

# Tracks in the Trading: When Did the Gold Price Manipulation Begin?

## Part I. Dating and Statistical Evidence

Some people argue that the price of gold is being kept 'artificially' low in order to obtain a global gold price of reduced value. Dr. Clawar describes a venue anomaly ([www.gold-eagle.com/editorials\\_00/clawar031300.html](http://www.gold-eagle.com/editorials_00/clawar031300.html)). For several months he compared the movements of the New York gold price to the price movements during the rest of the day. There is an average price fall for gold during the New York session, whereas in other time intervals of trade there is an average increase. This local (venue) tendency indicates a New York pricing pressure.

Analyst Michael Bolser compares the time before 1994 with the time afterwards -and thereby points to statistical highlights ([www.goldsextant.com/commentaryBA.html#anchor51667](http://www.goldsextant.com/commentaryBA.html#anchor51667)). Moreover, other analysts took notice of an identical New York closing price of nearly \$289 in 1997, 1998 and 1999. \$289 was also its price on May 6, 1999, one day before the Bank of England announced to sell gold. All of the discussed points are examples of irregularities in market behaviour. This begs the questions: When and how this began? And who is causing it?

We will search for the first date on which irregularities occurred. Next we will look for the day, when they increased. With the help of these dates we will try to make out their causes.

To accomplish this we supplemented Dr. Clawar's statistical method. While Clawar's method is tailored to selected periods, our approach is applicable to any historical period. One result is the exact identification of the relevant days. And through the extension of the time frame, we are further able to demonstrate statistical evidence of Gold price manipulation.

Our approach is based on a comparison between movements of the New York session and those of the remaining day. The data is taken from 'Bridge' and from the 'London Bullion Market'. We use London's AM Fix and New York's closing price.

We define the movements during New York session as

$$I) NYc - AM = (\text{New York close}) - (\text{London AM Fix})$$

and the movements of the remaining day as

$$II) AM - NYpc = (\text{London AM Fix}) - (\text{New York previous close})$$

Equation I) states the increase or decrease of the gold price roughly during a New York session. Equation II. abbreviates the same for the remaining day.

But I) and II) themselves cannot be applied for comparison, if the gold price only rises or just falls during the course of one day. In these cases the two equations show only the movement of the gold price and not of local price movements.

For a complete and correct comparison of local price movements we must look at the price movements during the New York session against the price movements of the remaining day.

In order to show one against the other we subtract the movement from one period from the movement of the other period. That is the simple mathematical trick. We calculate

$$\text{III) } NY_c - AM - (AM - NY_{pc}) = I - II$$

This formula is the key: It allows us to identify the days, on which anomalies in the gold market first occurred. Moreover it verifies the theory of an 'artificial' price pressure.

The following examples help to understand, how this approach works in detail:

A.) Movement during New York time: -\$5

Movement of the remaining day: +\$3

Formula III.:  $-\$5 - \$3 = -\$8$

Interpretation: New York falls strongly in opposition to overseas-trend ('overseas-trend' = 'the trend of the remaining day').

--> A big negative number indicates a strong local anomaly (NY-pressure).

B.) Movement during New York time: -\$5

Movement of the remaining day: -\$3

Formula III.:  $-\$5 - (-\$3) = -\$5 + \$3 = -\$2$

Interpretation: New York falls and the overseas too.

--> A number around zero indicates that there is no local anomaly.

C.) Movement during New York time: -\$5

Movement of the remaining day: +\$0

Formula III.:  $-\$5 - \$0 = -\$5$

Interpretation: New York falls, but the overseas not.

--> A small negative number indicates a small local anomaly (NY-pressure).

D.) Movement during New York time: +\$5

Movement of the remaining day: -\$3

Formula III.:  $\$5 - (-\$3) = \$5 + \$3 = \$8$

Interpretation: Overseas falls strongly against the New York trend.

--> A big positive number indicates a strong local anomaly (this time opposite: Overseas-pressure).

We can calculate this number (III) for various trading days. If we average these numbers a result of about zero is normally to be expected. If it is above zero, the overseas price falls in comparison to the New York price. If it is below zero, the New York price falls in comparison to the overseas price. This

method gives us the opportunity to find out whether there are local anomalies. This can be done independent from gold price fluctuations. The research can be extended from just a few months (sideways trends of the gold price) to the entire time of the time series.

This number (III) is no fictitious matter. It can be interpreted, because you can trade it as an arbitrage business. Buy in London at AM Fix one ounce of gold, fly to New York and sell it at the close. This is the first part (I) of the trading. The second part (II) is to sell short at the same time (New York close) another ounce of gold, return to London and stock up with the short-sold gold.

With time you should not earn any money, and also not lose it (except for the costs of the flights...), if the gold price hasn't got local anomalies, i.e. if the fluctuations are randomly distributed between New York and the rest of the world. This should occur independently of the main trend of the gold price itself. Even if the gold price rises or falls over a period of time, the combination of buying (I) and short-selling (II) will itself manage the lack of profit and also that of loss.

Unfortunately you might find out after seven years and many thousands flights in fact you lost money, averagely \$0.59 per day for 1873 trading days. Also for the last 330 trading days you even lost \$1.33 a day in average. This might sound like little money, but when compared with the gold price (\$260 for an ounce) you realize that you have lost an entire ounce of gold during one year.

You would certainly trade it inversely in order to earn money. The profit would be over 100% in one year! This is much, since gold has nearly no transportation or storage costs. It is just as important that we look at price moves, not at price levels. Therefore, common local characteristics should not be of big importance (as they would be for fish prices in a desert). It is not likely that the result was caused by coincidence, but rather by local New York price pressure.

Figure 1 helps us to find out, what is going on. It shows the return of the arbitrage business concerned. It is mathematically identical to the movement of the gold price during a New York session against the movement during the rest of the day (use equation III).

In order to obtain a smoothen line we must calculate and then plot averages for 125 trading days. Averages are always plotted against the recent day, as it is customary in the field of technical market analysis.

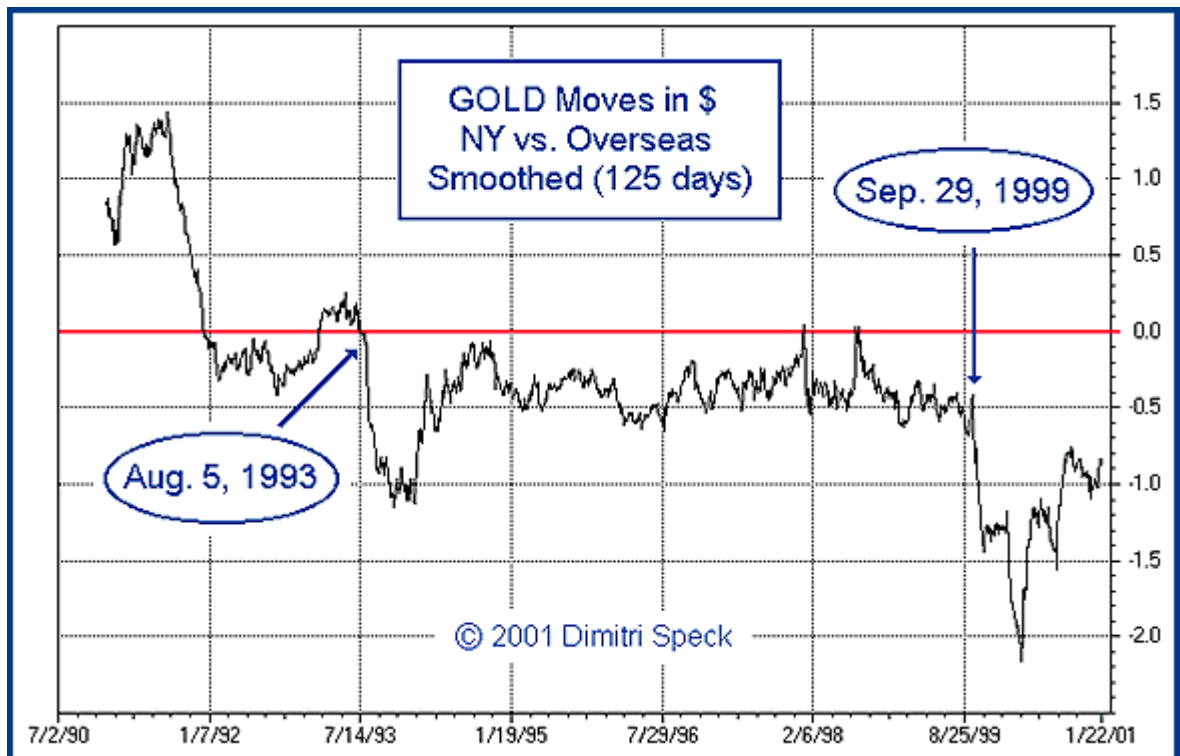


Figure 1

The gold price is losing during the New York session in comparison with the remainder of the day: averagely \$0.59 for the last seven years and \$1.33 for the last one and a half years a day. Moreover, this method enables us to identify the exact day on which the anomaly began: August 5, 1993. This would make it possible to track down the causes. However we cannot exclude that there were earlier anomalies temporarily.

Apparently there is also a second day where the line shows a strong decrease. On this day the anomaly increased strongly: September 29, 1999. Yet the increase may have started a few days before.

At this point we introduce two Figures which confirm the latter identification of the two days. They do not include average calculations. Therefore the line is not smoothed in contrast to Figure 1. We directly plot the numbers of equation III. Figure 2 shows a short period around the first date and Figure 3 one around the second date. Therefore both figures demonstrate the beginning and respectively the increasing of the anomaly.

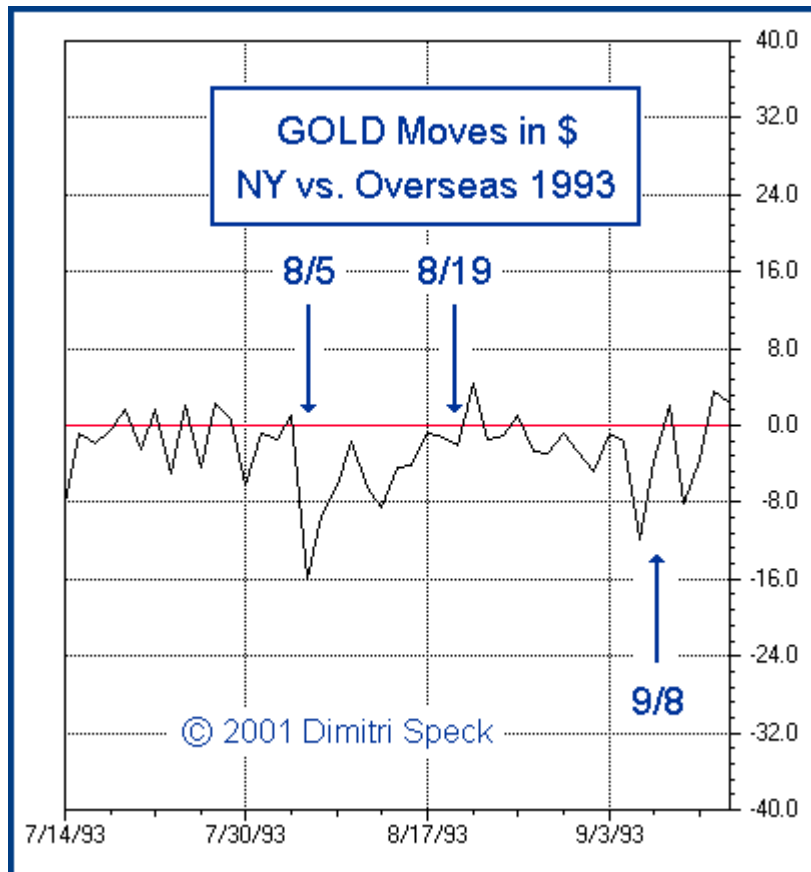


Figure 2

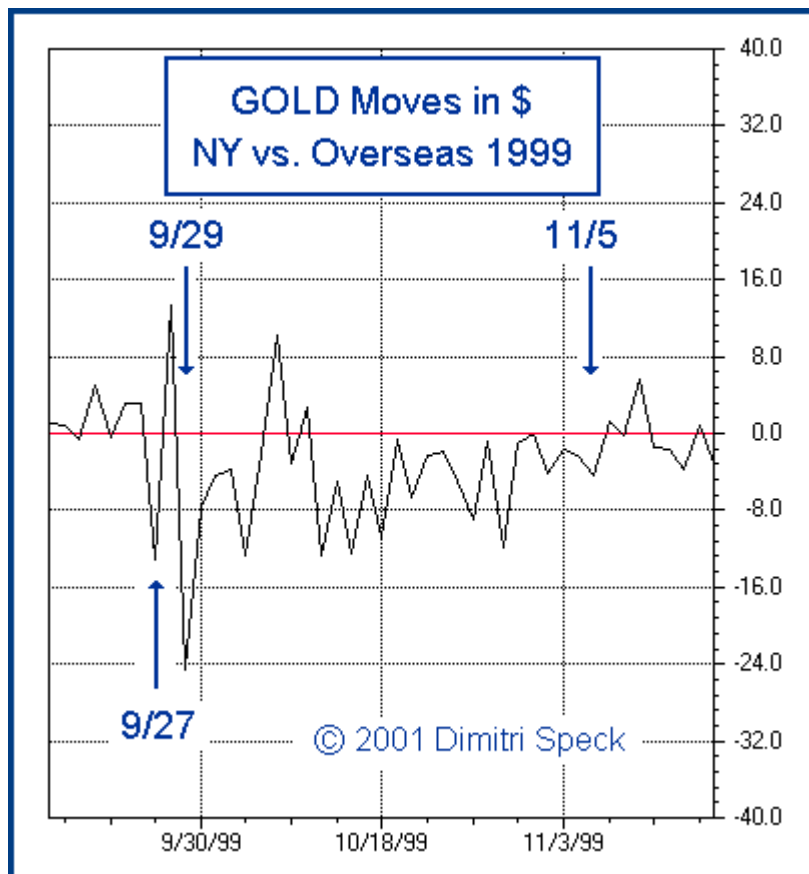


Figure 3

Figures 2 and 3 confirm in detail the result of Figure 1: Figure 2 clarifies the exact day on which the local anomaly was initialised. Further Figure 3 demonstrates the day on which the anomaly increased. Yet the increase may have started a few days before.

At this point we discuss some limitations of our approach. One limitation is that we study movements over time and do not use logarithms in our calculations. But the discrepancy is negligible in this case.

Also equation III does not necessarily fully compensate the trend in gold price itself over time. Looking at the upward trends and the downward trends for a period of ten years we do not find evidence for an incomplete compensation. Another limitation is that any statistical approach is limited by nature. There seems to be yet another restriction, which we will look at in detail. Any average can be influenced significantly by extreme values. In our case a price jump of \$50 would be an extreme value. It could make Figure 1 unreliable. This is not the case. Instead of a statistical number analysis, which for this purpose would not improve the examination, we look again at Figure 1: Within our seven years (=1750 days) period we would have to find at least fourteen (=1750/125) of such 'extreme jumps' to get figures and numbers like ours. They do not exist.

We can demonstrate this matter in more detail, if we use averages for a shorter period of time. Figure 5 is a plot of the averages for only 21 trading days (equation III).

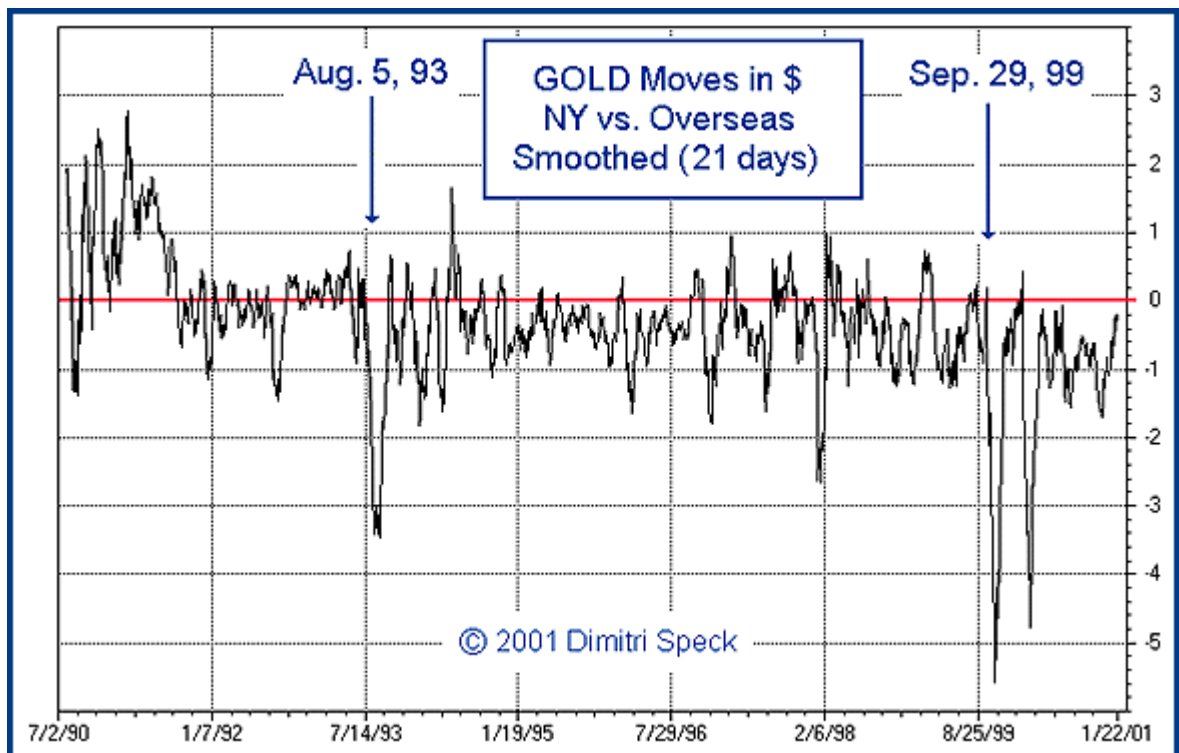


Figure 5

Figure 5 shows that the tendency for the local anomaly is quite stable over the entire period. The anomaly is not caused by only a few 'extreme jumps'.

But additionally we look at the non-smoothed line. Figure 2 shows the beginning of the anomaly. The local anomaly lasted over several days, from 8/5 until 8/19 without any exception, and until 9/8 with two exceptions. We cannot identify an individual extreme jump. The situation in Figure 3 is comparable. Here the anomaly lasted from 9/29 until 11/5 with only two exceptions. We can conclude that our results are not caused by some individual jumps in connection with the average method. The cause of our results is a local anomaly.

**A First Summary: A local anomaly started On August 5th, 1993, which continues today. This is testament to a statistical indication of an American price pressure (an overt force not related to supply/demand). On September 29, 1999, the anomaly increased in intensity. Moreover, it is likely that this price pressure is overtly deliberate, and therefore 'artificial' vis-à-vis free market forces. Furthermore, it is evident there are presently 'interested entities' that are keeping the price of gold low.**

Part 2 of this report will help answer the burning questions:  
**Who is intervening? How? And more importantly, Why?**

[\(Part -2\)](#)

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