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**Baron Point Research
The 2022 Gold Conundrum
Investment Bank Manipulation or Strong U.S. Dollar?
Summer Edition II
July 18, 2022**

Baron Point issue research describing current intermediate term trends and topics we find interesting. This research is intended to complement the regular Monthly Fact Sheets which include our monthly return updates.

A summary table of contents is shown below. **If you have any comments please feel free to email us at info@baronpoint.com or call +1 (212) 248-2733 x701.**

Table of Contents

Introduction	2
Discussion	2
National Amounts of Precious Metals Derivatives	2
Gold historically performs well in periods of high inflation	5
Consumer inflation in US.....	6
Six Month Chart of Spot Gold Price (2022).....	6
Conclusions	7

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The 2022 Gold Conundrum – Investment Bank Manipulation or Strong U.S. Dollar?

Curmudgeon with Baron Point Financial

Introduction

Many investors have been puzzled, as to why Gold has not rallied in the last two years as a result of accelerating inflation and geopolitical crisis' like the war in Ukraine that could easily spread to Eastern Europe. As we will show, gold historically does very well when inflation climbs above 3% (it's close to 9% in the U.S. now. Yet Gold has declined year to date?

Discussion

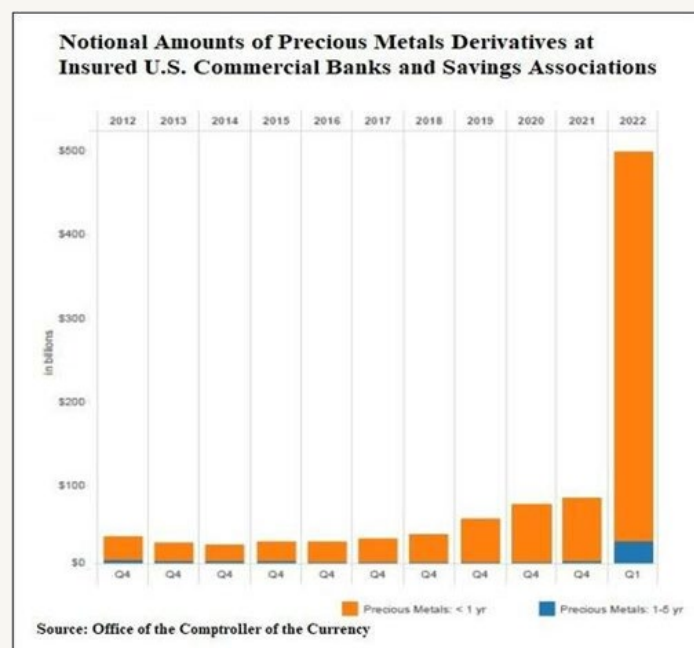
An eye-opening article by the well-known **Peter Hambro** was published by British economics and politics news site *Reaction*. The article titled "Don't forget the golden rule: whoever has the gold makes the rules" is intriguing for a number of reasons. It pulls no punches in highlighting the manipulation of the gold price and naming the types of entities responsible, while explaining some of the mechanisms used in the fractional-reserve London paper gold game.

The chart to the right, from the **US Office of the Comptroller of the Currency (OCC)**, shows the massive extent to which gold bullion banks such as JP Morgan have amassed precious metals derivatives contracts to hold down the gold price.

Mr. Hambro describes this manipulation of the gold price using derivatives as a 'tinder-box', which 'disinformation [has] for many years kept the lid on.' But who, you might ask, is directing this disinformation and this gold price manipulation?

According to Hambro, it's the **Bank for International Settlements (BIS)** in Switzerland, i.e., the central banks' central bank.

National Amounts of Precious Metals Derivatives





Mr. Hambro states that: “Since 2018 the Financial Stability Desks at the world’s central banks have followed the Bank for International Settlements’ (BIS) instruction to hide the perception of inflation by **rigging the gold market.**” But since the central banks ‘need cover’ and ‘cannot be seen’ to be rigging the gold price, he adds: “The only way to achieve the cover is by smashing the price of physical gold by the alchemical production of ‘paper gold’.”

“With the help of the futures markets and the connivance of the Alchemists, the bullion traders – yes, that includes me (Mr. Hambro), I was Deputy Managing Director of **Mocatta & Goldsmid** – managed to create an unshakeable perception that ounces of gold credited to an account with a bank or bullion dealer were the same as the real thing, but much easier, old chap! You don’t have to store or insure it.

The gold credit that Mr. Hambro is referring to above is the LBMA's infamous ‘unallocated gold’, with ‘the futures markets’ being the COMEX.

The **BullionStar** website has for years been saying the very same thing. In particular, see [here](#) and [here](#).

A **Bloomberg** article titled, “[JPMorgan Gold Desk Ripped Off Market for Years, Jurors Told,](#)” states that “the precious-metals business at JPMorgan Chase & Co. operated for years as a corrupt group of traders and sales staff who manipulated gold and silver markets for the benefit of the bank and its prized clients, a federal prosecutor told jurors in Chicago. The government says Nowak’s business operated as a criminal enterprise, manipulating prices from 2008 to 2016 by placing thousands of trade orders that were never intended to be executed.

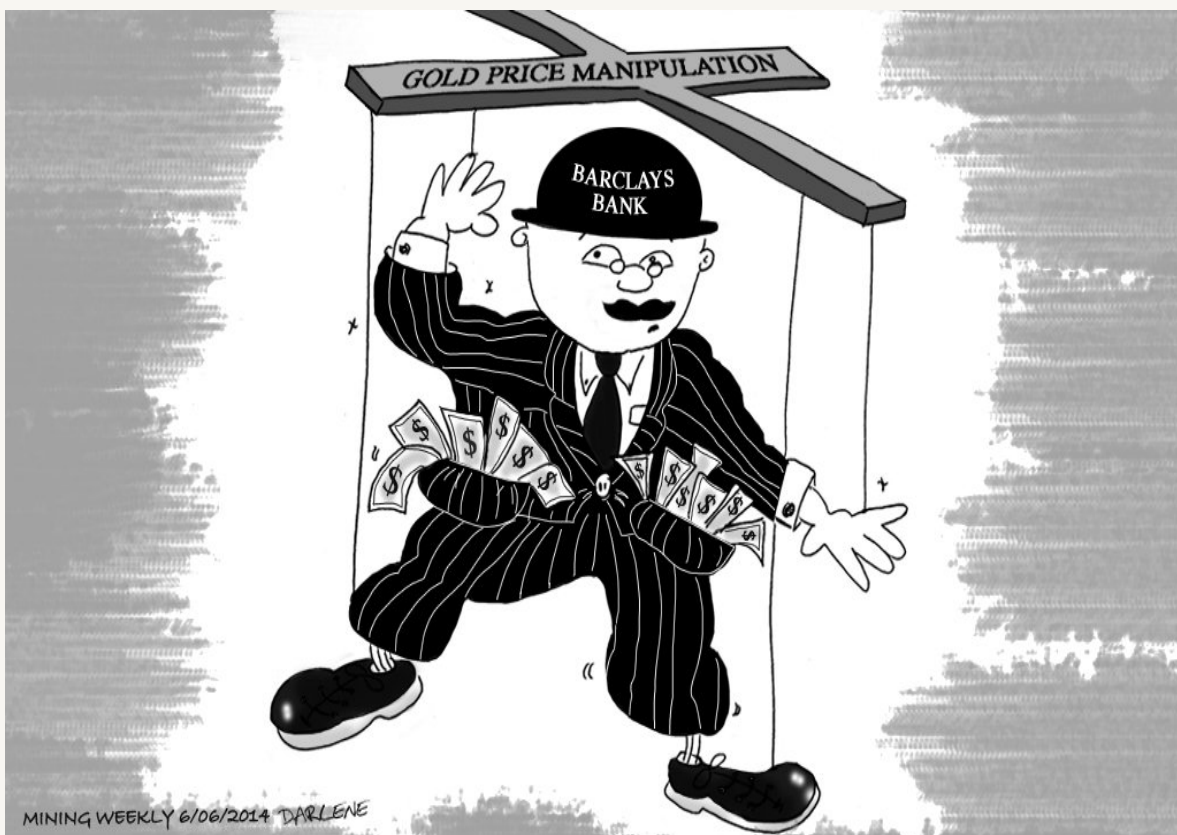
“This case is about a criminal conspiracy inside one of Wall Street’s largest banks,” said Lucy Jennings, a prosecutor with the Justice Department’s fraud section. “To make more money for themselves, they decided to cheat.”

Spoofing, banned by law in 2010, involves huge orders that traders cancel before they can be executed in a bid to **push prices in the direction they want to make their genuine trades profitable**. While canceling orders isn’t illegal, it is unlawful as part of a strategy intended to dupe others. **High Frequency Traders (HFT)** have also been accused of spoofing and front running customer orders.



“When this trick works, there is somebody else on the other side of the deal that lost,” Jennings told jurors in her opening statement. “Somebody got ripped off.” She added, “We will prove that all three defendants knew from day one that this trading was wrong and did it anyways.”

Commodities manipulation and in particular spoofing have become a major focus of the Justice Department, which has brought several other cases in recent years, including against **NatWest** and former traders at **Deutsche Bank** and **UBS**.



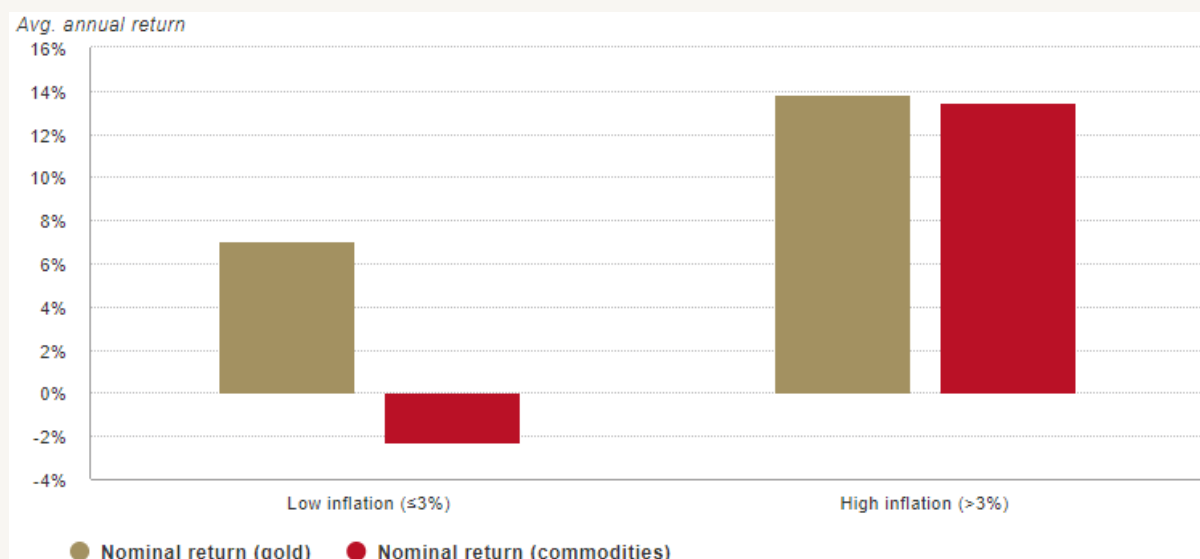
JPMorgan agreed in 2020 to pay more than \$920 million and admitted to wrongdoing to settle with the **DOJ** and **Commodity Futures Trading Commission (CFTC)** over the conduct of the traders who have pleaded guilty or are facing trial.



Gold historically performs well in periods of high inflation

Gold and commodity nominal returns in US dollars as a function of annual inflation*

In years when inflation was higher than 3%, gold's price increased 14% on average.



Sources: Bloomberg, ICE Benchmark Administration, World Gold Council

*As of 31 December 2021. Based on y-o-y changes in US dollars for 'gold': LBMA Gold Price PM, 'commodities': Bloomberg Commodity Index and 'inflation': US CPI since January 1971.

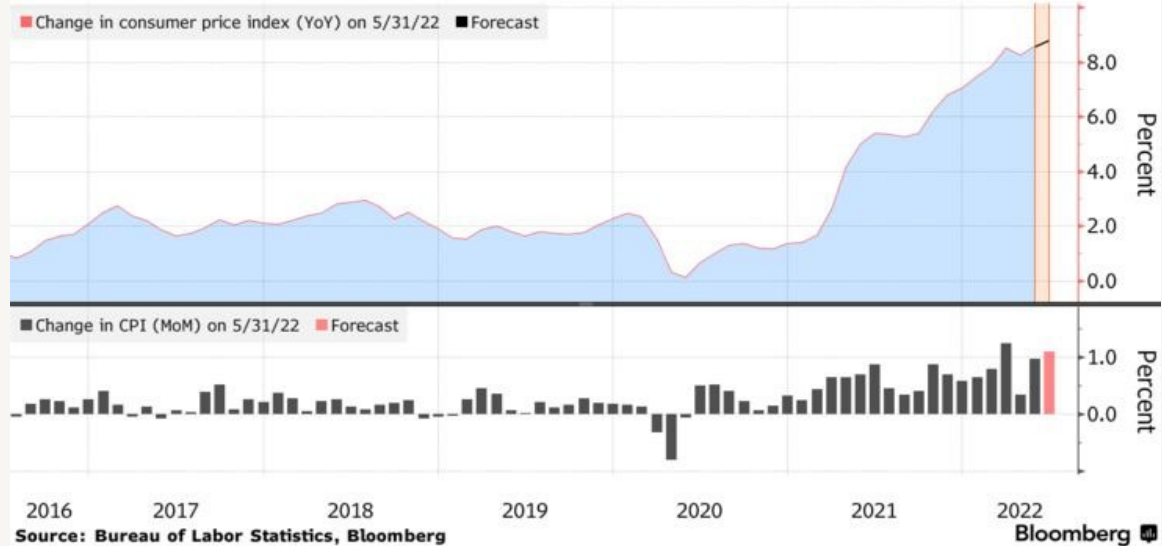


The charts below show the rapid increase in inflation this year while gold (and mining shares) have declined. What a contrast and departure from historical correlations!

Consumer inflation in US

Climbing Higher

Consumer inflation in US is seen marching to a fresh four-decade high



Six Month Chart of Spot Gold Price (2022)



Source: [Trading Economics](#)



Conclusions

The main reason we see for gold's historically horrible performance in 2022 (with inflation accelerating to almost 9%) is the **market's belief** that **real U.S. interest rates** will rise significantly (although they are currently still negative). However, the ECB and BoJ are still pursuing ultra-easy monetary policies, which have caused their currencies to decline to multi-decade lows against the U.S. dollar. As a result, institutional investors have been selling foreign currencies to buy: the U.S. dollar on Forex markets, dollar derivatives, or "strong dollar" ETFs.

Hence, the U.S. dollar (and NOT Gold) has become the investment of choice during this global inflationary period.

Thanks for reading,



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If you would like to discuss anything in this paper or any other topic, email us at info@baronpoint.com or call +1 212 248 2733.