Manipulations Rule The Markets

QE helps the big banks, and manipulation of the gold price downward protects the US dollar from its dilution by QE.

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The Federal Reserve's announcement on December 18 that beginning in January its monthly purchases of mortgage-backed financial instruments and US Treasury bonds would each be cut by $5 billion is puzzling, as is the financial press's account of the market's response.

The Federal Reserve conveys a contradictory message. The Fed says that improvements in employment and the economy justify cutting back on bond purchases.

Yet the Fed emphasizes that it is maintaining its commitment to record low interest rates "well past the time that the unemployment rate declines below 6.5 percent, especially if projected inflation continues to run below the [Open Market] Committee's 2 percent longer-run goal. When the Committee decides to begin to remove policy accommodation it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent."

The last sentence in the quote states that the Fed does not regard its announced reduction in bond purchases as less accommodation or as a move toward tightening. In other words, the Fed is saying that tapering does not mean less accommodation.

To put it another way, the Fed is saying that the economy is doing well enough not to require the same amount of monthly bond purchases, but is not doing well enough to stand any change in the near zero nominal federal funds rate. The implication is that the Fed either does not think that a reduction in purchases will result in a rise in long-term interest rates or that such a rise will not derail the economy as long as the Fed keeps short-term rates at or near zero. If the $10 billion decrease in monthly bond demand results in higher long-term interest rates, what good does it do to keep the federal funds rate at zero? If the $10 billion monthly bond purchases were not needed as part of the accommodation policy, why was the Fed purchasing them?

Possibly the Fed thinks that Congress has taken steps to reduce the federal deficit, which would result in a reduced supply of bonds to match the Fed's reduced demand for bonds, but the Fed's statement makes no reference to federal deficit reduction, which is probably a smoke and mirrors change instead of a real one.

Moreover, the Fed's outlook for the economy is mixed. The Fed says that "recovery in the housing sector slowed somewhat in recent months," so why reduce purchases of mortgage-backed financial instruments? And surely the Fed is aware that the U3 unemployment rate has declined because discouraged workers who cannot find a job are not counted among the unemployed. As all measures show, real median family income and real per capita income are lower today than in 2007, and real consumer credit is not growing except for student loans. Without rising aggregate demand to drive the economy, why does the Fed see a recovery instead of faulty statistical measures that do not accurately portray economic reality?

The financial media's reporting on the stock market's response to the Fed's announcement has its own puzzles. I have not seen the entirety of the news reports, but what I have seen says that the equity market rose because investors interpreted the reduction in bond purchases as signaling the Fed's vote of confidence in the economy.

Previously when the Fed announced that it might cut back its bond purchases, the markets dropped sharply, and the Fed quickly back-tracked. Everyone knows that the high prices in the bond and equity markets are the result of the liquidity pouring out of the Fed and that a curtailment of this liquidity will adversely affect prices. So why this time did prices go up instead of down?

Pam Martens points out that there is evidence of manipulation. http://wallstreetonparade.com

As market data indicates, the initial response to the Fed's announcement was a sharp move down as market participants sold stocks on the Fed's announcement (see the chart of the Dow Jones Industrial Average in Pam Martens' article). But within a few minutes the market changed course and rose on panic short-covering just as sharply as it had fallen.

The question is: who provided the upward push that panicked the shorts and sent the market up 292 points? Was it the plunge protection team and the NY Fed's trading floor? Was it the large banks acting in concert with the Fed? It is hard to avoid the conclusion that this was an orchestrated event that forestalled a market decline.

Short selling in the paper gold futures market has been used to protect the US dollar's value from being knocked down by the Fed's Quantitative Easing. Following the Fed's December 18 announcement, another big takedown of gold was launched.

William Kaye had predicted the takedown in advance. He noticed that the ETF gold trust GLD experienced a sudden loss in gold holdings as shares were redeemed for gold. Only the large Fed-dependent bullion banks can redeem shares for gold. Possession of physical gold allows the short-selling that drives down the gold price to be covered.

http://kingworldnews.com/kingworldnews/KWN_DailyWeb/Entries/2013/12/17_Absolutely_Shocking_Developments_In_The_War_On_Gold.html

Bloomberg reports that gold is exiting the West. It has been shipped out to Asia. You explain, dear reader, how the price of gold can fall so much in the West while the supply of gold dries up. http://www.bloomberg.com/video/what-s-happening-to-all-the-gold-d33u1c23SDqA0p0e~9_INw.html

In a few days prior to the Fed's tapering announcement, GLD was drained of 25 tonnes of gold by primary bullion banks, JP MorganChase, HSBC, Deutsche Bank, Goldman Sachs, and Citicorp. As Dave Kranzler pointed out to me, these banks happen to be the biggest players in the OTC derivatives market for precious metals. HSBC is the custodian of the GLD gold and JPM is the custodian of SLV silver. HSBC and JPM are two of the three primary custodial and market-making banks for Comex gold and silver.

The conclusion is obvious. QE helps the big banks, and manipulation of the gold price downward protects the US dollar from its dilution by QE.

The Fed's reduced bond purchasing announced for the New Year still leaves the Fed purchasing $900 billion worth of bonds annually, so obviously the Fed does not think that everything is OK. Moreover, the Fed has other ways to make up for the $120 billion annual reduction, assuming the reduction actually occurs. The prospect for tapering is dependent on the US economy not sinking deeper into depression. Massaged "success indicators" such as the unemployment rate, which is understated by not counting discouraged workers, and the GDP growth rate, which is overstated with an understated measure of inflation, do not a recovery make. No other economic indicator shows recovery.

Until a whistleblower speaks, we cannot know for certain, but my conclusion is that the Fed understands that it must protect the dollar from being driven down by QE and that the orchestrated takedowns of gold are part of protecting the dollar's value, and perhaps also the cutback in QE is a part of the protection by signaling an end of money creation. The Fed also understands that it cannot forever drive down the gold price and that it cannot forever pour liquidity into stock and bond markets. To retreat from this policy without crashing the edifice requires successful orchestrations. Therefore, we are likely to experience more of them in the days to come.

Allegedly, the US has free capital markets, and globalism is bringing free capital markets to the world. In actual fact, US capital markets are so manipulated–and now by the authorities themselves–that manipulation cannot stop without a crash.

What American "democratic capitalism" has brought to the world is manipulated financial markets and the absence of democracy. How long this game can play depends on the outside world.

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