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DM/83/21

## INTERNATIONAL MONETARY FUND

Treasurer's Department

Gold Prices in World Markets in February 1983

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March 18, 1983

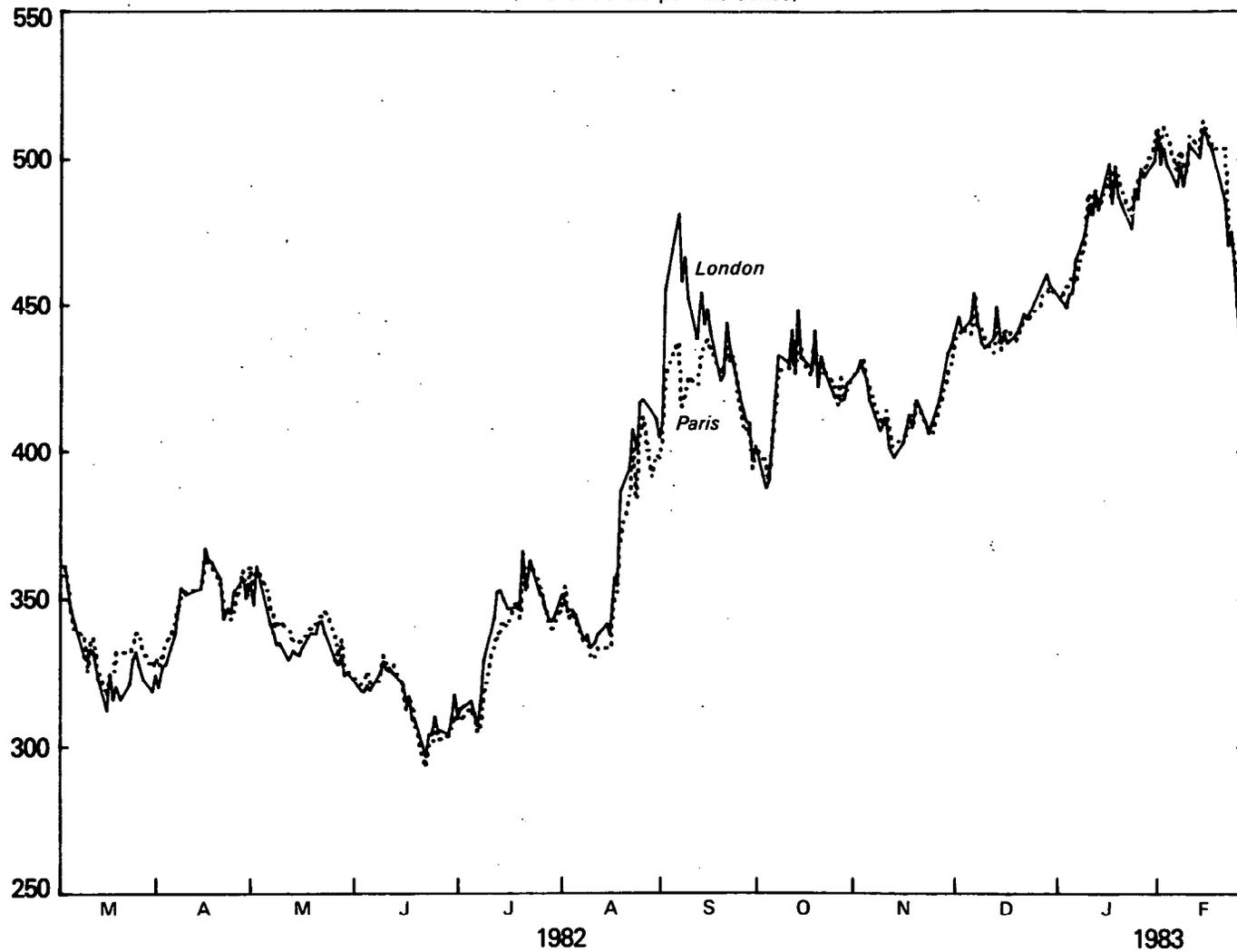
The rising trend in gold prices observed since last July was reversed in February with prices plummeting especially sharply in the last week of the month. Gold prices declined modestly in the first week of February but more than recovered the loss in the following week as the U.S. dollar eased sharply on foreign exchange markets, silver prices rose, and market participants anticipated lower U.S. interest rates. Gold prices moved narrowly lower in the next few days before Nigeria announced a significant cut in the price of its oil on February 21. The impact of this move on the price of oil marketed by producers, its implication for the demand for gold, and the possibility of some oil exporters selling gold to compensate for reduced export receipts triggered speculative liquidations of long positions on a large scale. This precipitated sharp declines in gold prices beginning February 22 and culminated in panic stop-loss selling on the last day of the month which resulted in a substantial drop in prices (\$56.25 per ounce in London), the largest price decline in a single day since January 22, 1980. The sharp decline in gold prices also reflected a reaction to a speculative overbought market. The closing price in London of \$408.50 an ounce was \$91.00 per ounce lower than its level a month ago. Comparable price losses were recorded in Zurich and New York and to a lesser extent in Paris. Trading was fairly quiet during the greater part of the month but turned hectic in the last week. The standard deviation of daily fixings in London rose sharply to \$21.51 in February from \$14.77 an ounce a month earlier.

The decline in gold prices was 18.22 per cent in U.S. dollars and in the range of 17.75-19.25 per cent in terms of other major currencies and the SDR. Compared with February 1982, however, the bullion price increased by 12.66 per cent in U.S. dollars, 35.64 per cent in pounds sterling, 16.48 per cent in SDRs, and 12.96-14.83 per cent in Japanese yen and Deutsche mark (see Table 3).

Gold prices also dropped sharply on futures markets over the month. The decline would have been larger had it not been restrained by the

CHART 1  
GOLD PRICES IN LONDON AND PARIS  
MARCH 1982 - FEBRUARY 1983

(In U.S. dollars per fine ounce)



maximum limit on price movements imposed by the exchanges. This limit was in effect at month end and on two other occasions in the last week of February, and resulted in high premia over spot quotations. On other occasions during the month, the annualized premia of futures prices virtually approximated the level of interest rate costs which increased slightly (see Chart 2). The increased price volatility prompted the New York Commodity Exchange to raise the margin requirements on futures trading effective March 1.

South Africa's gold output rose to 1.80 million ounces in February from 1.77 million ounces produced in the previous month. Gold marketed by South Africa during the month fell markedly, however, to 1.63 million ounces from 1.76 million ounces sold in January as 0.17 million ounces of gold produced in February were added to official reserves.

Canada sold 16,000 ounces of gold from its official holdings in February at an average price of \$512.50 an ounce. The Canadian authorities announced that they had authorized the sale of an additional one million ounces of gold, under the program of diversifying reserve holdings, following the near completion of the sale of the two million ounces of gold started in January 1980 (about 1.97 million ounces sold so far).

Krugerrand sales fell sharply to 256,359 ounces in February from 473,586 ounces marketed a month ago, with across the board declines in all coin denominations. The bulk of the decline, however, was concentrated in the one-ounce coin whose sales dropped to 249,465 ounces in February from 443,300 ounces sold a month earlier. Sales of mini-Krugerrands totaled 6,894 ounces during the month compared with 30,286 ounces in January.

Trading in gold options is expected to commence on the London Gold Futures Market on March 21. Each option will be for a minimum of one contract for 100 ounces of gold. Gold options are now traded in Amsterdam, Montreal, and New York.

#### I. London and Zurich Markets

Gold prices in London dropped from the January closing of \$499.50 an ounce to \$490.25 per ounce on February 7 but rose in the following week to reach \$509.25 an ounce on February 15. Movements of the U.S. dollar and silver prices and changed market expectations of the future course of U.S. interest rates were cited by market participants as the main factors affecting gold prices in the first half of the month. The price turned downward thereafter, drifting slowly to \$504.00 per ounce on February 21, then declining sharply to \$464.75 an ounce on February 25 before falling very sharply to \$408.50 per ounce at month end. These sharp declines were mainly attributed to the prospect of lower oil prices after the cut in the price of oil by Nigeria. The closing price in February was \$91.00 an ounce lower than its level a month ago. The daily average price (of \$492.29 per ounce), however, was \$10.73 an ounce higher than the corresponding price in January. Prices in Zurich continued to parallel those in London.

The prices of gold coins in London dropped in February by slightly smaller margins than bullion prices. The price of the New Sovereign fell by the equivalent of \$86.54 to \$415.22 per ounce and its premium over the spot price in London rose sharply to 1.65 per cent from 0.45 per cent a month ago. The premium of the one-half New Sovereign similarly increased to 23.74 per cent from 19.91 per cent in January. The Krugerrand was traded at \$428 an ounce at the end of the month, \$86.50 per ounce lower than its price a month earlier. Its premium over the bullion price in London was 4.77 per cent in February compared with 3.00 per cent in January. The premia of mini-Krugerrands also rose to 7.96-12.61 per cent from 6.31-11.11 per cent last month.

## II. Paris Market

The price of the standard 12 1/2 kilo bar rose to F 115,000 a kilo (equivalent to \$510.68 per ounce) on February 3 from the January closing of F 112,500 a kilo (\$504.44 per ounce), then eased to reach F 109,000 a kilo (\$495.46 per ounce) on February 10 but rose again to F 112,000 a kilo (\$512.77 per ounce) on February 15. The price declined very sharply thereafter to end the month at F 95,000 a kilo (\$430.54 an ounce). The closing price was F 17,500 a kilo (\$73.90 per ounce) lower than that in January. The daily average price of F 109,755 a kilo (\$496.05 per ounce) was, however, larger than that in the previous month by F 5,012 a kilo (\$15.05 per ounce). This average price was at a premium of 0.76 per cent over that in London compared with a discount of 0.12 per cent a month ago. The daily trading volume dropped to 7,098 ounces (valued at F 24.23 million) in February from 8,039 ounces (valued at F 26.19 million) a month earlier.

The price of the Napoleon declined by the equivalent of \$41.77 an ounce to \$528.14 per ounce in February. Its premium over the spot price in London widened sharply to 29.29 per cent this month from 14.10 per cent in January. The daily average turnover in the coin declined to 1,985 coins from 2,468 coins traded last month.

## III. Other Spot Markets

Gold prices declined on other spot markets in February. The price on the New York Commodity Exchange dropped by the largest margin (\$109.60 to \$400.50 per ounce) of all spot markets. As a result, its January premium over the price in London of 2.12 per cent turned into a discount of 1.96 per cent in February. In both Hong Kong and Singapore, gold was quoted at \$418.50 an ounce at the end of February compared with \$494.50 and \$495.50 per ounce, respectively, a month ago. The February price was at a premium of 2.45 per cent over that in London while January prices were at discounts of 1.00 per cent and 0.80 per cent, respectively. In Bombay, the price eased to Rs 1,762 per 10 grams in February from Rs 1,770 per 10 grams a month earlier. In U.S. dollar terms, it declined by \$3.78 to \$545.16 an ounce, with its premium over the London price rising very sharply from 9.90 per cent to 33.45 per cent.

#### IV. Futures Markets

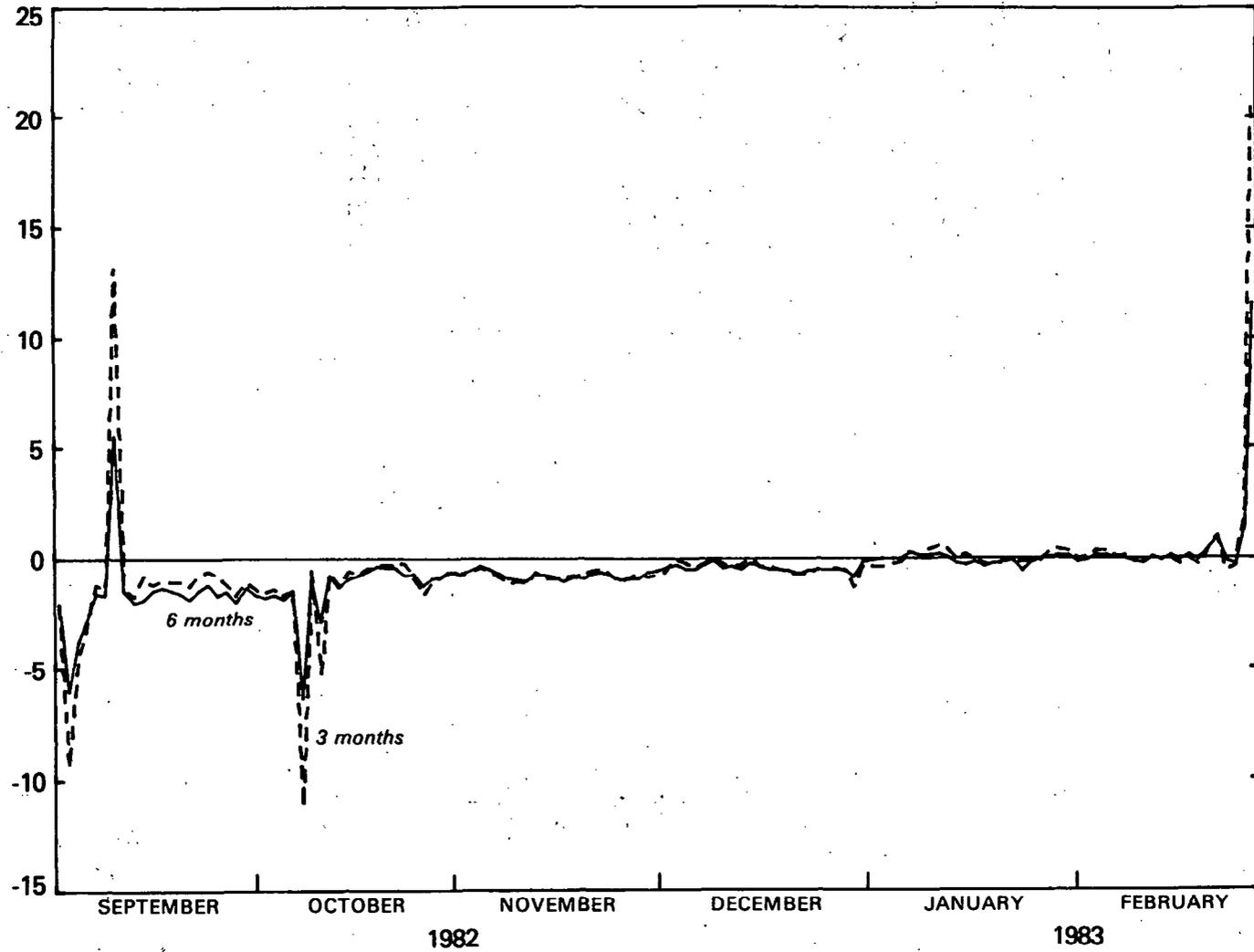
Gold prices dropped on futures markets by \$94.50-\$101.50 an ounce over the month for maturities ranging between April 1983 and August 1984 (see Table 1). These declines were smaller than the fall in the spot price in New York as the daily maximum limit on price movements was in effect at end-month; similar restrictions were also applied on February 22 and 25. The unrestrained fall in spot prices on these three occasions resulted in high premia for futures prices. On other occasions during the month, the annualized premia were on aggregate almost equivalent to the level of interest rate costs (see Chart 2). On a day-to-day basis, the annualized premia exceeded interest rate costs in about half of the trading days of the month. The annualized premia adjusted for interest costs for the month as a whole widened for the three-month contract to 1.19 per cent from a nominal 0.04 per cent in the preceding month; for the six-month maturity there was a premium of 0.67 per cent in February compared with a discount of 0.07 per cent in January. The premia of both contracts widened substantially to 11.47-20.82 per cent at end-February from 0.09-0.32 per cent a month ago.

The daily volume of trading declined on the New York Commodity Exchange (COMEX) to 5,548,100 ounces in February from 6,522,400 ounces in the previous month, but rose on Chicago's International Monetary Market (IMM) to 790,700 ounces from 774,000 ounces, respectively. The daily average turnover dropped on the London Gold Futures Market (LGFM) to 100,800 ounces from 130,400 ounces in January. Trading on the LGFM, however, set a record of 374,300 ounces on February 28, reflecting in part transactions channeled from the COMEX to the LGFM after trading in the former exchange was halted when futures prices dropped by the permissible daily limit of \$25. <sup>1/</sup> Open interest rose on the COMEX to 12,646,500 ounces at end-February from 11,878,400 ounces in the preceding month and dropped on the IMM to 724,600 ounces from 963,600 ounces, respectively. The COMEX raised margin requirements on speculative contracts from \$2,500 to \$4,000 and for hedging from \$1,500 to \$2,500, in an effort to curb excessive price volatility.

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<sup>1/</sup> The rules of the London Gold Futures Market require that trading be interrupted for only 30 minutes when price declines (rises) reach the daily maximum limit of \$50, which occurred for the first time on February 28.

CHART 2  
THREE AND SIX MONTH FUTURES PRICES<sup>1</sup>  
PREMIUM (+), OR DISCOUNT (-)  
(Per cent per annum)



<sup>1</sup>Annualized premium of three and six-month futures prices on the New York COMEX over spot prices minus euro-dollar interest rates.

# CHART 3 WEEKLY AVERAGE FUTURES VOLUMES ON THE NEW YORK COMEX AND CHICAGO IMM

(Thousands of ounces)

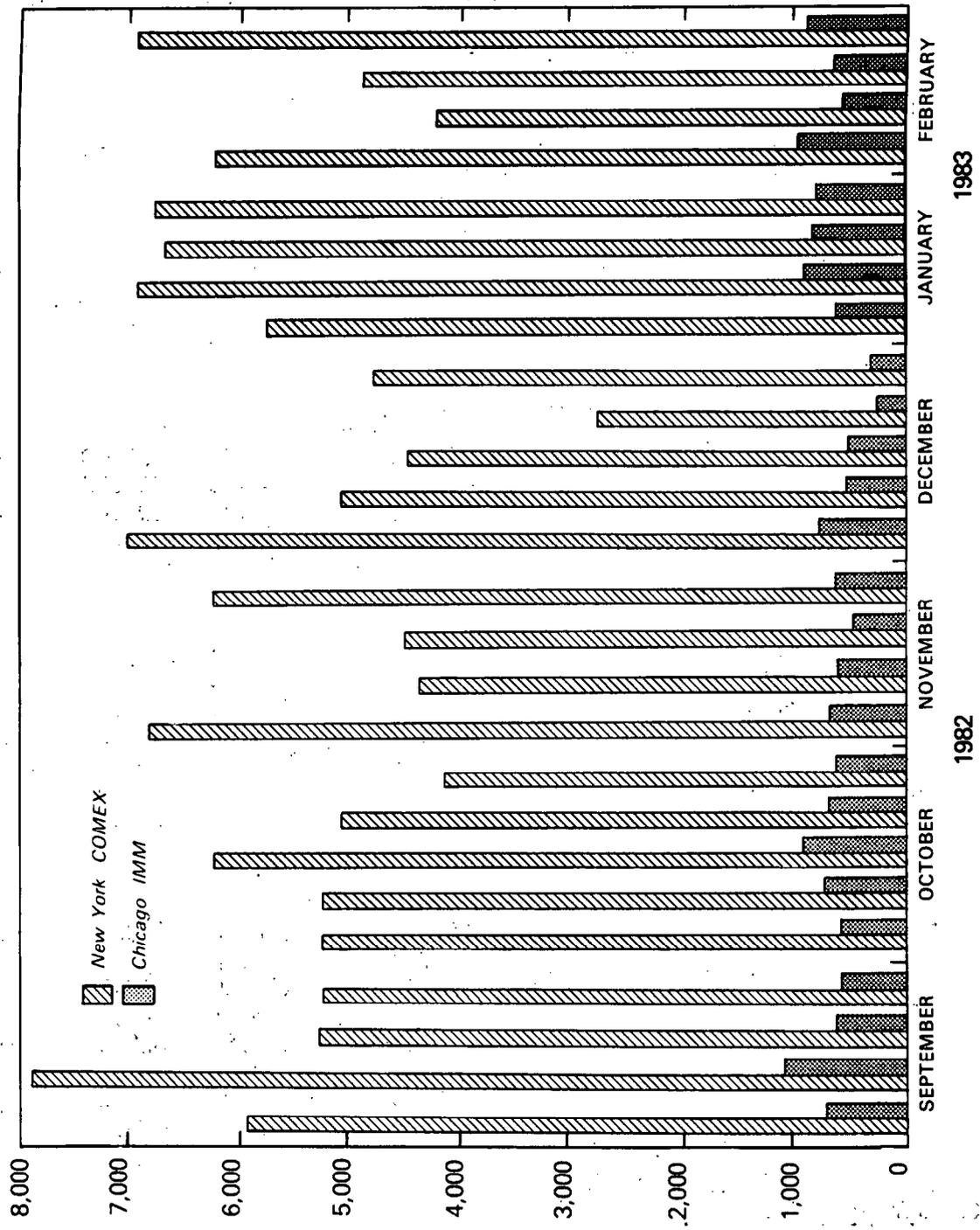


Table 1. Gold Prices, December 1982-February 1983

(U.S. dollars per fine ounce)

	1982	1983		Change from
	December 1/	January	February	January to February
<u>London market</u>				
End of month	448.00	499.50	408.50	-91.00
High of month	460.50	503.00	511.50	+8.50
Low of month	435.25	449.50	408.50	-41.00
Average of month	444.55	481.56	492.29	+10.73
Krugerrand (end of month)	467.00	514.50	428.00	-86.50
% on London	+4.24	+3.00	+4.77	+1.77
New Sovereign (end of month)	455.04	501.76	415.22	-86.54
% on London	+1.57	+0.45	+1.65	+1.20
<u>Zurich market (middle quotations)</u>				
End of month	448.50	499.50	405.00	-94.50
High of month	460.00	500.00	511.75	+11.75
Low of month	435.25	450.75	405.00	-45.75
Average of month	445.23	479.48	492.50	+13.02
<u>Paris market</u>				
End of month	448.78	504.44	430.54	-73.90
High of month	456.02	504.44	512.77	+8.33
Low of month	434.09	451.90	426.19	-25.71
Average of month	443.88	481.00	496.05	+15.05
% on London	-0.15	-0.12	+0.76	+0.88
Napoleon (end of month)	531.89	569.91	528.14	-41.77
% on London	+18.73	+14.10	+29.29	+15.19
<u>Other markets (end of month)</u>				
New York	449.90	510.10	400.50	-109.60
% on London	+0.42	+2.12	-1.96	-4.08
Singapore	453.37	495.50	418.50	-77.00
% on London	+1.20	-0.80	+2.45	+3.25
Hong Kong	455.00	494.50	418.50	-76.00
% on London	+1.56	-1.00	+2.45	+3.45
Bombay	561.30	548.94	545.16	-3.78
% on London	+25.29	+9.90	+33.45	+23.55
<u>Futures Prices on the New York Commodity Exchange</u>				
Delivery: April 1983	459.60	518.20	423.70	-94.50
August 1983	474.00	534.60	437.80	-96.80
February 1984	496.60	560.40	461.60	-98.80
August 1984	520.90	588.00	486.50	-101.50

1/ End of period bullion prices in London and Paris relate to the morning fixing prices on December 31 as both markets were closed in the afternoon; those of coin prices in London are as of December 30. Closing prices in New York are also as of December 30.

(SUNDO 9NIT 19Q 2T81)

Table 2. Selected Statistics on South African Gold Production and Sales  
(In millions of fine troy ounces)

Time period	Production	Changes in official gold holdings	Estimates of gold marketed	Krugerrand Sales	
				Physical amount	Per cent of gold marketed
<u>1981</u>	<u>21.13</u>	<u>-2.86</u>	<u>20.81</u> <sup>1/</sup>	<u>3.56</u>	<u>17.1</u>
January	1.73	+0.07	1.66	0.28	16.9
February	1.73	+0.06	1.67	0.32	19.2
March	1.78	-0.03	1.81	0.35	19.3
April	1.76	+0.03	1.73	0.12	6.9
May	1.74	-0.03	1.77	0.11	6.2
June	1.80	+0.03	1.77	0.21	11.9
July	1.79	-0.02	1.81	0.45	24.9
August	1.80	-0.02	1.82	0.41	22.5
September	1.77	+0.12	1.65	0.22	13.3
October	1.82	-2.64	1.82 <sup>1/</sup>	0.33	18.1
November	1.77	-0.54	1.77 <sup>1/</sup>	0.41	23.2
December	1.64	+0.11	1.53	0.36	23.5
<u>1982</u>	<u>21.35</u>	<u>-1.72</u>	<u>21.73</u> <sup>1/</sup>	<u>2.56</u>	<u>11.8</u>
January	1.68	-0.13	1.81	0.38	21.0
February	1.70	-0.08	1.78	0.31	17.4
March	1.72	--	1.72	0.66	38.4
April	1.76	-0.06	1.82	0.14	7.7
May	1.76	+0.04	1.72	0.14	8.1
June	1.85	-0.03	1.88	0.21	11.2
July	1.84	-1.34	1.84 <sup>1/</sup>	0.15	8.2
August	1.84	-0.06	1.90	0.06	3.2
September	1.82	+0.05	1.77	0.02	1.1
October	1.87	-0.06	1.93	0.05	2.6
November	1.82	-0.02	1.84	0.26	14.1
December	1.69	-0.03	1.72	0.18	10.5
<u>1983</u>					
January	1.77	+0.01	1.76	0.47	26.7
February	1.80	+0.17	1.63	0.26	16.0

<sup>1/</sup> Estimate takes account of gold believed to have been sold under swap arrangements.

Table 3. The Movement of Gold Prices in Terms  
of Various Currencies and the SDR

(Per cent change from the previous period)

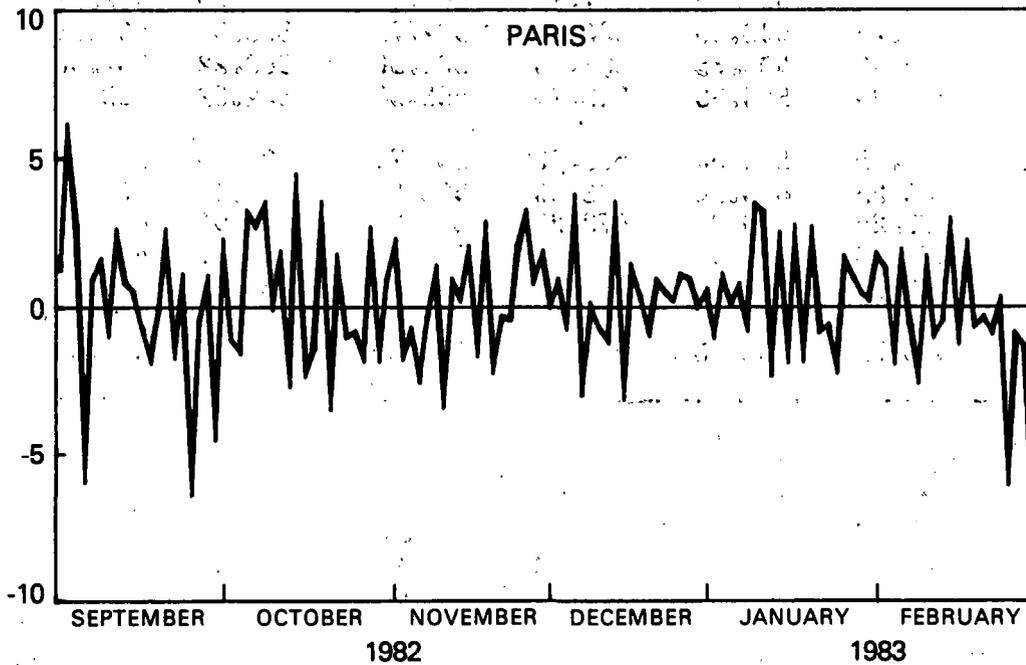
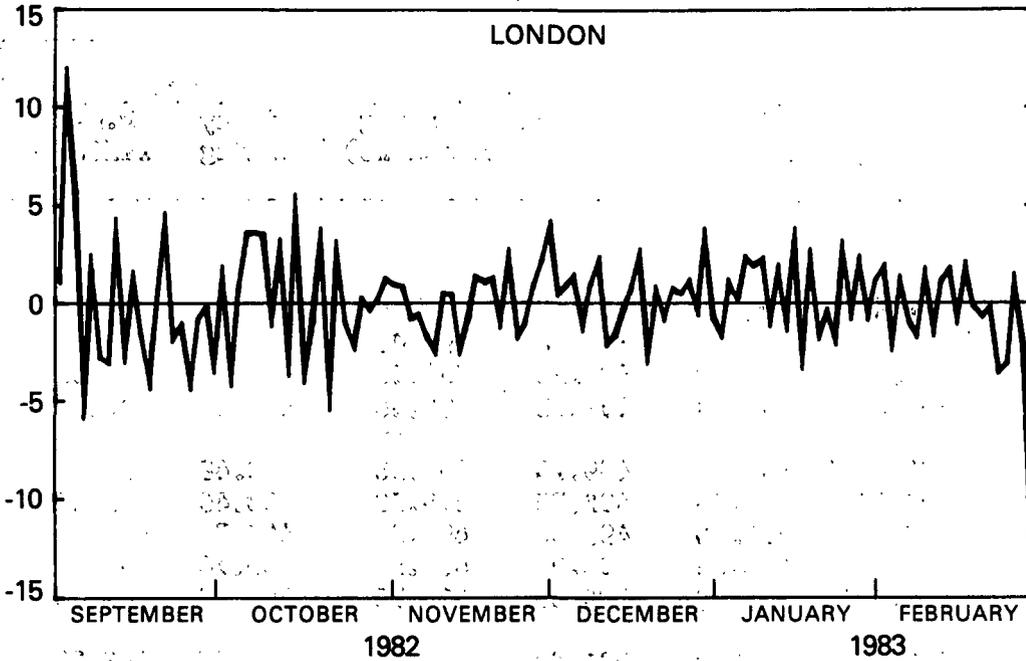
End-of-period	U.S. dollar	Deutsche mark	Pound sterling	Japanese yen	SDR
<u>1980:</u> February	-2.45	-0.61	-2.70	+2.58	-1.56
March	-22.37	-14.73	-18.33	-22.89	-19.11
April	+4.75	-3.38	+0.19	+0.29	+1.23
May	+3.38	+2.13	-0.34	-3.72	+2.07
June	+22.04	+21.06	+21.38	+20.38	+20.83
July	-6.01	-5.14	-5.49	-2.79	-5.12
August	+2.77	+3.43	+0.47	-0.98	+2.51
September	+5.62	+6.86	+6.04	+1.65	+5.85
October	-5.66	-0.81	-7.60	-5.57	-4.02
November	-1.47	-0.38	+1.83	+1.11	-0.44
December	-4.88	-2.61	-6.15	-10.82	-4.78
<u>1981:</u> January	-14.08	-7.18	-13.23	-12.56	-11.92
February	-3.46	-3.50	+3.64	-2.03	-1.81
March	+5.06	+4.07	+3.71	+5.83	+4.62
April	-6.03	-1.58	-1.94	-4.01	-3.69
May	-0.73	+4.64	+2.61	+3.01	+1.69
June	-11.11	-8.66	-4.67	-9.94	-9.60
July	-4.69	-1.45	+0.15	+1.06	-2.72
August	+4.68	+3.49	+4.25	+0.31	+4.18
September	+0.88	-4.17	+3.16	+1.66	-0.17
October	-0.41	-3.92	-3.55	-0.18	-0.98
November	-2.93	-4.19	-7.54	-10.68	-5.35
December	-3.50	-2.49	-1.51	-1.02	-2.10
<u>1982:</u> January	-3.25	+0.19	-1.37	+0.54	-1.89
February	-6.30	-3.41	-3.27	-2.64	-4.56
March	-11.75	-10.66	-9.82	-7.66	-10.65
April	+12.89	+8.85	+12.04	+7.25	+11.23
May	-9.97	-9.34	-9.80	-7.13	-9.52
June	-2.38	+2.29	+0.75	+2.33	+0.47
July	+8.00	+8.26	+7.85	+9.27	+8.02
August	+20.01	+21.54	+21.19	+21.43	+21.00
September	-3.52	-2.32	-2.02	-0.79	-2.56
October	+6.61	+7.94	+7.74	+10.03	+7.61
November	+3.01	-0.80	+5.93	-7.36	+1.38
December	+2.75	-0.90	+3.51	-3.23	+0.56
<u>1983:</u> January	+11.50	+15.60	+18.71	+13.97	+13.20
February	-18.22	-19.25	-17.75	-18.90	-18.48
February 1983 to February 1982	+12.66	+14.83	+35.64	+12.96	+16.48

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 Table 4. Daily Prices in the Major Gold Markets  
 (U.S. dollars per fine ounce)

Date	London		Zurich		Paris		New York
	A.M. fixing	P.M. fixing	Opening (middle quotations)	Closing	Midday fixing	P.M. fixing	Closing
<u>1983</u>							
Feb. 1	508.50	508.50	506.25	509.00	510.95	510.79	503.70
2	498.25	498.25	500.50	499.00	500.03	502.65	507.30
3	506.00	503.50	507.25	504.00	510.52	510.68	496.70
4	501.00	498.50	497.50	498.50	506.40	507.73	493.90
7	489.00	490.25	489.75	490.50	493.48	496.05	494.20
8	496.50	497.25	492.75	498.50	499.46	502.68	492.70
9	492.25	490.50	491.50	490.25	496.73	497.86	492.20
10	494.75	496.00	494.00	496.50	495.74	495.46	503.60
11	506.00	504.50	506.50	504.75	508.85	507.88	504.10
14	500.50	500.50	501.00	500.50	503.27	503.38	508.40
15	511.50	509.25	511.75	509.50	512.70	512.77	505.80
16	506.75	508.50	506.75	507.75	510.97	509.36	505.70
17	506.00	504.75	506.50	504.50	508.22	507.56	502.80
18	502.25	503.50	503.25	503.50	502.62	503.10	505.70
21	503.75	504.00	506.00	503.75	505.89	504.40	n.a.
22	503.25	485.50	503.00	503.25	503.41	503.65	480.00
23	479.25	470.25	478.25	472.50	480.91	473.63	467.90
24	473.75	475.00	474.25	472.50	472.32	472.01	469.90
25	470.75	464.75	470.00	462.00	469.72	468.58	443.00
28	419.75	408.50	417.50	405.00	426.19	430.54	400.50

### CHART 4 DAILY CHANGES IN GOLD PRICES<sup>1</sup>

(In per cent)



<sup>1</sup>Calculated from afternoon fixing prices expressed in terms of U.S. dollars per fine ounce.