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Is the past of Gata chairman Bill Murphy relevant?

Gata chairman Bill Murphy pulls no punches when he rails against the "gold cabal", but his critics think it's a case of the pot calling the kettle black since he was drummed out of the futures industry on similar charges nearly a decade ago.

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NEW YORK -- Nine years ago, Gold Anti-Trust Action Committee chairman Bill Murphy and his two brothers had their Commodity Futures Trading Commission registrations permanently revoked and paid a massive fine to settle a Comex fraud case.

The issue resurfaced in the backlash following Murphy's circulation of a Royal Bank of Canada report that amounted to a summary of Gata's claims of a conspiracy to suppress the price of gold. Critics of the abrasive conspiracist say his invective-laced vendetta against the bullion banks looks rather rich in the circumstances of his own CFTC settlement on nearly identical charges, and continued reluctance to admit his guilt.

Settled in February 1993 at a total cost of \$650,000, the case stemmed from accusations that Trading Resources Inc, a futures commission merchant and commodity pool operator owned by the Murphy brothers, had engaged in "non-competitive trading and fraud in the trading of copper futures and options contracts for [its] proprietary and discretionary customer accounts... from October 1987 through February 1988."

Murphy played down his CFTC punishment as "rehashing trading activities of 15 years ago" and blames his fall on another conspiracy: "A group of bullion banks went after me and got the copper market down to 88 cents. I got killed. After they got me out, copper went right back up again. I swore that if I ever got a chance again, I would make them pay for ganging up on me." It is believed that Murphy was running a daring spread position that unravelled when the market broke unexpectedly as copper prices tumbled.

As a result of being caught long copper, Murphy says he ran out of money to fight the CFTC charges, suggesting that he was railroaded. "I did not sit there and put everything down in a diary. I was trying to survive. As it was, I lost my money [\$27 million] and it ended up ruining my futures career. I had no money to fight any charges against me. I paid my fine and that was the end of it. All of this was disclosed to my colleagues in Gata from the start," Murphy said in reply to questions put to him.

Murphy is hardly repentant over the settlement, which was entered without an admission to, or denial of, the allegations.

The charges against the Murphys have a familiar ring to them against the backdrop of recent accounting scandals. The central CFTC charge is that the Murphys used wash sales to manipulate prices. Completing the "Enron shadow" is an offshore component where the CFTC alleged the Murphys failed to disclose their interests in an Isle of Man company, Crescent Trading, which "was used, among other purposes, by the Murphys to trade opposite customer accounts [without their consent]."

Nevertheless, Murphy believes he got shafted because he did not play institutional ball, telling Gata supporters earlier this year: "Little could I have dreamed that Gata would come into being and be my way of doing a little quid pro quo with these white-collar thugs. They are bullies who push the non-clubbies around when they feel like it. Not long ago J.P. Morgan was cited for its role in the Hamanaka copper price manipulation scandal."

The Hamanaka reference refers to Yasuo Hamanaka, a Sumitomo copper trader who racked up \$2.6 billion in off balance sheet losses after being exposed in 1996 for rigging the market.

A subsequent trial uncovered systemic abuse of the copper market, and the CFTC and LME subsequently won settlements against a number of dealers and brokers for aiding and abetting Hamanaka and his conspirators, including Credit Lyonnais, Deutsche Bank, UBS Warburg, JP Morgan Chase and Merrill Lynch. Sumitomo eventually paid \$150 million to the CFTC to settle the case, but then recouped that and more with suits against JP Morgan and Chase Manhattan (before their merger), and Merrill Lynch,

Those cases were finally settled out of court when, in April this year, Morgan Chase paid Sumitomo \$125 million, without admitting guilt, while in May 2000, Merrills also opted for a rap on the knuckles that cost it \$275 million.

Central to those settlements was the allegation that the banks had camouflaged huge loans to Hamanaka as copper trades, allowing him to continue rigging the market. After the Enron scandal broke, insurers sued Morgan Chase for doing much the same thing - providing loans to Enron disguised as commodity trades.

Murphy has a case for sympathy considering that the big firms retained their CFTC and LME registrations, while he has been banned for life and remains locked out of futures trading until 2003.

"I wish people would put into exposing the gold cartel the same sort of effort that is being put into disparaging me for my mistakes of long ago. The gold cartel is the one with the power, not Gata and not me," Murphy responded.

Murphy and Gata secretary/treasurer Chris Powell also refuted allegations that Gata was subsidizing Le Metropole Café. "Gata is recognized by and registered with the U.S. Internal Revenue Service as a Section 501-c-3 tax-exempt, non-profit organization, and has been since not long after its incorporation in 1999," Powell said.

Murphy was contemptuous of suggestions of an improper relationship: "Yes, LeMetropoleCafe.com and Gata are closely linked. Many contributions to Gata have come by way of the material presented at the Café. Without LeMetropoleCafe.com, Gata could not have raised the funds to take on the gold cartel, nor collected much of the evidence against the cartel. Gata is not supporting the Café; it is the other way around."

Renewed interest

Murphy's sanction attracted renewed interest after he said in reaction to Miningweb's first report of it: "I studied a Frank Veneroso copper study he did for the World Bank in which he felt the price of copper was going to explode. It did, to \$1.46 by the end of the year. I made a fortune and then lost it."

That raised eyebrows because market participants could not lay hands on any World Bank copper price study from the time authored by Veneroso, and nor could Miningweb. Interviewed by telephone from San Francisco, Veneroso said his study had followed on from a giant project to assess the feasibility of the Escondida Mine, in which the International Finance Corporation was considering an investment alongside BHP, Rio Tinto and Mitsubishi.

As part of that study, Veneroso said he uncovered supply and demand data anomalies that led him to believe copper prices would have to rise. He was subsequently commissioned by the IFC to undertake a more detailed study of the anomalies for the exclusive consideration of the project partners.

Veneroso subsequently left to work on another South American project, and invested in his research by buying copper options through Murphy, who was his commodity broker at the time. He said Murphy never had sight of the full report since it was never issued in bound form, but believes he figured everything out on his own and traded on that.

There remain a number of discrepancies in the various recountings of exactly what went on at the time, which is hardly surprising after a decade and a half. However, it is those doubts that fuel some of the cynicism about Murphy among institutional professionals, for whom he is something akin to a plague. His flippant reaction to the CFTC eviction also doesn't help much and nor does his penchant for rabbit punching, figuratively, those who cross him, even mildly.

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