Gold Price Intervention Circuit Diagram and Determinants Intervention Policy

1. Introduction
This is an article about abuses in the gold market. It is meant to be for readers, who are well informed and interested in the gold market and monetary items, such as student (central) bankers, politicians, financial analysts, supervisors, etc.

Based upon study we (re)constructed the Gold Price Intervention Circuit Diagram. The purpose for the (secret) interventions is the stabilization of the exchange value of the US dollar. There are many actors involved by the interventions vary from politicians, central bankers, institutions like the BIS, IMF and LMBA, Market Makers on the OTC-market (commercial banks), and Clearing Members LPMCL. We call an intervention secret if it has not been reported to market participants at the latest on the day the intervention was carried out by the one or two involved central banks, or not being reported at all (13).

Furthermore we (re)constructed some determinants of the (secret) Intervention Policy on the price of gold by central banks.

2. Gold Price Intervention Circuit Diagram
3. **A short explanation on this Intervention Circuit Diagram**

**About the Gold Reserve Act of 1934 (1)**

*...Authorization to deal in gold and foreign exchange with approval of the US President...*

The Gold Reserve Act of 1934 established a fund (so-called Exchange Stabilization Fund) to be operated by the Secretary of the Treasury, with the approval of the President. Section 10 of the Act provided that “FOR THE PURPOSE OF STABILIZATION THE EXCHANGE VALUE OF THE DOLLAR, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section.”

As per 30 September, 2015 the total assets of the fund amount to USD billion 93.

**About Bretton Woods system**

The Bretton Woods Agreement is the landmark system for monetary and exchange rate management established in 1944. The agreement pegged the exchange rates of nations to the value of the US dollar, which in turn was pegged to the price of gold. An overvaluation of the US dollar led to concerns over the exchange rates and tie to the price of gold. In 1971 president Nixon found it necessary to suspend the dollar’s convertibility into gold and several major currencies were allowed to float against the dollar (era of floating rates).

In the 1960s, the Bank for International Settlements (BIS) was at the center of central bank efforts to keep the price of gold in the free market trading near its official price in the Bretton Woods system (so called Gold Pool).

**About SWAP Lines**

*...SWAP network...Gold is a premier currency...*

On 1 November, 1978, the Federal Reserve and the US Treasury announced a new and expanded program to defend the foreign exchange value of the dollar. A major aspect of the expanded intervention capability was a increase in the size of Federal Reserve’s SWAP lines with several key central banks (so called the "SWAP network"), thereby allowing greater foreign exchange borrowings for purposes of interventions.

The SWAP network is a set of short-term reciprocal currency agreements the Federal Reserve maintains with the 14 (1978) foreign central banks and the Bank of International Settlements (BIS). Each agreement allows the Federal Reserve and his partner bank short-term access to the other’s currency up to a specified limit. A SWAP contract is written at the end of each day that the Federal Reserve SWAP intervention takes place.

Central banks try to make their intervention seem as random as possible to avoid traders forecasting it and capitalizing on it (2).
In 2008 the FED extended the SWAP lines due to their concerns about the global dollar liquidity.

Don’t forget gold is a currency:
The BIS stated in its 2013 annual report that “gold is to be dealt with as a foreign exchange position rather than a commodity because its volatility is more in line with foreign currencies, and banks manage it in a similar manner to foreign currencies”.

Ex-Fed-Chief Alan Greenspan told The Council of Foreign Relations on 29 October, 2014 to remember what gold is. Gold is a currency. It is still, by all evidence, a premier currency.

About the SWAP network in practice

...Secret currency interventions by central banks...

According to the publication of February, 1978 of the Federal Reserve Bank of St. Louis were the gold reserves actually not used for interventions, due to the current practices as evidenced by SWAPS (3).

The Riskbank is open about the interventions. In October, 2016 is mentioned on their site: The Riskbank is Sweden’s central bank and responsible for monetary policy with the objective to maintain price stability. The Riskbank is joint shareholder of the BIS. According to the Riskbank is their gold reserve justified, to a large degree, by the fact that the value of gold does not normally follow the same pattern as the value of the foreign currency reserve. The gold can be used to fund emergency liquidity assistance or foreign exchange interventions, among other things. Further the Riskbank has concluded an agreement with a number of other central banks, the Central Bank Gold Agreement (CBGA), with places a limit on the amount of gold the may sell each year. The aim of the agreement is to limit the central bank’s sales of gold in order to avoid undesirable effects on the gold price.

A confidential IMF report from March, 1999 about the reporting template for central banks advices western central banks to conceal their gold loans and SWAPS because information about them is “highly market-sensitive” and accountability about them would “hinder secret currency” interventions by central banks, in view of the limited number of participants in such transactions (4).

The FED, the central banks and the BIS formed the (secret) Gold and Foreign Exchange Committee. In restricted-controlled notes on the discussion of the gold market at the meeting of the secret Gold and Foreign Exchange Committee of the G-10 Governors at the BIS on 7 April, 1997 Terry Smeeton, head of foreign exchange and gold at the Bank of England said that in May 1996 the SWAP deals accounted for 75 percent on the trading volume in the London market (5).
Participants Gold and Foreign Exchange Committee on 7 April, 1997

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<tr>
<th>Name</th>
<th>Country</th>
<th>Central Bank</th>
<th>Jobtitle</th>
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<tr>
<td>Dina Koz</td>
<td>United States</td>
<td>Federal Reserve System of NY</td>
<td>Head Fixed Income and Foreign Exchange</td>
</tr>
<tr>
<td>Ian Plenderleith</td>
<td>United Kingdom</td>
<td>Bank of England</td>
<td>Member Monetary Policy Committee</td>
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<tr>
<td>Terry R Sneeton</td>
<td>United Kingdom</td>
<td>Bank of England</td>
<td>Head of Foreign Exchange Division</td>
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<tr>
<td>Bruno Gehrig</td>
<td>Switzerland</td>
<td>Swiss National Bank</td>
<td>Board Member, Head SNB Monetary Operations</td>
</tr>
<tr>
<td>GM Gill</td>
<td>BIS</td>
<td>Bank for International Settlements</td>
<td>Head of Banking Department</td>
</tr>
<tr>
<td>Peter R Fisher</td>
<td>United States</td>
<td>Federal Reserve System of NY</td>
<td>Executive Vice President, Manager Open Market Account, responsible FOMC</td>
</tr>
<tr>
<td>William R White</td>
<td>BIS</td>
<td>Bank for International Settlements</td>
<td>Economic Advisory and Head of the Monetary and Economic Department</td>
</tr>
<tr>
<td>Edwin M Truman</td>
<td>United States</td>
<td>Federal Reserve System</td>
<td>Director Division of International Finance, Staff economist FOMC</td>
</tr>
<tr>
<td>Alf Mainert</td>
<td>Germany</td>
<td>Deutsche Bundesbank</td>
<td>Bundesbankdirektor</td>
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<td>Don Stephenson</td>
<td>Canada</td>
<td>Bank of Canada</td>
<td>Senior Advisor, Canadian Foreign Exchange Committee</td>
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<tr>
<td>Jean-Pierre Patat</td>
<td>France</td>
<td>Banque de France</td>
<td>Director-General of Economic Studies and International Relations</td>
</tr>
<tr>
<td>Johan Heikensten</td>
<td>Sweden</td>
<td>Sveriges Riksbank</td>
<td>Deputy Governor of Sveriges Riksbank, responsible for Monetary Policy</td>
</tr>
<tr>
<td>Fabrizio Saccomanni</td>
<td>Italy</td>
<td>Bank of Italy</td>
<td>Deputy Governor</td>
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<td>Herman Busses</td>
<td>Belgium</td>
<td>National Bank of Belgium</td>
<td>Deputatsadvisor, Foreign Department</td>
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<td>Jos Heuvelman</td>
<td>Netherlands</td>
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<td>Director Financial Markets</td>
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<td>Akin Nagashima</td>
<td>Japan</td>
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<td>Deputy Governor for International Relations</td>
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William R. Wright, Head of Monetary and Economic Department at the BIS, held an outspoken speech at the fourth BIS Annual Conference, on 27 – 29 June 2005, while celebrating the 75 years existing of the BIS (1930 – 2000). Mr White mentioned the five intermediate objectives of central bank cooperation. The fifth objective was the joint effort of central banks to influence the price of gold and foreign exchange (11).

On 10 February, 2010 Michel Beine (University of Luxembourg) reported that the bulk of central banks interventions is located between 7.00 and 15.00 EST which suggests that the FED intervened using their network of US commercial banks. But choosing the timing might be a strategic issue: The Bank of Japan intervened outside Japanese time to conceal interventions.

In its 2010 annual report, the BIS said that “gold, which the bank held in connection with gold SWAP operations, under which the bank exchanges currencies for physical gold, stands at 8,160.1 million SDR, equivalent to 346 tonnes this year.”

Here are some shocking results from a survey held by Christopher J. Neely (senior economist with the FED of St. Louis) among 22 monetary authorities in June 2001.

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To resist short-term trends in exchange rates and the correction of long-run misalignments of exchange rates from fundamental values are important factors in the intervention decisions (policy). Further the interventions are conducted secretly to maximize market impact or to minimize the market impact.

We call an intervention secret if it has not been reported to market participants at the latest on the day the intervention was carried out by the one or two involved central banks, or not being reported at all (13).

**Remarkable:** The interventions takes place on the OTC market.

The gold trading activity on the OTC markets is hardly transparent. According to a LMBA study in 2011 is the volume of gold traded in the London OTC Gold Market ten times what is implied by the clearing statistics (12).

In January 2009, the G20 asked for substantial reforms to OTC markets in order to ‘improve transparency, mitigate systemic risk, and protect against market abuse’. The G20 reform agenda requires standardised OTC derivatives to be cleared through central counterparties on exchange or electronic trading platforms.

Well-known shortcomings are on the so-called pre-trade transparency (information about price quotes and trade sizes is available to the two parties involved in the trade prior to executing the trade), the post-trade transparency (information about executed trades made available to market participants other than the two parties involved in the trade, or a narrow set of dealers).

Through this information asymmetry are uninformed participants at risk of making the wrong trading decisions (14).

**Behind the Spot Price of Gold**

The Spot Price of gold is the price of gold around the clock less just a few minutes. Actually it is an quotation price of gold between the so-called Market Makers (Citi, Goldman Sachs, HSBC, JPM, UBS, Bank of Nova Scotia, ICBC, Merrill Lynch, Morgan Stanley, Societe Generale and Standard Chartered Bank) based upon their activity in the hardly regulated OTC market. According to the LMBA OTC markets provides confidentiality as the transactions are conducted solely between the two principals involved and is this particularly important for central banks activity in the market (15). The Spot Price of gold is under control of the central banks c.s. (8). See our article of 23 September, 2016 "Behind the Spot Price of Gold."

**Central Bank Coordination**

In 2016 the FED made a study on how central banks interact with one another in normal times and how they behave during times of crisis (e.g. The Global Financial Crisis 2007, 2008). One conclusion is
that the policy response of the central banks on global financial crisis required an extraordinary degree of central bank coordination, and will have implications for how central banks operate (and relate to each other) for generations to come (6).

4. Determinants Intervention Policy

...No transparency at all...

Based upon study we (re)constructed some Determinants from the Intervention Policy on the price of gold by central banks.

5. Conclusion

It is obvious that the central banks within the BIS network handle an intervention policy for the price of gold. Furthermore they built up an implementing organisation for the execution of this intervention policy. The interventions are secret because they are not being reported to market participants at the latest on the day the intervention was carried out by the one or two involved central banks, or not reported at all. The interventions set the Spot Price of gold. The regulatory authorities seem to look away.

6. Note of the writer
In our paper from 20 July, 2015 we concluded that JPM in cooperation with the BIS controls the dollar gold price through interventions on the development of the dollar gold price. Overall the conclusion was that there is no free market for gold.

In our paper from 7 October, 2015 we explained that JPM and the BIS are operating agents for the BIS network to maintain the confidence in the dollar and therefore manipulate the dollar gold price.

The BIS network is the successor of the Gold Pool. The Gold Pool provided for central banks of surplus countries with large foreign exchange reserves to share the burden of interventions in the London gold market in order to keep price fluctuations within a reasonable range. The BIS network determines the intervention zone for the dollar gold price for their operating agents.

In our paper from 23 September, 2016 we explained the setting and the importance of the Spot price of gold. The Spot price of gold is the basis for many transactions in gold. Actually it is an quotation made by so-called (thirteen)Market Makers (commercial banks) and based upon their trading activity in the harly regulated OTC-market.

(1) Audit Report 8 December, 2015 ESF Fiscal Years 2015 and 2014
(3) The Mechanics of Intervention in Exchange Markets by A.B. Balbach (FED), februari 1978
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(6) Study International Aspects of Central Banking 30 July, 2016 by Robert B. Kahn cs
(7) Study International Monetary and Financial Cooperation, Piet Clement (BIS), June 2006
(8) MoneyInsights.org, article 23 September, 2016, Behind the Spot Price of Gold
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(10) Site Riskbank Sweden, October 2016
(11) MoneyInsights.org, article 29 November, 2015, Speech William R. Wright (BIS)
(12) Financial Times 9 September, 2011
(13) Study Reported and Secret Interventions in the FX Markets by Michael Beine, 2003
(14) Bank of England Quarterly Bulletin 2011 Q4