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SATURDAY, JULY 31, 2010

## Very Curious Activity in the Gold Bullion Market Leads to Speculation that Banks are Short Tons of Gold

Huge gold swaps have recently occurred between the Bank for International Settlements and various banks in Western Europe and the United States. Bankers are attempting to play this up as "business as usual". However, the gold swaps that have been conducted lately are recording breaking in size, as far from "business as usual" as you can get.

Some believe that the swaps were, in fact, a bailout of various banks that did not have enough gold on hand for gold they were supposedly holding for various clients. As those clients demanded delivery of their gold, the BIS had to swing into action via gold swaps to obtain gold for the banks that were running up against supply shortages.

GATA's Adrian Douglas makes the detailed case for the gold swaps as a bailout of the usual elite banks, here:

Yesterday the Financial Times published an article headlined "BIS Gold Swaps Mystery Is Unravelled" in an attempt to clarify the recently discovered gold swaps undertaken by the Bank for International Settlements with European commercial banks:

<http://www.ft.com/cms/s/0/3e659ed0-9b39-11df-baaf-00144feab49a.html>

I recently published my interpretation of these gold swaps and concluded that they were most likely a secret bailout of one or more bullion banks that do not have enough physical gold to meet burgeoning demand:

<http://www.gata.org/node/8803>

Lawyers always tell their clients to shut up and not speak to the press because the more they say without proper legal consultation, the more likely they are to incriminate themselves. One has to wonder why lawyers at the BIS didn't offer similar advice to the spokespeople at the BIS, because they have opened their mouths and inserted both feet.

The FT reports that "Jaime Caruana, head of the BIS, told the FT the swaps were 'regular commercial activities' for the bank."

The FT also reports that "'the client approached us with the idea of buying some gold with the option to sell it back,' said one European banker, referring to the BIS."

So we are led to believe that the BIS just casually called up some commercial banks and proposed a "regular commercial" activity of a 346-tonne gold swap.

The only problem with this story is that this is the biggest gold swap in history. It was anything but a "regular commercial activity."

The FT tries to palm off the biggest gold swap in history as just a matter of the BIS earning a little return on \$14 billion.

The FT says it has learned that the swaps, which were initiated by the BIS,

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came as so-called 'central banks' bank" sought to obtain a return on its huge U.S. dollar-denominated holdings. The BIS asked the commercial banks to pledge a gold swap as guarantee for the dollar deposits the banks were taking from the Basel-based institution.

And GATA has learned that the moon is made of Swiss cheese.

In central banking \$14 billion is chump change. The U.S. Treasury auctions between \$70 billion and \$130 billion of Treasury debt very other week. Only a few weeks ago the European Central Bank created a trillion dollars out of thin air to defend the euro amid the Greek debt crisis.

There are two sides to a swap transaction, but one would have to have the IQ of a grapefruit to believe that the important part of this transaction is a piffing \$14 billion and not the 346 tonnes of gold that make it the biggest gold swap in history.

But the BIS has given us another piece of information.

The FT says: "Three big banks -- HSBC, Societe Generale, and BNP Paribas -- were among more than 10 based in Europe that swapped gold with the Bank for International Settlements in a series of unusual deals that caused confusion in the gold market and left traders scratching their heads."

I had assumed in my last article that only one bullion bank was involved, but we now find that more than 10 banks were involved. The first on the list is none other than HSBC, which along with JPMorganChase holds 95 percent of all gold and precious metals derivative positions among U.S. commercial banks as reported to the U.S. Treasury Department. HSBC and JPMorganChase are also holding a massive short position in gold and silver on the New York Commodity Exchange. Further, HSBC is the custodian of the gold that is supposedly backing the exchange-traded fund GLD.

In my analysis of the BIS swaps I postulated that a bullion bank had made a swap with one or more central banks and had obtained bullion in exchange for \$14 billion. I further postulated that the bullion bank made another swap with the BIS whereupon the BIS gave the bank \$14 billion but the bullion bank did not hand over the gold to the BIS but instead credited the BIS with a ledger entry of gold in the BIS unallocated gold account. This would allow the bullion bank to have real gold to meet burgeoning demand while the accounts would show that the same gold had been credited to the BIS.

The FT says: "Officials said other commercial banks obtained the gold from the lending market, borrowing bullion from emerging countries' central banks."

So the tripartite nature of this shady transaction is confirmed -- central banks were a source for the real gold. But the real gold wasn't the "gold" that the BIS received as a swap for \$14 billion. The FT explains:

"The gold used in the swaps came mainly from investors' deposit accounts at the European commercial banks. Some investors prefer to deposit their gold in so-called 'allocated accounts,' which restrict the custodian banks' ability to use the gold in their market operations by assigning them specific bullion bars. But other investors prefer cheaper 'unallocated accounts,' which give banks access to their bullion for their day-to-day operations."

Obviously, if for some reason you are storing your physical gold at a bank, this is a wake up call to pull it out of the bank, now. You are much more likely to have your gold stolen by elite bankers in suits, with a shuffling of paper, than you are by a common crook, if you bury your gold in your backyard.

Keep in mind that the elite will lie about what is really going on to those that are not part of "the club." Last November, Phillip Swagel, who was Assistant Secretary for Economic Policy under Henry Paulson at the Treasury Department, from December 2006 to January 2009, [told me he didn't know what a gold swap was](#), when I asked him. Got that? The top economic advisor to the Treasury Secretary tells me he doesn't know what a gold swap is! These guys so fear gold ( a money they can't control) that they will do, or say anything, to deny its significance. Meanwhile behind closed doors, they do everything they can to bailout their crony bank buddies that are short gold.

[Read the rest of Douglas' analysis here.](#)

(ht.Jeff)

Posted by Robert Wenzel at 11:47 AM

## 2 comments:

**Anonymous said...**

So if someone purchased gold but did not get it physically, they probably don't have gold

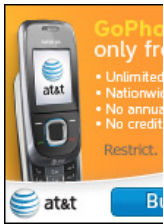
July 31, 2010 1:43 PM



**Taylor Conant said...**

Wenzel,

Not to mention that the Fed, in their meetings whose minutes get released years after the fact, spend most of their time discussing the gold price and how to keep it down. Remember the Greenspan conversations in End the Fed as well as his academic papers in which he stated that the ideal role for the Fed would be to emulate the gold market and predict what it would do in reaction to certain



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Here's my question: could the unraveling of these gold swaps (mass short covering) result in a gold price that screams higher even in the midst of a deflationary unwind?

July 31, 2010 1:46 PM

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