Striking testimony Greenspan 1998: Cornering and manipulation gold market is possible

Alan Greenspan made a striking testimony on July 24, 1998 regarding the regulation of OTC derivatives before the Committee on Banking and Financial Services. Striking viewed out of the present knowledge of the gold market.

1. Alan Greenspan[1], 13th Chairman of the Fed

Alan Greenspan (born March 6, 1926) is an American economist who served as Chairman of the Federal Reserve of the US from August 11, 1987 to January 31, 2006. Immediately after leaving the Fed, Greenspan formed an economic consulting firm, Greenspan Associates LLC. He also accepted an honorary (unpaid) position at HM Treasury in the UK. In May 2007, Greenspan was hired as a special consultant by PIMCO. In August 2007, Deutsche Bank announced that it would be retaining Greenspan as a senior advisor to its investment banking team and clients. In mid-January 2008, hedge fund Paulson & Co. hired Greenspan as an advisor (on exclusive base).

2. Testimoney of Alan Greenspan on July 24, 1998

On behalf of the Federal Reserve Board's Alan Greenspan made the following testimony on the regulation of OTC derivatives before the Committee on Banking and Financial Services, US House of Representatives on July 24, 1998.

"I am pleased to be here today to present the Federal Reserve Board's views on the regulation of over-the-counter (OTC) derivatives. … The Board generally agrees with the Treasury Department's views on these issues. … In my testimony I address the fundamental underlying issue, that is, whether it is appropriate to apply the Commodity Exchange Act (CEA) to over-the-counter derivatives (and, indeed, to financial derivatives generally) in order to achieve the CEA's objectives - deterring market manipulation and protecting investors.

The CEA and its Objectives
… Because quantities of grain following a harvest are generally known and limited, it's possible, at least in principle, to corner a market[2].

It is not possible to corner a market for financial futures where the underlying asset or its equivalent is in essentially unlimited supply. … Thus, unlike commodities whose supply is limited to a particular growing season and finite carryover, the markets for financial instruments and their derivatives are deep and, as a consequence, are extremely difficult to manipulate. …

Potential Application of the CEA to OTC Derivatives

[1] Wikipedia
[2] Also applicable on gold

The vast majority of privately negotiated OTC contracts are settled in cash rather than through delivery. Cash settlement typically is based on a rate or price in a highly liquid market with a very large virtually unlimited deliverable supply. … Nor can private counterparties restrict supplies of gold, another commodity whose derivatives are often traded over-the-counter, where central banks stand ready to lease gold in increasing quantities should the price rise. …

Conclusion
In conclusion, the Board (Fed) continues to believe that, aside from safety and soundness regulation under the banking or securities laws, regulation of derivatives transaction that are privately negotiated by professionals is unnecessary. … The vast majority of financial futures traded simply are not as susceptible to manipulation as agricultural and other commodity futures[3] where supplies are more limited. And participants in financial futures markets are predominantly professionals that simply do not require the customer protections that may be needed by the general public. …"

3. Note from the writer

In our paper from July 20, 2015 (Is de dollar gold price controlled by JPM in cooperation with the BIS?) we concluded that JPM in cooperation with the BIS controls the dollar gold price by using their very dominant position in gold derivatives in the US Banking System. JPM held during 1999 – 2014 an average of 3.262 paper metric tons gold (derivatives) available for interventions on the development of the dollar gold price with the BIS as counterparty. Furthermore we concluded that the paper volume sets the dollar gold price and that there is almost no influence on the dollar gold price from the physical supply and demand. Overall the conclusion is that there is no free market for gold.

[3] Including gold derivatives