How market manipulation in the age of pandemic is destroying traditional safe havens

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The coronavirus pandemic has created enormous volatility in global financial markets but prices of safe haven assets such as gold and bitcoin are not surging, as one might expect, thanks to intense and large-scale manipulation, according to analysis by the University of Sussex Business School.

The contrast with the last major global financial catastrophe is telling. Following the Lehman Brothers collapse in September 2008, the correlations between the S&P 500 index and gold, or the Swiss Franc, or

US Treasuries were all around minus 40%. During March and April 2020 the correlation between the S&P 500 index and gold was plus 20%.

Even more surprising is the behaviour of the bitcoin/US dollar rate—since this cryptocurrency emerged in January 2009 its behaviour was completely uncorrelated with any traditional asset, but as the S&P 500 index plummeted in early March 2020, so did bitcoin. Their correlation was plus 63% then, and it remains unsettlingly high at 40%.

The biggest beneficiaries of these market attacks, beyond those placing the trades, are holders of US dollars and US assets. These become the main sources of positive returns for global investors in attempts to curtail the recent trend of some central banks to diversify their reserves away from the US dollar.

The CryptoMarketRisk team at the University of Sussex Business School have been tracking trades on these markets in recent months and have detailed huge sell orders on gold futures, massive pump and dump on copper futures and large spoofing orders on key crypto exchanges.

Some single trades on COMEX have been so large as to move prices—clear contraventions of US laws on market abuse. But widespread market turmoil means regulators such as the CFTC have a lot on their plates right now, meaning even large-scale manipulation of these markets to remain below the radar of regulators.

Carol Alexander, Professor of Finance at the University of Sussex Business School, said: "As funds flow out of equities one would expect demand for gold and bitcoin to increase. But this time around, safe havens have behaved completely differently. Gold and bitcoin have fallen at the same time as US equities.

"As the S&P 500 crashed in March 2020, gold had its worst week in eight years when it should have been its best, because of massive shorts on COMEX gold futures. Bitcoin has also been driven down by some pretty obvious manipulation bots on the unregulated crypto derivatives exchanges, especially BitMEX.

"We are witnessing financial market manipulations on a scale and frequency that have rarely been seen before. The lack of integrity by a few powerful market players is causing a major financial market melt-down from which the current form of our global economy may never recover."

More information: Professor Alexander's new book "Corruption and Fraud in Financial Markets" went on sale this week: www.wiley.com/en-gb/Corruption … tion-p-9781119421771

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