RICE and GOLD

Dojima rice exchange; first recorded birth of futures

30th April 2018

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In order to bring colour to our current situation with gold, gold futures and 'monetary' fiat, we'll examine the birth of rice exchange in Japan. This exchange gave rise to the first recorded futures/forward market in C17th. Like medieval European society, early Japanese was very much feudal in nature; with 'serfs' farming 'their lords' lands' and giving a portion of their 'yield' to the lords in 'tribute.'

An important role surrounding delivery of this tribute was the warehouseman. The warehouseman, strictly a manager of the lord's property, nevertheless handled inventory management of rice but on their personal account – rather than as a 'salaried' role; which was originally a peculiarity of western business practice, anyway. The warehouseman would buy the crop from farmers, maintaining its integrity until sale, then sell this to rice 'brokers' who'd go on to sell this to the public. Why there were two roles; warehouseman and broker, which could have been done by the warehouseman alone isn't clear in available historical records. Perhaps brokers were willing to travel a lot further than warehousemen.

Having made a money deposit upfront, a buyer of a 'warehouse receipt had 10 days to pay up in full and up to 30 days to claim the underlying rice behind the warehouse. It was this laissez faire attitude to picking up one's rice, which could be stored at no cost, that led Japanese 'authorities' to unfairly paint futures trading as gambling. Rice brokers, quoting fluctuating two-way prices, might bid in excess for whatever a buyer might have paid for a warehouse receipt thereby earning the buyer an unexpected surplus of coins ('profit') if buyer accepts. All of this was possible because rice buyers didn't need to collect the underlying rice on warehouse receipts and could resell it if necessary. Also important to bear in mind is that rice for delivery in March could be 'repackaged' and sold in April, whereas the same isn't possible dealing in goods which perish quickly.

Japanese authorities didn't understand the concept of a collection of futures' market makers pricing agricultural produce yet to be delivered; painting trading of future ('ghost') rice production as gambling that 'encouraged higher than natural prices' and prohibited it! 'Higher than natural prices' was of course nonsense; merely being some propaganda to keep 'the masses' happy. It should be remembered that Japanese authorities understood the practice of seigniorage well. However, since authorities earned tax revenue from rice, too low a price, whilst beneficial for 'the masses' and so 'societal order,' it meant less cash at the treasury. It was in such situations – when the rice harvest was bountiful; much greater than expected with resultant lower-than-expected prices – that authorities felt the need to allow trading of 'ghost' rice to increase *their* revenue.

Of course, Japanese authorities didn't understand that their role was limited to help in re-distribution of their community's goods for community. Looking to achieve constant monetary flows to spend as required from selling rice, which isn't the role of any authority with a 'treasury,' belittles that duty of making sure rice has been distributed properly!

"No matter how much gold and silver one may possess, one cannot live, for a single day, on these metals. Rice is the one thing needful for one's livelihood." Anon.

Bearing the action of Japanese authorities and rice futures traders in mind, what can be surmised about the current-day gold and silver futures market? Like rice but in a superior fashion; gold can be re-packaged and sold as the same good later on as required. Trading of 'December gold' prior to its maturity may see virtually no gold being kept behind these contracts by participants because they don't intend to take delivery of gold and/or wish to trade the next future month. Up until maturity and even after, it may appear that no gold was 'behind' these December gold contracts *even though* some might have taken delivery of December gold. The nonsense statement of 'selling naked gold futures' to 'drive gold's price down' obscures that fact of there being a way to exchange fiat for as much gold as required – through COMEX futures. If anything, gold futures have *allowed* us 'to price' gold appropriately with this nonsense of fiat where there might be restrictions on trading gold cash-in-hand; remember the view of Japanese authorities regarding futures' trading.

It's slowly dawning on everyone that the *only* form of 'financial asset' is some form of futures contract and/or bill of exchange (a counterpoint to futures.) Shares, fiat bonds and fiat itself are merely reflections of each other…and reflections of nothing at that.

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The original monitoring of gold and silver bases was with a move towards monitoring *permanent* backwardation – meaning that a surplus of dollars can be *constantly* obtained by exchanging 'spot' metal for 'future' metal. Silver is in *permanent* backwardation – with cash bid being above nearest future offer – and has been since 2008. Gold was in continuous backwardation until 2013 and is currently in intermittent backwardation. This indicates that on a weight-for-weight basis, general demand for silver is much more intense than for gold. *Reiterated here is that gold backwardation has nothing to do with 'the US govt.'s' inability to 'refinance its debt.' The 'debt' of 'the US govt.' is a meaningless contrivance to obscure that nonsense of 'monetary' fiat or rather ascribing 'fiat value' or 'units of value' to weights of metal in general.* The vast majority of today's 'gold supporters' walk around with ignorance beyond measure; not willing to accept that 'gold's price' is a meaningless concept that reinforces nonsense of 'fiat monetary value.'

The gold/silver ratio currently stands at 81.5X. Historically, when 'governments' interfered to a smaller degree with exchange ratios between public coinage, this ratio was a lot lower. In C17th London/Tokyo, it was around 15X/7X respectively. The promotion of an adulterated gold standard – 'backing government fiat by gold' – whilst not in operation now, still has its influence felt through the elevated level of the gold/silver ratio.

What's the best way to profit from this? Exchanging gold or dollars held for silver coins would be the simplest but clumsiest; trading silver futures (and options) the most complicated but most rewarding. Silver futures shouldn't be considered as fundamentally different from 'spot' silver – both ultimately involve exchange of dollars for silver; it's merely a question of how that silver is moved before exchange. As Fekete has highlighted † and has been confirmed by no 'defaults' whilst in backwardation; it would be painting silver dealers in a poor light if they did such a thing as 'shorting naked silver futures' – which itself is a poorly thought out concept, anyway.

† http://professorfekete.com/articles/AEFPuttingLoinClothOnTheNakedBogeyman.pdf