Gold Prices Are Being Manipulated.

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Manipulation in the gold pits? It is a topic that makes everyone uncomfortable. Those who espouse this theory are uncomfortable because they cannot readily find a forum willing to discuss it and those who reject the notion are uncomfortable because a growing preponderance of evidence suggests there is something to it. And it is, at the very least, worthy of scrutiny. The ultimate irony, however, may be that if such manipulation exists, it is ultimately **very bullish for longer-term gold price forecasts.**

If you recall your basic Economics 101, the buying and selling of paper futures was a convenience developed to “add liquidity” to otherwise tight markets and also allow commercial producers the opportunity to forward-sell their outputs, accordingly reducing their risks.

That was the theory, at least. In practice, with specific reference to gold, “price discovery” worldwide is, at least so far, dominated by the activities of only two bourses: the Comex (in New York) and the LBMA (in London).

The ratios of paper-to-actual at these exchanges have, over time, become quite bizarre and far exceed the innocent scenario of Joe the Soybean Farmer simply trying to hedge his crop. For many years, it was tacitly understood that Comex, for example, used a ratio in the area of 100:1. More recent data, however, suggests that the **actual ratio is closer to 300:1**. (Source: “Paper Dilution Hits 294X As Comex Registered Gold Drops to All Time Low,” Zerohedge.com, November 30, 2015.)

To suggest that such ratios open the door to actually cornering the gold market via paper (i.e., completely fictional) bullion is, at the very least, a mathematical possibility.

Plus, the bizarreness, the oddity, of the infamous April 2013 end-of-week “Gold Smash” still puzzles even seasoned market observers. Ironically, at the time, an instructor for the Chicago Option Board penned an Internet op-ed suggesting that the Sigma for the event was the equivalent of "the Sun burning out," only to spend the subsequent weeks attempting to retract that inflammatory view and, according to some cynics, trying to keep his job. (Source: "Gold and the Sun Burning Out," CBOE OPTIONS HUB, April 17, 2013.)

Motive and Opportunity?

As any criminologist will tell you, shady actions require both motive and opportunity. In point of fact, however, it would be harder to make an argument that the central banks actually "liked" gold than one where they simply fear and despise it. It is, after all, the only real alternative to a completely unbacked paper fiat currency.

Currency supported solely by your faith and confidence in those same happy-go-lucky politicians and central bankers who brought you every major recession and economic calamity in modern history and oversaw the devaluation of the buck by some 97% since the creation of the Federal Reserve in 1913. (Source: Inflation Calculator, Dollar Calculator, last accessed December 27, 2015.)

In 1999, at the close of what many believe to be the "second" Great Gold Smash (the first being the infamous London Gold Pool of the 1960s), this unsettling quote was attributed to the late Sir Eddie George, former Governor of the Bank of England:

"We looked into the abyss if the gold price rose further. A further rise would have taken down one or several trading houses, which might have taken down all the rest in their wake. Therefore at any price, at any cost, the central banks had to quell the gold price, manage it." (Source: "On the LBMA and their Unallocated Holdings," Crossroads Cafe, September 16, 2015.)

Deep Insiders Joining the Controversy?

Nor is this topic the exclusive province of naysayers and tinfoil-hat aficionados. Formerly "deep" government insiders like Paul

Craig Roberts (former Assistant Secretary of the Treasury under Reagan) and Catherine Austin Fitts (former Assistant Secretary of Housing under the first Bush administration) have contributed multiple op-eds to public forums detailing specific—and highly suspicious—"gold smashes" on these mainly paper exchanges.

These alleged attacks usually involve monster sells of paper gold contracts—often valued in the billions of dollars—at highly illiquid times of the trading session, invariably collapsing the bid stack and forcing the price significantly lower within mere minutes. *Circumstances under which no seller of sane mind could ever expect the optimal price for the sell*. (Sources: "Hows and Whys of Gold Manipulation," Paul Craig Roberts, January 17, 2014; "Catherine Austin Fitts: Another Gold Smackdown Coming," DollarCollapse.com, April 25, 2013.)

The smoking gun?

Of course, beating gold with a stick whenever it started to get frisky would be no fun if you ended up in jail for your trouble. Manipulation is technically illegal, both at common law and under various statutes. Interestingly, there are a number of under-reported court cases initiated by investors who indeed felt they had been abused by invisible agents.

In resolving these, the courts have time and again taken the view that if the first-initiator for a specific trade was a government body, said body is automatically exempt from prosecution. Therefore, to even pursue the matter in a public forum would be a waste of everyone's time. This doctrine was especially well established in the Howe case. (Citation: U.S. District Court for the District of Massachusetts – 194 F. Supp. 2d 6, D. Mass. 2002.)

GATA (the Gold Anti-Trust Action Committee) Director Chris Powell methodically followed the Howe case through the courts for over a decade and wryly observed: "[…] market-rigging is fully authorized by law here in the United States. The Gold Reserve Act of 1934, as amended in the 1970s, specifically authorizes the U.S. Treasury Department — through the Exchange Stabilization Fund — to intervene secretly in and rig not only the gold market, which was the original authorization, but as amended in the 1970s the ESF is authorized to rig any market — any and all financial instruments." (Source: "Chris Powell interview," King World News, February 26, 2015.)

So…Is Gold the "Big Long" for 2016?

If there is substance to these allegations, the tantalizing implication would be that a correction to true market value—a "reversion to the mean"—must happen at some future point. Such a reversion would not only be bullish for the longer-term gold price forecast, but also likely **violent, and sudden.** Under these circumstances, the gold market is well worth keeping a very close eye on.