

Is the dollar gold price controlled by JPM in cooperation with the BIS?



1. Introduction

In this paper we conclude 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 conclude 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. At last we ask ourselves if JPM and the BIS are operating agents for a higher goal and conclude that there is no free market for gold.

2. First let's analyze the gold market in metric tons¹.

	Metric tons				
	2001	2007	2008	2009	2010
Physical market volume	3,675	4,083	3,723	3,871	3,884
Paper market volume	208,721	313,154	377,417	337,344	359,014
Total market volume	212,396	317,237	381,140	341,215	362,898
xx Times paper volume greater than physical volume	57	77	101	87	92
Average volume daily physical	14	16	14	15	15
Average volume daily paper	803	1,204	1,452	1,297	1,381

So what we see is that the paper volume on the market for gold is 92 times (2010) the physical volume.

3. What is the paper volume²?

The paper volume consists of so called derivatives:

- A derivative is a:
 - Contract between two parties
 - The value of this contract is a function of (derived from) the level of one or more underlying variables (in this case gold)
 - The variables themselves do not need to be tradable
- The variables do not need to be market but must be measurable. Examples are:
 - Financial prices (interest rates, equity prices, foreign exchange etc)
 - Commodities (precious metals, energy base metals, agriculture etc)

¹ Source: The CPM Gold Market Yearbook 2011

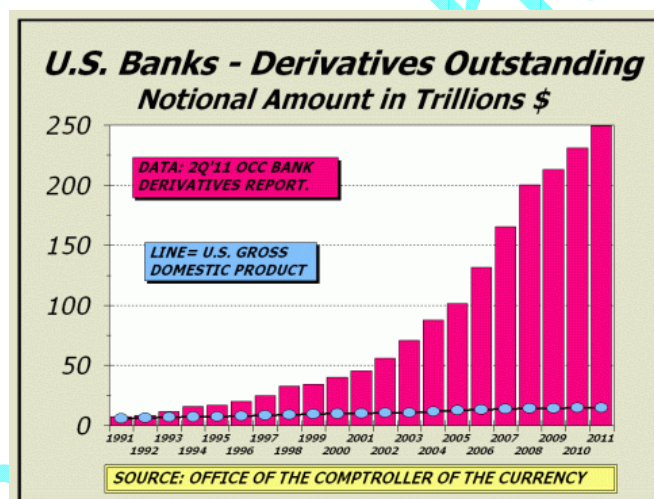
² According to Mike Kirk from the Office of the Comptroller of the Currency (OCC), US Department of the Treasury

- Derivatives can range from being simple to extremely complex contracts (basic types: futures, forwards, swaps and options) (advanced types of derivatives: exotic & hybrids and "structured" products).

Very interesting is how derivatives are traded on the market:

- OTC (Over-the-Counter): Contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. The OTC derivative market is the largest market for derivatives, and is largely unregulated with respect to disclosure of information between the parties, since the OTC market is made up of banks and other highly sophisticated parties, such as hedge funds. Reporting of OTC amounts is difficult because trades can occur in private, without activity being visible on any exchange. Because OTC derivatives are not traded on an exchange, there is no central counterparty. Therefore they are subject to counterparty risk, like an ordinary contract.
- ET (Exchange Traded): A derivative exchange is a market where individual's trade standardized contracts that has been defined by the exchange. A derivative exchange acts as an intermediary to all related transactions and takes initial margin from both sides of a trade to act as a guarantee.

The US market for derivatives was deregulated in 2000 and since then explosively grown. The total US derivatives market is 10 times bigger than the annual GDP of the US! The same applies for entire world derivatives market!



So the OTC market is:

- Made up of banks and other highly sophisticated parties
- OTC amounts are difficult to report
- The largest market for derivatives
- Deregulated in the US and explosively growing
- Each counterparty relies on the other to perform

So derivatives are big business for highly sophisticated parties, most certainly in the gold market.

4. What is the impact of the paper volume (derivatives) on the dollar gold price?

The dollar gold price is determined largely on the London Gold Exchange and the US Comex through a series of (derivatives) transactions on a given trading day. In that system paper claims (derivatives) to physical gold are traded just like physical gold.

So if the paper volume is 92 times (2010) the physical volume ...Hence the paper volume sets the dollar gold price. There is almost no influence from the physical volume.

5. Can we identify the important players in gold derivatives in the US Banking System?

Yes, the notional amount of gold derivatives is mentioned in Table 9 of OCC Quarterly Report on Bank Trading and Derivatives Activities³ as follows:

TABLE 9

NOTIONAL AMOUNTS OF DERIVATIVE CONTRACTS BY CONTRACT TYPE & MATURITY
TOP 4 COMMERCIAL BANKS, SAVINGS ASSOCIATIONS AND TRUST COMPANIES IN DERIVATIVES
MARCH 31, 2013, \$ MILLIONS

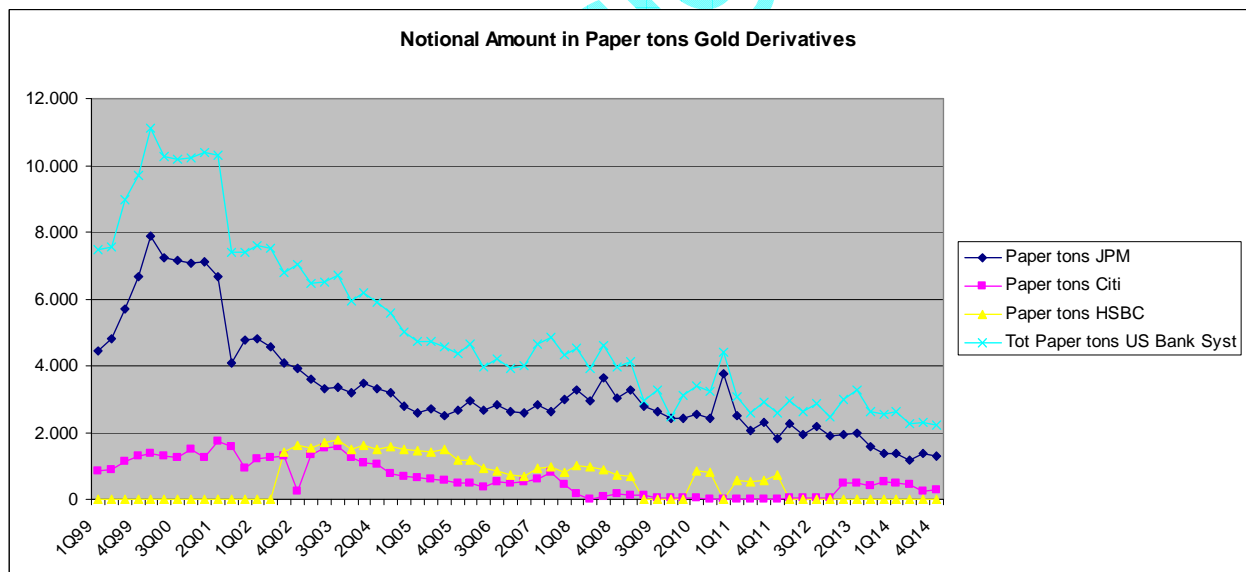
RANK	BANK NAME	STATE	TOTAL ASSETS	TOTAL DERIVATIVES	GOLD MATURITY < 1 YR	GOLD MATURITY 1 - 5 YRS	GOLD MATURITY > 5 YRS	GOLD ALL MATURITIES	PREC METALS MATURITY < 1 YR	PREC METALS MATURITY 1 - 5 YRS	PREC METALS MATURITY > 5 YRS	PREC METALS ALL MATURITIES	
1	JPMORGAN CHASE BANK NA	OH	\$1,948,150	\$70,287,894	\$72,647	\$23,198	\$64	\$95,909	65%	\$16,438	\$3,170	\$3	\$19,611
2	CITIBANK NATIONAL ASSN	SD	1,306,258	58,471,038	23,505	393	16	23,914	16%	10,462	1,323	0	11,785
3	BANK OF AMERICA NA	NC	1,458,091	44,543,003	0	0	0	0	23	0	0	23	
4	GOLDMAN SACHS BANK USA	NY	113,743	42,251,600	0	0	0	0	0	0	0	0	
TOP 4 COMMERCIAL BANKS, SAs & TCs WITH DERIVATIVES			\$4,826,242	\$215,553,535	\$96,152	\$23,591	\$80	\$119,823		\$26,923	\$4,493	\$3	\$31,419
OTHER COMMERCIAL BANKS, SAs & TCs WITH DERIVATIVES			7,848,832	16,067,291	27,317	648	0	27,965		7,954	1,679	0	9,633
TOTAL FOR COMMERCIAL BANKS, SAs & TCs WITH DERIVATIVES			12,675,074	231,620,826	123,469	24,239	80	147,788	100%	34,877	6,172	3	41,052

Note: Figures above exclude any contracts not subject to risk-based capital requirements, such as foreign exchange contracts with an original maturity of 14 days or less, futures contracts, written options, and basis swaps. Therefore, the total notional amount of derivatives by maturity will not add to the total derivatives figure in this table.

Note: Numbers may not add due to rounding.
Data source: Call Reports, schedule RC-R

What we see here is that 65% of all the gold derivatives in the US Banking System as at March 31, 2013 are held by JPM and 16% by Citi. The total notional amount held by JPM is \$ million 95,909 equals with 1,929 metric tons paper gold.

Looking through the years the dominant position of JPM is very manifest⁴:

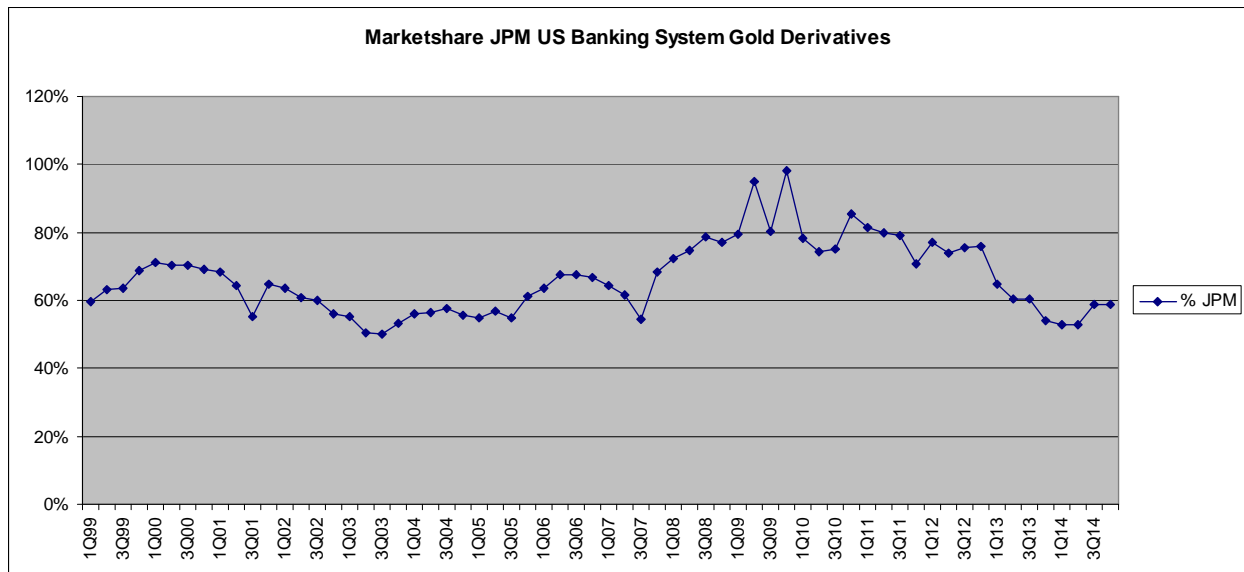


Average paper metric tons gold (derivatives) during 1999 – 2014 JPM: 3.262.

³ Source: OCC's Quarterly Report

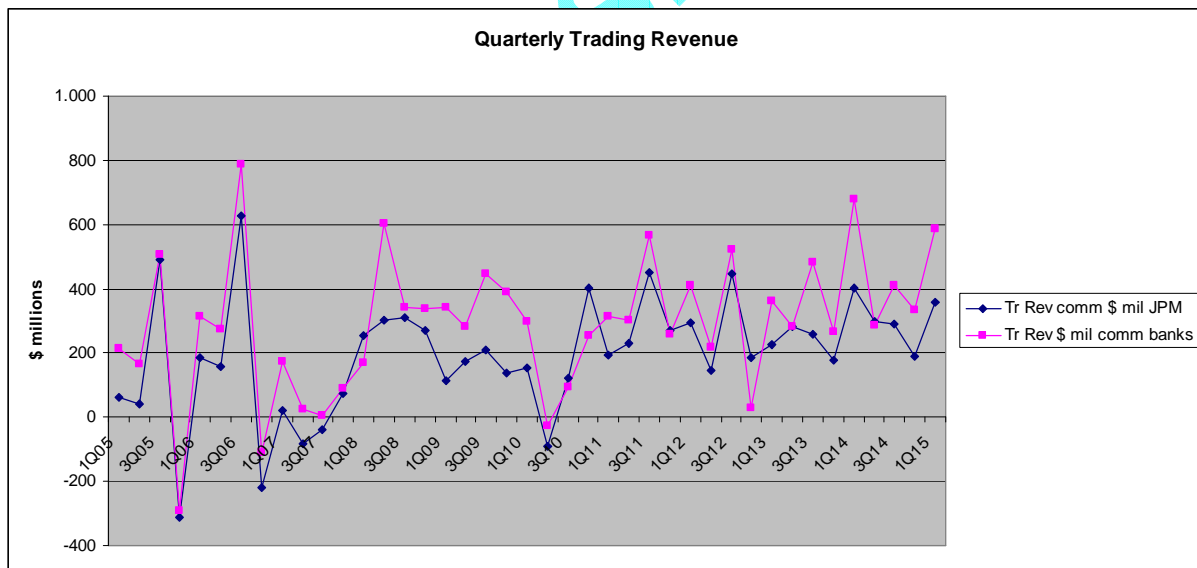
⁴ Source: OCC's Quarterly Reports

And here is the market share of JPM in the gold derivatives in the US Banking System⁵.



So during the years 1999 – 2014 the market share of JPM in the gold derivatives in the US Banking System varies from 50 – 98%.

If JPM is that long and that dominant in the gold derivatives in the US Banking System their business model in this area must be very profitable. The average trading revenue (commodities) is \$ million 200 quarterly during 2005 – 2015. 41 Quarters...5 losses...36 profits⁶.



The result (commodities) of JPM in the US Banking System determined largely the total trading revenue of the US Banking System. There are nearly other banks.

So JPM can be identified as the dominant player in the dollar gold derivatives in the US Banking System.

⁵ Source: OCC's Quarterly Reports

⁶ Source: OCC's Quarterly Reports

6. What are the consequences of JPM's dominance in paper gold in the US Banking System?

- At the least there is the possibility that JPM with its massive gold derivative position is able to control the dollar gold price and making money with it. For instance if JPM buys 400 ton gold derivatives in 30 minutes of trading the dollar gold price will sharply go higher. And JPM knows it on forehand, and their counterparty also knows it on forehand.
- But who can operate as counterparty? On whom can JPM rely? We can't find an equal counterparty in the OCC's Quarterly Reports regarding the US Banking System.
- And the big question: Are JPM and it's counterparty operating on their own merits for their own profit or are they operating agents for a higher goal?

7. A possible counterparty, without any doubt, is the BIS⁷.

To characterize the BIS:

- Established 17 may 1930
- Located in Basel, Switzerland, outside the US Banking System
- The BIS has 60 member Central Banks, representing 95% world GDP
- Profile:
 - Customers: Central Banks
 - Mission: To serve Central Banks in their pursuit of monetary and financial stability
 - Pursues by (among other things): Acting as a prime counterparty for Central Banks in their financial transactions
- Very, very experienced in gold and the gold market
- Member of the Gold Pool from 1961 – 1968:
 - Intention: G10 Banks to rescue Bretton Woods (regulations international monetary system, gold standard)
 - Surplus countries with extensive dollar reserves don't wanted the dollar gold price changing
 - Selling and purchase syndicate for gold
 - The Bank of England was the operating agent for the Gold Pool
 - Controlled 80% of world official gold holdings
 - The only reason why the Gold Pool ended was that the costs of suppression the dollar gold price were huge (they had to sell over 3.000 physical ton gold to counter the upward pressure of the dollar gold price. The US Treasury was making up 80% of the gold losses). The reason of establishment was still present
- Huge in derivatives: Total derivative notional amount as at March 31, 2015 (SDR millions 437,191) \$ millions 603,022 (= 3 times total US Banking System \$ millions 203,120), inclusive \$ millions 178,291 notional amount currency and gold derivatives

⁷ Source: Dr. P. Clement, head of library BIS, Annual Report BIS, site BIS

The table below analyses the fair value of derivative financial instruments:

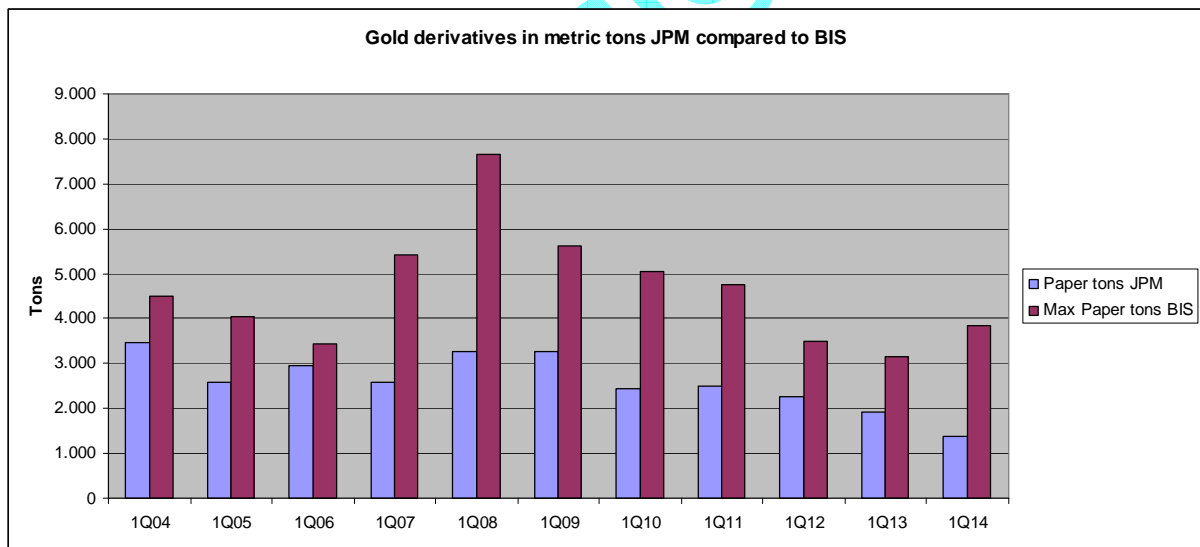
As at 31 March	2015			2014		
	Notional amounts	Fair values		Notional amounts	Fair values	
		Assets	Liabilities		Assets	Liabilities
<i>SDR millions</i>						
Bond futures	2,910.7	1.5	(1.6)	1,404.9	0.7	(0.2)
Cross-currency swaps	583.5	56.8	-	1,025.1	-	(145.0)
Currency and gold forwards	1,486.5	6.7	(8.6)	627.1	3.0	(0.6)
Currency and gold options	1,247.1	0.1	(0.7)	2,643.1	7.3	(7.7)
Currency and gold swaps	126,527.1	5,228.8	(802.4)	96,534.1	803.6	(640.1)
Forward rate agreements	25,078.0	7.1	(4.4)	10,574.2	0.7	(1.7)
Interest rate futures	9,511.6	0.5	(0.2)	3,508.7	-	(0.1)
Interest rate swaps	269,846.2	1,657.2	(1,344.3)	282,991.9	2,186.9	(1,828.2)
Swaptions	-	-	-	1,488.4	-	(9.3)
Total derivative financial instruments	437,190.7	6,958.7	(2,162.2)	400,797.5	3,002.2	(2,632.9)
Net derivative financial instruments		4,796.5			369.3	

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BIS 85th Annual Report

The total notional amount⁸ of the currency and gold derivatives (only combined amounts available) held by the BIS as at March 31, 2015 is SDR million 129,260.7 (= \$ million 178,291) equals with at the max 4.835 paper tons gold.

Do the notional amounts in paper tons gold through the years of JPM fit in the figures of the BIS⁹?



BIS notes to the financial statements on derivative financial instruments¹⁰

- Gold options (derivatives) are contractual agreements under which the seller grants the purchaser the right, but not the obligation, to either buy (call option) or sell (put option), a specific amount of gold at a predetermined price, on or by a set date. In consideration the seller receives a premium from the purchaser.

⁸ Source: Annual Report 2014/2015 BIS

⁹ Source: OCC's Quarterly Reports, Annual Reports BIS

¹⁰ Source: Annual Report BIS 2013/2014

- Gold swaps (derivatives) are bilateral contractual agreements to exchange cash flows related to gold.
- Except for certain gold swaps, no exchange of principal takes place.

Let's now hypothesize that JPM sells today a call option to the BIS of 300 tons (paper) gold for the dollar gold price of 900.- per ounce on the 1st of December 2016. And also today the BIS sell exactly this type of option to JPM at the same price and the same date. What will happen with the dollar gold price?

So we can say that the BIS:

- Is presenting herself as a prime counterparty
- Was member of the Gold Pool, that only ended due the high costs of suppression the dollar gold price and not because of other reasons
- Is very experienced in the field of dollar gold price control
- Their member Central Banks holds approximately 30,000 tons physical gold (NB China 1,658 ton)
- Is huge in derivatives
- Is big enough to absorb the notional amounts in gold derivatives of JPM during the years 2004 – 2014 on quarterly base

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8. Are JPM and BIS operating agents for a higher goal?

If it's so obvious, why aren't there any serious investigations by authorities? Why are they so passive?

The total world derivatives market is 10 times bigger than the entire world GDP. For gold the derivatives market is 92 times bigger than the physical market!

Who would benefit from a lower dollar gold price?

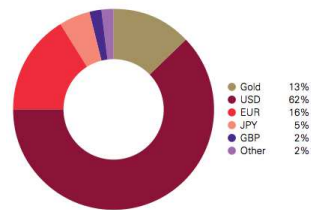
- Of course the US by keeping up the appearances of a strong dollar for the majority of the population.
- Of course countries who want to convert their dollar reserves into physical gold, before the probably devaluation of the dollar (NB: The US has to solve the problem of imbalances between the US current account deficit and other countries surplus. The longer adjustment is postponed, the harder it will be. The US is world's largest debtor, with China as primary creditor. The US has to reduce his budget deficit over time and probably depreciate the dollar. It's better to depreciate the dollar in a controlled way than in a sudden free-fall).

So watch what they do, not what they say.

- Triffin's Dilemma (1960): Predicting a loss of confidence in the gold value of the dollar by increasing liquid claims in the form of foreign exchange reserves, it would no longer be accepted as the world's reserve currency
- Dr. J. Zijstra (former president of the BIS from 1967 – 1981) expresses in his memoirs the general feeling from then that the dollar after 1971 would cease on his international status, and that the so called Special Drawing Rights (SDR's) the most prominent part of the foreign exchange reserves would become (what not really happened). He also expresses that a higher dollar gold price could possible been seen as a proof of distrust against the dollar. Further he expresses that investing in gold may have become out of favor, but that all Central Banks see gold as the most prominent part of their reserves, most certainly after the dollar gold price increased fivefold compared with the former official dollar gold price
- In November 1998 the PBOC branch network was restructured along the lines of the US Federal Reserve System. Further the PBOC adopted the 25 BIS core principles
- The Washington Agreement on Gold was signed of 26 September 1999 in Washington, D.C. during the IMF annual meeting, and the US Secretary of the Treasury and the Chairman of the Fed were present. The agreement was perceived as putting a cap on European gold sales. The agreement limits also their gold leasing and their use of gold futures and options. The second version, Joint Statement on Gold, was signed on March 8, 2004. The Bank of England did not participate. On May 19, 2014, 21 banks extended the agreement, the IMF complies.
- According to BIS working paper of March 2014 about SDR's substitution in the 1970s and 2000s there was a widespread concern over the sustainability of using national currencies as reserve assets. In 1973 US Treasury was prepared to a one-time conversion of some existing dollar reserves into SDR's (taking dollars out of the system and making sure they won't be created all over again). The SDR plan had to be presented as an enhancement of the SDR rather than a support for the dollar. It would be difficult to sell the SDR's conversion to national parliaments without a gold backstop
- An in 2009 declassified telegram from AM Embassy to the Secretary of State sent in 1968 regarding the end of the Gold Pool speaks about: "Remain the masters of gold"
- A new vocabulary word: De-dollarization (2009)
- The Gold Coverage Ratio is approximately 9% and has never been so low. The GCR measures the amount of US gold reserves against the monetary base
- The governor of the PBOC (2004) about Chinese achievements:
 - No. 1. Gold producing country
 - No. 1. Gold consuming country
 - SGE: No. 1. Spot & physical gold trading center
 - SHGE: No. 1. Gold futures trading center

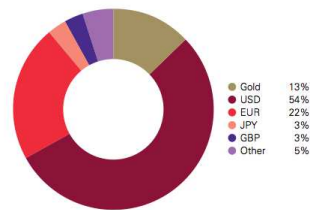
- PBOC (2009) official gold reserve 1,054 tons
- Chinese leaders (2009), for the first time express concerns that their vast holdings of US treasury bills may not be well-invested. Obama & Geithner seek to reassure
- Premier Wen worries US T bills may lose value and urges the US to keep its deficit at an “appropriate size” to ensure the “basic stability” of the dollar (2009)
- Chinese task force (2009) to consider expanding China’s gold reserves to 6,000 tons in 3 – 6 years and perhaps 10,000 tons in 8 – 10 years
- PBOC Governor Zhou (2009) proposes replacing the dollar as international currency, with the SDR
- Gold dispensers in China (2011)
- China buys former JPM building next to Fed, used to contain up 20% of the world’s gold (2013)
- China National Gold Group Corporation General Manager Sun Zhaoxue said the US intends to suppress gold to ensure the dollar’s dominance, that the fall in price of gold was premeditated, and a part of the currency war (June 2013)
- It is very odd that all those keen people of the Central Banks rested in the loss of total \$ million 458,307 on their gold holdings in 2013, without taking any action. Do they know what’s going on?
- New safe Shanghai for 2,000 tons (2013)
- China has 1,658 tons of physical gold (2015) (Untrustworthy). They have to hoard an extra 12.000 tons of physical gold to get equal with the breakdown of total official reserves as of 2012.

Chart 2a: Breakdown of total official reserves (as of 2000)



Note: Totals may not equal 100% due to rounding.
Source: IMF COFER statistics, Q2 2012

Chart 2b: Breakdown of total official reserves (as of 2012)



Source: IMF COFER statistics, Q2 2012

- Picking the odd one out

Country	Nominal GDP in \$ millions	Gold reserve CB's in tons
World	77,608,736	30,788
EU	18,398,669	10,788
US	17,418,925	8,134
China	10,380,380	1,658

- China (2014) wants to have more influence on the pricing of gold, now mainly London and NY
- China wants to internationalize the Yuan. Backing the Yuan with some gold will certainly help it become a major international currency
- European Union members accepted restrictions on using their gold reserves when they launched the euro. The euro treaty prohibits the countries from financing government operations by selling gold held by Central Banks

9. Yes, we are convinced.

Yes, we are convinced that the dollar gold price is controlled by JPM in cooperation with the BIS with knowledge of or by order from the authorities. Is this not a monopoly situation and abuse of power? Most certainly there is no level playing field.

- Monopoly: Exclusive control of a commodity in a particular market, or a control that makes possible manipulation of price (Dictionary.com)
- Level playing field: A situation in which everyone has the same chance of succeeding (Dictionary.cambridge.org)

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