BIS Gold Swaps Fell From 157 Tonnes in August to 112 in September
Sun Nov 03 2024

The September statement of account for the Bank for International Settlements was published this week -- -- and it indicates that the volume of gold swaps undertaken by the BIS fell from 157 tonnes at month-end in August to 112 tonnes at month-end in September, a decline of 45 tonnes or almost 29%.

Table 1 below sets out the historical level of monthly gold swaps estimated since August 2018. As is evident from the table there is still a considerable level of gold being traded via these swaps. While gold swaps are down significantly from the 501 tonnes estimated in January 2022, the level seemingly remains quite volatile, suggesting the use of swaps to cover shorter-term trading requirements.

To repeat the point made regularly in these reports, it seems that these swaps are undertaken by the BIS for one or more of its central bank customers with the swapped gold being accounted for as being held in a BIS-registered sight account at a central bank. Given what is happening in the gold market more generally, it appears reasonable to assume that the Federal Reserve is the BIS' customer for the swaps transactions.

The evidence strongly suggests that bullion banks are the source of this gold and the supply comes from gold registered as being held by gold exchange-traded funds.
The 2023-24 annual report for the BIS -- -- confirms GATA's estimate of the bank's gold swaps as of March 31 in Table 1 of 72 tonnes.

The BIS annual report contains information that also confirms certain assumptions used to estimate the swap volumes. This includes confirmation that the BIS continued to hold 102 tonnes of its own gold. The annual report also provides strong support, via its reporting on transactions with related parties, that the gold comes from bullion banks rather than central banks.

However, the BIS continues to offer no explanation for why it is undertaking gold swaps.
The BIS first reported gold swaps in its annual report for 2009-10, so gold swaps have been provided by the BIS for its customer central banks for more than 15 years. See Table 2 below for the year-end level of gold swaps reported by the BIS in its annual reports since March 2010.

Table 1 — Gold swaps estimated by GATA from BIS monthly statements of account

Month .... Swaps & year ... in tonnes

Sep-24 .... /112

Aug-24 .... /157

Jul-24 .... /148

Jun-24 .... /116

May-24 .... /109

Apr-24 .... /78

Mar-24 .... /72

Feb-24 .... /68

Jan-24 .... /117

Dec-23 .... /121

Nov-23 ..../100

Oct-23 ..../68

Sep-23 ..../96

Aug-23 ..../129

Jul-23 .... /103

Jun-23.... /87

May-23 .... /188

Apr-23 .... /135

Mar-23 .... /77*

Feb-23 ... /136

Jan-23 ... /103

Dec-22 ... /0

Nov-22 ... /105

Oct-22 ..... /7

Sep-22 ...../57

Aug -22 ..... /75

Jul-22 ..... /56

Jun-22 ..... /202

May-22 ..... /270

Apr-22 ..... /315

Mar-22 .... /358

Feb-22 .... /472

Jan-22 ..... /501

Dec-21.... /414

Nov-21.... /451

Oct-21.... /414

Sep-21 .... /438

Aug-21 .... /464

Jul-21 .... /502

Jun-21 ..../471

May-21 ..../517

Apr-21 .... /472

Mar-21.... /490+

Feb-21 ...../552

Jan-21 .... /523

Dec-20 .... /545

Nov-20 .... /520

Oct-20 .... /519

Sep-20...../ 520

Aug-20...../ 484

Jul-20 ..... / 474

Jun-20 .... / 391

May-20 ... / 412

Apr-20 .... / 328

Mar-20 .... / 326**

Feb-20 .... / 326

Jan-20 .... / 320

Dec-19 .... / 313

Nov-19 .... / 250

Oct-19 .... / 186

Sep-19 .... / 128

Aug-19 .... / 162

Jul-19 ..... / 95

Jun-19 .... / 126

May-19 .... / 78

Apr-19 ..... / 88

Mar-19 .... / 175

Feb-19 .... / 303

Jan-19 .... / 247

Dec-18 .... / 275

Nov-18 .... / 308

Oct-18 .... / 372

Sep-18 .... / 238

Aug-18 .... / 370

* The estimate originally reported by GATA was 78 tonnes but the BIS annual report states 77 tonnes. It is believed that slightly different gold prices account for the difference.

+ The estimate originally reported by GATA was 487 tonnes but the BIS annual report states 490 tonnes. It is believed that slightly different gold prices account for the difference.

** The estimate originally reported by GATA was 332 tonnes but the BIS annual report states 326 tonnes. It is believed that slightly different gold prices account for the difference.

GATA uses gold prices quoted by USAGold.com to estimate the level of gold swaps held by the BIS at month-ends.

There seem to be no reasons to alter the assumption that the BIS is continuing to enter these swaps on behalf of the Federal Reserve. There is no evidence to suggest that any other major central bank is actively trading this much gold, and many central banks are still accumulating physical gold.

As noted above, the basic transaction that the BIS is believed to undertake is to swap dollars for gold that is transferred from a bullion bank, then to deposit this gold in a gold sight account at a central bank, presumed to be the Fed but almost certainly being the central bank that is using the BIS to execute the gold swap on its behalf.

Given the recent volatility in BIS gold swaps, it seems likely that most are of a short duration. Why a central bank needs the BIS to undertake gold swaps isn't clear. The swaps are likely connected with short-term trading needs and perhaps are being used to aid suppression of the gold price via the futures markets.

The volatility in the volume of swaps is clear from a review of Table 1 above. Volumes of swaps in 2023 and so far in 2024 remain well below the average seen in the preceding four years, but they remain significant. The gold price increased from $2,503 at August 30 to $2,635 at September 30 (per USAGold.com).

Using the September 30 gold price, the 112 tonnes of gold swaps outstanding via the BIS at the month-end are valued at about $9.5 billion.

So the recent trading in BIS gold swaps has high dollar value and shows that gold remains a significant monetary asset still actively traded on behalf of at least one central bank, presumably the Fed.

As ever with the BIS, it remains unlikely that more information about why it undertakes these transactions will be provided. No such information was provided in the recently published annual report, which covered the year ending March 31, 2024.

GATA commentary on gold price suppression

GATA's research on gold price suppression indicates that an active policy of price suppression was implemented around 30 years ago and was primarily intended to hold down interest rates. Recent updates on this research are provided by the presentations GATA secretary/treasurer Chris Powell and Chairman Bill Murphy made in November 2023 at the New Orleans Investment Conference:

In a more recent dispatch Powell laments that so much of the bullish commentary on gold fails to highlight the regular and repeated efforts to suppress the gold price during the past 30 years. He argues that this bullish commentary provides an incomplete view of the risks as well as the rewards of gold ownership even as the financial outlook for the U.S. government seems fraught amid so much debt:

This influential report from 2005 about "Gibson's Paradox" remains relevant and highlights work in this area by former U.S. Treasury Secretary and Harvard University President Lawrence Summers:

It also remains relevant to highlight the following remarks made in a speech by Summers on September 8, 1999, as reported in the book "The Wealth of Progressive Nations: The Collected Lectures of Lawrence Summers." The remarks below are an extract of a section of the speech titled "A New Economic Paradigm."

"Most important of all, the Clinton-Gore administration has established a new paradigm for the management of our nation's budget, with enormous cumulative benefits for our economy and our citizens. It has become a commonplace to remark on how exceptional today's 4.2% unemployment rate is relative to any expectation at the beginning of the decade. It is no less remarkable that today, after 8.5 years of expansion, long-term interest rates are around 2 percentage points lower than they were at its start."

From this it is reasonable to conclude that keeping interest rates lower was considered a priority by the Clinton-Gore administration and succeeding at it was thought to be "remarkable." While this is not proof that gold price suppression was undertaken specifically to reduce interest rates, it shows that reducing interest rates was a priority for the U.S. government.

Further evidence of this priority is provided by an interview with former Treasury Secretary Robert Rubin about his time working in the Clinton administration after January 1993. In answer to a question on the initial decision to prioritize deficit reduction, Rubin remarks: "On the other hand, if interest rates go down as a result, then that will stimulate growth, and we thought that the beneficial effect of lower interest rates would outweigh the contractionary impact of the deficit reduction":

Hence there is plenty of evidence that keeping interest rates low was a major goal of the Clinton presidency.

In the context of gold price suppression being used to reinforce efforts to reduce interest rates, the following report issued by GATA in 2007 with an analysis of the gold market by Frank Veneroso is a notable reference as it confirms that GATA's primary assertions about gold price suppression were plausible:

More recent trends in U.S. government deficits

The remarks of Rubin and Summers on the U.S. government's priorities in the 1990s are reminders of how much the financial positions of Western nations have worsened since then.

The worsening trend for Western nations, especially the United States, probably reduces the appeal to the BIS of undertaking gold swaps on behalf of any central bank where a liability to return swapped gold is incurred. The trend possibly also reduces the appeal of any such swaps to the central bank or banks for which the BIS has been acting.

A report issued by GATA in 2012 is worth revisiting as it highlights the acknowledgment of gold price suppression by a former chairman of the BIS, Jelle Zijlstra, a Dutch politician, economist, and central banker. So it seems likely that BIS management understands what the swaps are being used for and why no reasons for the transactions are given.

The conundrum facing the Federal Reserve about dollar interest rates has seemingly been resolved for now with the Fed's decision to reduce rates close to the upcoming presidential election with further cuts suggested for November and December. Further market turmoil driven possibly by Japanese interest rates and currency levels may change this assumption rapidly given the high level of government debt in both countries.

Despite its opaque rhetoric, the Fed needs to sustain confidence in the U.S. stock market and the Treasuries market when the government's ever-increasing debt has become so controversial. Forthcoming new debt issuance is being monitored even more closely by investors.

The Treasury Department's monthly report on September 2024 revenue and expenditure shows a 12-month deficit of $1.83 trillion and points toward a broadly similar or higher level of cash outflows in the current fiscal year to September 2025. The total of Treasury securities outstanding at September 30 is about $35.5 trillion, including about $7.2 trillion of notional debt held by federal government-supported trust funds (Special Debt).

The higher interest charge being reported virtually each month is one reason for the deficit to increase. The run rate of gross interest costs reported in the last 12 months has now reached $1.13 trillion, despite a more muted level of annual interest payments on the approximately $7.2 trillion of Special Debt. This more muted increase is perhaps indicative of the pressure to keep a lid on interest costs.

In these circumstances the room for the Fed to raise interest rates in the next few years seems restricted and hence it seems likely as noted above that the BIS and some of its member central banks might be questioning the role of the BIS in these swaps and the obligation to make future deliveries of gold, since the Fed may be unable to move interest rates high enough to contain inflation.

In this context the relatively stable price of oil is relevant as it seems that strong forces want to keep oil prices subdued despite developments that might be expected to result in higher prices, such as production cuts by major producers and the dangers to shipments through the Red Sea. With 2024 being a presidential election year in the United States, there appear to be strong political incentives to contain oil prices and even recent moves to consolidate the number of oil producers in the U.S. might have been tacitly encouraged in return for commitments to keep production high.

The direction of oil prices after the election might prove to be important influences on the timing of a gold price reset, as there appears to be little effort by the Fed and Treasury Department to acknowledge that federal debt levels have become extremely high.

The report at the following link, which reviews the possible connection between hedge funds' basis trades in U.S. Treasuries and the Fed's program of quantitative tightening, could be read as another sign of how difficult it is to locate purchasers of U.S. Treasuries at current prices:

It also seems that the incentives for foreigners to own U.S. Treasuries are diminishing as efforts to confiscate Russian assets appear to be moving forward. Saudi Arabia has apparently warned that any such confiscation may cause it to sell its holding of U.S. Treasuries.

Again, it seems appropriate to note that a report titled "Living with High Public Debt," authored by Serkan Arslanalp and Barry Eichengreen, was published in August 2023 by the Federal Reserve Bank of Kansas City. This report reinforces just how difficult it is to handle high federal government debt with spending far in excess of revenue.

Here is an excerpt from the conclusions:

"Looking forward, the challenges are daunting. Given aging populations, governments will have to find additional finance for healthcare and pensions. They will have to finance spending on defense, climate change abatement, and adaptation, and the digital transition. A growing number of low-income countries are already in debt distress.

"Living with high public debt therefore means avoiding steps that make a bad situation worse. This means minimizing unproductive public spending. It means targeting social transfers as a way of limiting pressures on the expenditure side. It means limiting contingent liabilities by, inter alia, adequately regulating banks and avoiding recapitalization costs.

"It means contemplating tax increases where revenues are low by international standards. It means further developing financial markets where markets are underdeveloped and where a diverse population of local investors in debt securities is absent. It means embracing legal and procedural changes that streamline and speed restructuring for countries whose debts are unsustainable.

"This modest medicine does not make for a happy diagnosis. But it makes for a realistic one."

In the circumstances, vividly described in the report, it seems unsurprising that the price of gold has increased so far in 2024. The report offers yet more reason to question whether gold swaps undertaken via the BIS, probably on behalf of the Fed, are being used to suppress the dollar gold price.

Debt problems in China and other countries

The IMF has highlighted the high level of non-financial debt in many countries in recent reports and its own figures for non-financial debt to GDP include as of Q2 2023 Japan 414%, France 323%, China 308%, USA 253%, UK 237%, Germany 186%, and India 182%. The IMF is clearly signaling concern over the debt overhang.

Recent reports in Western media on efforts by the Chinese government to stimulate a recovery in its economy, especially its property sector, are worthy of comment as at least one experienced long-term observer of the Chinese economy considers that China needs to devalue its debt and possibly achieve this by way of a gold price revaluation.

This video below of Professor Russel Napier at an investment conference this year includes his insights into the debt situation in China and his view that much of this debt needs to be written off. He forecasts that gold will rise in price in dollars as a result of this debt write-off, which could be achieved by a gold price reset. Professor Napier is the author of "The Asian Financial Crisis 1995-98" and a well-known investment adviser and economic historian:

Napier goes further and suggests in the video that Chinese President Xi Jinping has the ability to decide when to trigger a gold price reset and that it will change global trade dramatically. A decision by China to devalue the yuan versus gold would almost certainly force the United States to follow and would probably lead to bans or extremely high tariffs on Chinese exports to the U.S.

If Professor Napier is correct, then any attempts by Donald Trump, if he becomes the next president, to introduce substantial tariffs might trigger a decision by the Chinese to reset the yuan gold price, since one of the major adverse consequences of a gold price reset -- namely the loss of their export trade to the U.S. -- would have already happened.

So the price of gold could soar if Trump carries out what he has said he will do.

If Vice President Kamala Harris wins or if Trump acts more moderately, then maybe an agreed gold price reset might occur next year. The chances that the U.S. federal deficit would continue to be willingly funded seem really bleak, especially as hedge funds have already been used and seemingly are really only holding Treasuries as a stopgap for maybe two years, a term that will start running out later in 2025.

In the opinion of this writer, Napier’s ideas on how gold may be re-used in a new financial system are credible. They fit in with a trend identified by people close to governments such as Robin Niblett, the former head of Chatham House, a research organization specializing in international relationships. Niblett's book "The New Cold War" examines the likely future competition between China and the U.S. Niblett makes no reference in his book to the use of gold in the future.

Another interesting book is "The Red Emperor" by Michael Sheridan, which examines Xi Jinping and modern China. The prologue to the book is set out below in the appendix. It provides an insight into an unusual and powerful man who may be a key decision maker in ending the current version of gold price suppression.

Historical context of the gold swaps…

The BIS rarely comments publicly on its gold activities, but its first use of gold swaps was considered important enough to cause the bank to give some background information to the Financial Times for an article published on July 29, 2010, coinciding with publication of the bank's 2009-10 annual report.

The general manager of the BIS at the time, Jaime Caruana, said the gold swaps were "regular commercial activities" for the bank, and he confirmed that they were carried out with commercial banks and so did not involve central banks. It also seems highly likely that the BIS' remaining swaps are still all made with commercial banks, because the BIS annual report has never disclosed a gold swap between the BIS and a major central bank.

The swap transactions potentially created a mismatch at the BIS, which may have ended up being long unallocated gold (the gold held in BIS sight accounts at major central banks) and short allocated gold (the gold required to be returned to swap counterparties). This possible mismatch has not been reported by the BIS.

The gold banking activities of the BIS have been a regular part of the services it offers to central banks since the bank's establishment 90 years ago. The first annual report of the BIS explains these activities in some detail:

A June 2008 presentation made by the BIS to potential central bank members at its headquarters in Basel, Switzerland, noted that the bank's services to its members include secret interventions in the gold and foreign exchange markets:

The use of gold swaps to take gold held by commercial banks and then deposit it in gold sight accounts held in the name of the BIS at major central banks doesn't appear ever to have been as large a part of the BIS' gold banking business as it has been in recent years, although the recent declines suggest this may be changing.

As of March 31, 2010, excluding gold owned by the BIS, there were 1,706 tonnes held in the name of the BIS in gold sight accounts at major central banks, of which 346 tonnes or 20% were sourced from gold swaps from commercial banks.

If the BIS was adopting the level of disclosure made by publicly held companies, such as commercial banks, some explanation of these changes probably would have been required by the accounting regulators. This irony may not be lost on those dealing with regulatory activities at the BIS. Presumably the shrinkage of the BIS' gold banking business shows that even central banks now prefer to hold their own gold or hold it in earmarked form -- that is, as allocated gold.

Table 2 below highlights recent BIS activity with gold swaps, and despite the recent declines, the recent positions estimated from the BIS monthly statements have regularly been large, especially in early 2022, and the volume of trading has been significant.

Table 2

March 2010: 346 tonnes

March 2011: 409 tonnes

March 2012: 355 tonnes

March 2013: 404 tonnes.

March 2014: 236 tonnes.

March 2015: 47 tonnes.

March 2016: 0 tonnes.

March 2017: 438 tonnes.

March 2018: 361 tonnes.

March 2019: 175 tonnes

March 2020: 326 tonnes

March 2021: 490 tonnes

March 2022: 358 tonnes

March 2023: 77 tonnes

March 2024: 72 tonnes

APPENDIX

Prologue to "The Red Emperor"

The statue is hewn from granite quarried at the core of China. It is of a man who sits as if dispensing wisdom like a sage of old. It crowns a great mound visible from far away. Pilgrims climb more than a hundred steps to pay homage, watched by guards and cameras.

The site is grander than the tombs of the Ming emperors.

A gold inscription records his dates of birth and death on the plinth beneath which his ashes rest. He was born in the countryside nearby in 1913 and died in Beijing in 2002. His name was Xi Zhongxun and he was the father of the man who became supreme ruler of China in the early 21st century. His son Xi Jinping was just a middle-ranking official when the leaders of the Communist Party came to Xi Zhongxun’s funeral. The old revolutionary was cremated and his ashes were kept at the Babaoshan cemetery in the capital, where the party honors its heroes.

Three years later his son brought the funeral urn to Shaanxi Province, the family’s ancestral home. The local government went to work on a memorial for the ages. They tore down homes, threw farmers out, levelled ground, and laid roads. Teams of workmen refurbished the Xi clan house and a museum dedicated to the patriarch.

In the ancient tradition known as feng shui, the place of a tomb is meant to be auspicious for both the deceased and their descendants. Yet Xi Zhongxun was a lifelong atheist and a revolutionary Communist. The party he served scorned superstition.

Mao Zedong, the founder of modern China, left orders for a plain funeral, only to be ignored by his comrades, who embalmed his body and placed it in a grandiose mausoleum facing the Gate of Heavenly Peace at the centre of Beijing, where visitors file past it today. The ashes of Deng Xiaoping, who reformed Maoist China, were scattered from an air force plane over the East China Sea. He has no tomb.

Xi Jinping is different. He is not a comrade; he is an emperor. And emperors must have dynasties.

As Xi rose through the ranks of the Chinese elite to take power in 2012, workers toiled on his father’s memorial. Three years after that it was a shrine fit for an imperial house. Only the rulers of North Korea had anything equal to it. The local Communist chief was rewarded for his labor by Xi with a place in the top ranks of the party.

On one level, the cult of the Xi dynasty is just an exaggerated version of standard authoritarian practice. Schoolchildren line up to sing patriotic songs in front of the old man's benevolent statue. Soldiers snap to attention and present arms. Delegations and committees roll up in buses to climb the steps and listen to windy speeches. The guides draw pious attention to a maxim carved in stone: "The party's interests come first."

But this cult is weirder. The party's interests do not come first. The privileges of a few families do, none more so than the leading clan.

In tracing the life of Xi Jinping, you see the astonishing transformation of China from a poor agrarian society to a sophisticated modern state. It is a nation that can launch space probes, make vaccines, wage cyberwar, run high-speed trains, and build cities; all with a population better educated, fed, and cared for than ever in its recorded history.

It should have outgrown its emperors but it has not.

The strange, gigantic memorial sits near an invisible Dragon Line, say Taoist scholars and experts in feng shui. It runs to the sea from the Qinling Mountains, which divide the country into north and south, and are known as the "Dragon Vein" of China.

From the dim era of the first emperor, Chinese monarchs believed that their earthly powers were linked to natural forces. It is said that a Dragon Line must be unbroken or a dynasty will fall. And it turns out that Xi Jinping has time and again broken off from his duties governing 1.4 billion people to order the demolition of buildings that break the perfection of the Qinling chain, while his underlings have evicted little people and torn down their homes to ensure a clean sweep around the memorial -- all, supposedly, in the name of environmental care.

That tells us something important: that Xi Jinping may be the ruler of a modern country but he is a man whose mind is very, very old.

Source: https://goldseek.com