



Hinde Capital attacks gold ETFs

By Chris Flood

Published: August 13 2010 22:35 | Last updated: August 13 2010 22:35

Hinde Capital, a London-based gold hedge fund, has mounted a ferocious attack on precious metals exchange traded funds and in particular the largest gold ETF, the SPDR Gold Trust run by State Street.

Hinde says precious metals ETFs "should not be owned by serious professional investors" and in a highly provocative paper argues that double counting of gold holdings is "endemic" in the global financial system.

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Hinde notes that central banks who lease or loan gold to commercial banks continue to report this bullion as part of their official reserves under international accounting standards.

But as the banks are allowed to sell the (leased or loaned) bullion into the global financial system, this has led to multiple counting of the gold.

Hinde says this gold (which is still owned by the central banks) can then enter ETFs, such as the SPDR Gold Trust, when authorised participants (registered broker-dealers or other large market participants such as investment banks) swap the gold for new units in the ETF.

"We see it as highly likely that encumbered (without full ownership rights) gold or leased gold could be in ETF products", says Ben Davies, chief executive of Hinde Capital. "If we were a major ETF holder, we would demand delivery of our physical bullion before all other investors demanded theirs from either ETFs or the OTC (over-the-counter) market."

Hinde went on to say that a potential conflict of interest exists for the custodian of the SPDR gold, which is the investment bank HSBC, as it runs substantial short positions (bets on gold prices falling) in the derivatives market.

In reply, State Street said the gold held in the SPDR Trust was held in allocated accounts (where the bars are individually identified and numbered). A spokesman for State Street said that if a commercial bank had an obligation to a central bank (as part of a lease or loan agreement), then that was a matter for them and did not imply that there was any prior claim on the gold in the SPDR Trust.

A senior gold dealer in London said: "There will be gold in the physically backed bullion ETFs that at one time belonged to a central bank. But when a central bank leases or loans gold in the market, it does not require precisely the same bar with its reference number to be returned. ETFs are still the easiest way for private investors to own gold."

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