

## Manipulation in the Markets

Bloomberg reported on a study this past week that points to decades of manipulation in the gold market. Whether there is credence to this study is something that is yet to be proven, but it highlights periods of suspicious trading activity around the time when the London Bullion Market Association fixes the price of gold every day. It also adds support to the notion that the way the price of gold is fixed is archaic in nature.

We have to begin with a bit of background. The London Bullion Market is not the one we commonly think of in North America. In North American trading hours we are often focused on the New York Mercantile Exchange, commonly referred to as the Comex. The London Market in 2013 saw close to 76 percent of gold trading in terms of volume in 2013, whereas Comex volumes were closer to 16.5 percent. Numbers for London are quite often best estimates because not all clearing is actually reported. Regardless of volume, research into which market leads the price of gold is inconclusive between the two. Despite London dwarfing all other markets, volume does not necessarily mean influence.

Twice a day in London, the price of gold is fixed. It's done so for many reasons, some being settling client orders who purchase or sell based on that fix. Clients may be precious metal dealers, mining companies, or jewellers. The fix is also used by financial institutions for portfolio valuation. To fix the price, five member bullion banks come together to determine a price. The member banks are Scotia-Mocatta, Barclays, Deutsche Bank (who recently announced they were giving up their seat), HSBC, and Société Générale. They hold a conference call where they offer their book of client good 'till cancelled orders along with their own orders. Once they have a price where they can settle

within 50 kilos matching buyers and sellers, the price is fixed.

The potential issue with the gold fix is that member banks that participate are not restricted from proprietary trading (trading for their own positions) and are not restricted from trading derivatives markets (like the Comex) while the conference call is underway. As well, the banks continue to take client orders while the call is taking place. It becomes a problem of adverse information as the five members have insight into the direction of the market before all other market participants, and the author of the study seems to suggest collusion between the five banks in terms of manipulating the price.

The motivation for the research paper comes from suspicious trading activity seen on the Comex in a brief period during the conference call of the second fix and following publication of the London Fix. Nothing has been proven at this point, but the researcher making the observations has also been credited for research that unveiled potential [manipulation in the setting of the LIBOR](#). A probe that has led to banks being penalized along with the traders participating in that rate setting process.

It is more a story of potential corruption amongst bankers than manipulating the price of gold. For a brief moment, perhaps five minutes, there is opportunity of making excess profit by knowing the direction of the market, before the market itself has time to adjust. And stories of late show it is not just the gold market and the LIBOR scandal, over the last year there have been probes into the currency markets showing evidence of rate rigging. Unfortunately though, these markets are so vast, ethics seems to be the only regulation that can guide these particular people in power, and clearly that does not always work.

All investments contain risks and may lose value. This material is the opinion of its author(s) and is not the opinion of Border Gold Corp. This material is shared for informational purposes only. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this article may be reproduced in any form, or referred to in any other publication, without express written permission. Border Gold Corp. (BGC) is a privately owned company located near Vancouver, BC. ©2014, BGC.