the US political and financial system is engulfed with corruption and criminality. The Federal Reserve's policy of rigging bond and gold prices and providing liquidity for stock market speculation has damaged the US economy and tens of millions of US citizens in order to protect four mega-banks from their mistakes and crimes. This private use of public policy is unprecedented in history. Those responsible should be arrested and put on trial and they should simultaneously be sued for damages.

US authorities use the Plunge Protection Team, the Exchange Stabilization Fund, currency swaps, Federal Reserve policy, and purchases of S&P futures to support an artificial exchange value of the dollar and to provide the liquidity needed to support stock and bond prices, with the latter so artificially high that savers receive negative real interest rates on their saving.

The authorities have created a financial system totally out of sync with reality. When the authorities can no longer keep the house of cards standing, the collapse will be extreme.

It is a testament to the complicity of economists, the incompetence of financial media, and the corruption of public authorities and private institutions that this house of cards was constructed. The executives of the handful of mega-banks that caused the problem are the people who are running the US Treasury, the New York Fed, and the US financial regulatory agencies. They are using their control over public policy to protect themselves and their institutions from their own reckless behavior. The price for this protection is being paid by the economy and ordinary Americans – and that price is rising.

The latest orchestrated takedown of the gold price is related to two events (see the graphs below). One is that the Federal Reserve decided to boost the upward spike in the dollar's exchange rate from the Fed's announcement of the end of Quantitative Easing (QE). The Fed's announcement of the end of dollar creation in order to support bond prices lessened the rising anxiety in the world about the US dollar's value when the supply of new dollars continued to increase faster than the US output of goods and services. The Fed reinforced the boost that its announcement gave to the dollar by having its bullion bank agents drive down the gold price with naked short-selling. [1]

Naked short selling was also used to offset the effect on the gold price by the Bank of Japan's surprise announcement on October 31 of a massive new program of QE. Apparently, the Bank of Japan either has been pressured by Washington to inflate Japan's currency in order to support the dollar's value or is applying a policy based on the Keynesian Phillips Curve that 2-3% inflation stimulates economic growth. Japan has been in the economic doldrums for a long time and is now reduced to pre-Reagan "snake oil" prescriptions in a desperate attempt to revive its economy.

Japan's announcement of infinite money creation should have caused the price of gold to rise. To prevent a rise, at 3:00 AM US Eastern Time, during one of the least active trading periods for gold futures, the electronic futures market (Globex) was hit with a sale of 25 tonnes of uncovered Comex paper gold contracts, which dropped the gold price $20 dollars. No legitimate seller would destroy his own capital by selling a position in this way.

The gold price stabilized and moved higher, but at 8 AM US Eastern Time, and 20 minutes prior to the opening of the New York futures market (Comex), another 38 tonnes of uncovered paper gold futures were sold. The only possible purpose of such a sale is to drive down the price of gold. Again, no legitimate investor would unload a huge amount of his holdings in this way, thereby wiping out his own wealth. [2]

Allegedly, the United States is the home of scientific economics with the predominance of winners of the Nobel Prize in economics. Despite these high qualifications, the price of gold, silver, equities, and bonds that are set in the US bear no relationship to economic reality, and American economists do not notice.

The divergence of markets from economic reality disturbs neither public policymakers nor economists, who promote the interests of the government and its allied interest groups. The result is an economy that is a house of cards.

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