



The “Tiny Market” that is the World’s Biggest!

By Adrian Douglas

Here are some Trivial Pursuits questions for you:

- 1) What is the biggest market in the world for a physical commodity?
- 2) Is the gold market one of the smallest markets in the world for a physical commodity?

I would guess that you answered:

- 1) Crude Oil
- 2) Yes. Gold is one of the smallest commodity markets in the world

If those were your answers you are wrong on both of them. What everybody believes to be the “tiny gold market” is in fact the world’s biggest physically traded commodity market. Let’s have a look at some facts.

The London Bullion Market Association (LBMA) gold “over-the-counter” (OTC) market trades approximately 90% of the world’s physical gold trade. The amount of gold sold each day is given at their website [here](#). They report the net gold traded which is termed “ounces transferred”. This is not the gross trading volume. For example if an investor were to sell 1 Mozs in the day and then buy 1.1 Mozs the trade would be counted as 0.1 Mozs, which is the net difference between the purchase and the sale, and it is the amount of gold “transferred” to the investor’s account. The numbers are, therefore, the amount of gold that changes ownership each day. The value of the daily trading for November 2009 is given as 22 Billion US\$. You might think looking at the data that the trade amounts are for the entire month. But they are actually average daily figures for the month. This is clear from another [page](#) of the website which states:

QUOTE

Gold ounces transferred rose from a daily average of 20.6 million in September to 20.8 million, an increase of 1.2%. There was a 4.7% increase in the average price to \$1043.16, resulting in a 6.0% rise in value to a daily average of \$21.8 billion. The number of transfers dropped by 0.8% to a daily average of 1908.
END

The world consumes 82 million barrels of crude oil each day. At \$77/Bbl the physical trade of crude oil is worth 6.3 B\$ each and every day. This means that the amount of gold that changes ownership each day is, in dollar terms, 3.5 times the dollar value of crude oil that is consumed each day.

In a GATA dispatch in October 2009 Paul Mylchreest estimated that the gross volume of gold traded on the LBMA each day was about 2100 mt.

<http://www.gata.org/files/ThunderRoadReport-10-15-2009.pdf>

That equates to 77 B\$ each day at 1,150/oz. The NYMEX WTI crude oil contract trades 400,000 contracts each day which is 400 Million barrels. At \$77/Bbl the gross value traded is 30.8 B\$ which is only 40% of the value of the gross trade in gold.

There is a myth among even knowledgeable gold investors and analysts that the gold market is tiny, when in reality it is the biggest physically traded commodity market in the world. The perception of gold being a tiny market comes from the fact that the production of gold is tiny. Global gold production is only 2200 mt per year, which is equivalent to the gross trade in gold on the LBMA in just one day.

In a previous [article](#) I analyzed the LBMA market numbers and deduced that it was impossible for the LBMA to have enough gold in its vaults to trade such large daily volumes. The inescapable inference is that the LBMA is operating a fractional reserve system and has sold much more gold than it has or could ever have. The amount of gold that has been sold is estimated to be around 65,000 mt while the maximum amount of London Good Delivery bars that exist in the world is around 15,000 mt. So even if the LBMA possesses all of the world's entire stock of LGD bars there are 50,000 mt of obligations that can not be met if the owners ask for delivery. To put that quantity of gold into perspective it is equal to all the gold reserves that remain to be mined in the earth.

Gold is unique among all commodities because its very nature and function enables such a fraud to be perpetrated. Gold has very few uses that consume gold. It's main function is to store wealth and gold can perform that function while in your house, in your vault, or even on the other side of the world in someone else's vault. When it is acting as a store of wealth in someone else's vault you have to trust them that there is any gold at all in their vault.

Many wealthy individuals, institutions and sovereign states buy gold through the LBMA in unallocated accounts and leave the gold they supposedly own in the custody of the LBMA.

The fact that people are buying and selling gold without ever taking delivery means that there is the opportunity for the bullion houses to sell gold that doesn't exist. The bullion houses probably don't view this as illegal or dishonest because they will operate a fractional reserve type system just as the banks do with fiat currency and make sure they have enough gold on hand for what would be the maximum estimated volume of gold that could be called for delivery at any one time.

In order for this fraud to continue without being exposed, no requested delivery of gold by an LBMA customer must ever be defaulted upon or else a massive "run on the bank" would be triggered. When the bullion banks get into trouble and don't have enough gold on hand to meet delivery demands the central banks lease or sell them gold to meet the short fall. The central banks are willingly to aid and abet the crime because the selling of "paper gold" has the same suppressive effect on the gold price as selling real gold. It accommodates the central banks to mask their promiscuous fiat currency creation by suppressing the gold price. In this way the traditional inflation "canary in the coal mine" is muted. This is the basis of the "strong dollar policy" which allows interest rates to be lower than they should be and it in turn lowers the price of commodities and imports as it artificially enhances the dollar's buying power. Furthermore, the central banks are able to earn a lease rate on their gold hoards.

If commission fees are 3% then the annual commission earned by the LBMA is approximately \$585 Billion, which gives an indication of the enormous incentive there is to continuously rig the gold market.

It should be noted that the much heralded Bank of England public auction of half of their gold stock was only open to members of the LBMA.

From the thesis presented here it can be seen that the suppression of the gold price suits the central banks and for the LBMA running a fractional reserve gold inventory is extremely lucrative, especially when it is back-stopped by the central banks.

Mobilizing central bank gold to maintain liquidity in the market is essential. Maintaining secrecy of such gold activities is equally essential. GATA has over the last 10 years amassed a large amount of evidence that more than half of central bank gold has been sold, leased or swapped into the market. This is what lies at the core of the FOIA Federal lawsuit that GATA has filed against the Federal Reserve. The Federal Reserve is denying access to hundreds of pages of documents pertaining to the US gold reserves because they are deemed to be exempt from disclosure due to being "trade secrets". GATA believes that the FED

is trying to cover up its involvement in the suppression of the gold price as part of the implementation of the “strong dollar policy” which necessarily involved mobilizing or encumbering the US gold reserves in some way, in whole or in part. GATA intends to find the truth.

Investors in precious metals should take delivery of their bullion. No matter what the outcome of the GATA lawsuit the fraud will be exposed by customers of the LBMA asking for their gold. When it becomes clear that there isn't enough gold to meet demanded delivery the price must rise in accordance with the new market reality of a much smaller supply than previously was apparent. If you don't take delivery of your bullion you might discover that investments you thought you had in gold are just promissory notes.

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