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DM/83/45

INTERNATIONAL MONETARY FUND

Treasurer's Department

Gold Prices in World Markets in May 1983

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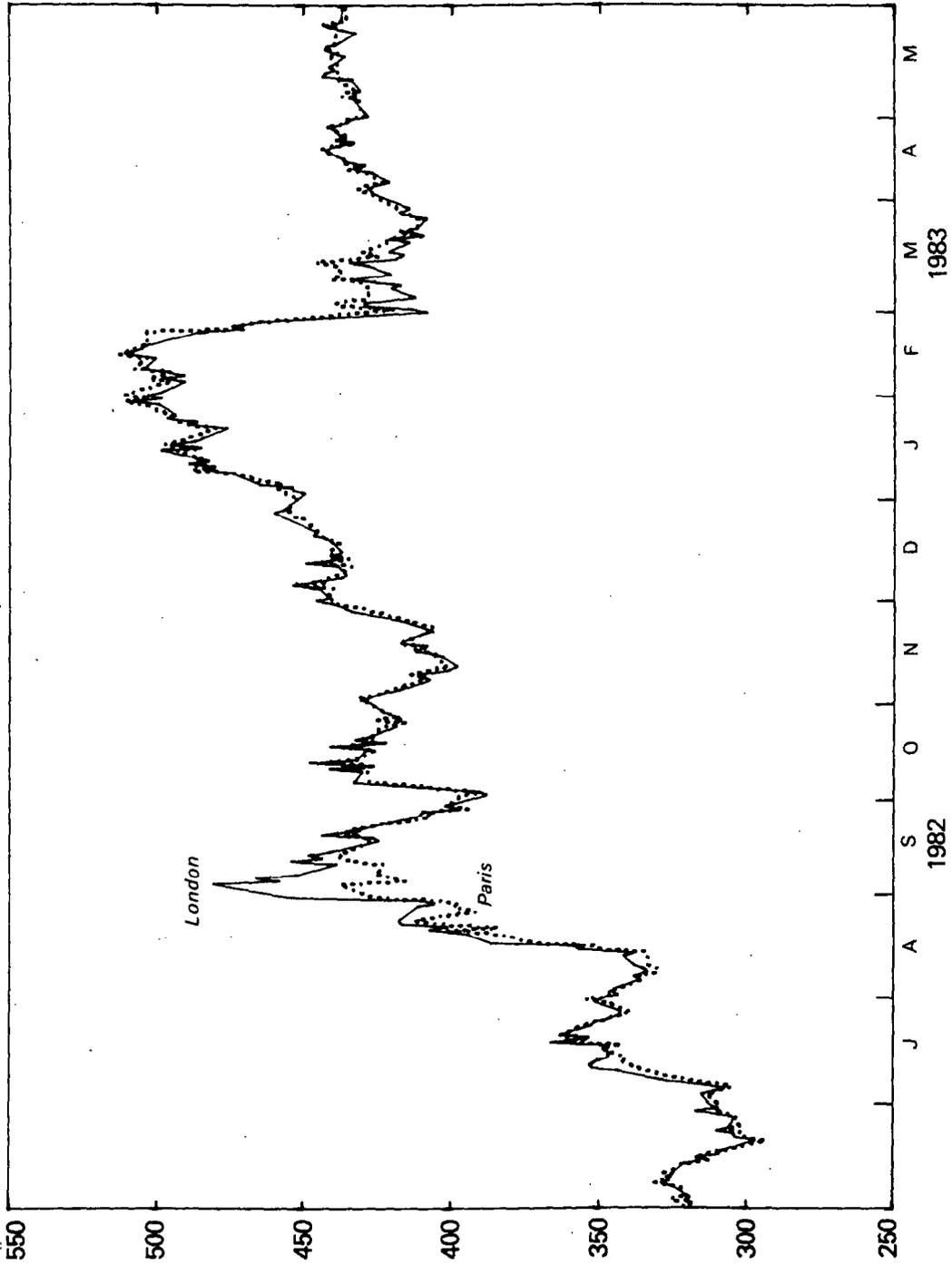
June 15, 1983

Gold prices moved narrowly in extremely quiet trading on major bullion markets in May, reflecting a perceptible lack of interest by investors. The high-low spread of daily fixing prices in London and the standard deviation of these prices dropped to their lowest levels since June 1979, with the former declining to \$12.75 in May from \$21.75 in April and the latter falling to \$3.57 from \$5.89 per ounce in the same period. The price in London advanced modestly in the early days of the month but rose significantly on June 10 to the high of the month of \$443.75 per ounce, concomitant with the firming of silver and platinum prices, on reports of increased tension in Lebanon. It then turned downward to reach, amid fluctuations, the level of \$432.75 an ounce by May 23, reflecting in part fading expectation of a decline in U.S. interest rates in the wake of accelerated growth in money supply and strong performance of the U.S. dollar on foreign exchange markets. The price, however, moved up to \$441.75 per ounce on May 25 before easing to close the month at \$437.50 an ounce, \$8.25 per ounce higher than that at the end of April. Price behavior showed largely similar patterns on other international bullion markets except in New York where the price declined sharply on the last day of the month on speculation that the Fed would tighten its monetary policy to slow the expansion of money supply.

In terms of major currencies, the price of gold in London increased in May by 1.92 per cent in U.S. dollars, 2.17 per cent in Japanese yen, 2.33 per cent in SDRs, and 4.33 per cent in Deutsche mark, but declined by 0.83 per cent in pounds sterling. Compared with the price level a year ago, the gold price rose by 34.51 per cent in U.S. dollars, 32.08 per cent in Japanese yen, 40.35 per cent in SDRs, 44.69 per cent in Deutsche mark, and 50.54 per cent in pounds sterling (see Table 3).

Futures prices dropped over the month of May by margins larger than that of the spot price in New York. On a daily average basis, the annualized premia of futures prices over spot quotations were, however, little changed from those of the previous month. After adjustment for

CHART 1
GOLD PRICES IN LONDON AND PARIS
JUNE 1982 - MAY 1983
(In U.S. dollars per fine ounce)



interest costs, futures prices were at modest premia for most trading days in May as a result of a slight decline in interest costs during the month.

South Africa's gold output rose to 1.84 million ounces in May from 1.82 million ounces in the preceding month. With 0.05 million ounces of this production added to official holdings, gold marketed this month dropped slightly to 1.79 million ounces from 1.80 million ounces sold in April. The Philippines sold 140,000 ounces from its reserves in May while Canada did not sell any gold from its official holdings for the third successive month.

Krugerrand sales increased by 40,933 to 173,848 ounces in May. The increase was concentrated in the one-ounce coin whose sales were up by 46,851 to 164,501 ounces. Sales of the one-quarter and the one-tenth ounce coins increased marginally by 469 ounces to 6,890 ounces while those of the one-half ounce coin declined sharply by 6,387 ounces to 2,457 ounces.

Based on information available in Gold 1983 of Consolidated Gold Fields, it appears that the supply of and demand for new gold declined by 0.9 million ounces to 39.3 million ounces in 1982. On the supply side, western production increased by 1.4 million ounces to 32.6 million ounces while sales by the Socialist countries (mostly the Soviet Union) declined by 2.3 million ounces to 6.7 million ounces. With regard to demand, jewelery fabrication rose by 3.8 million ounces to 23.0 million ounces in 1982, while other industrial use of gold declined by 0.5 million ounces to 6.4 million ounces, and purchases of coins and medallions plummeted by 2.0 million ounces to 5.0 million ounces. Investors reportedly added 1.7 million ounces to their holdings in 1982 after reducing them by 1.8 million ounces in the preceding year, and net monetary purchases declined sharply by 5.7 million ounces to 3.2 million ounces. 1/

Recycled gold provided an additional 6.9 million ounces in 1982, slightly less than the 7.2 million ounces dishoarded in the previous year. This old gold was mainly absorbed by jewelery fabrication (4.9 million ounces) mostly in developing countries, with the remainder added to investors' holdings.

I. London and Zurich Markets

The price of gold advanced moderately in London by \$4.75 to \$434.00 an ounce by May 9 in concert with the rise in prices of other precious

1/ Gold 1983 treats net monetary purchases as an offset to supply rather than as part of demand as presented here. The above estimate of net purchases is at variance with data on official gold holdings published in the June 1983 issue of IFS which suggest that there have been net sales of 4.7 million ounces in 1982.

metals; it then increased sharply the next day to \$443.75 per ounce following reports about troop movements into Lebanon. Some profit-taking, lack of speculative demand, the prospect of continued high U.S. interest rates, and the firmness of the U.S. dollar, which gained by 1.05 per cent in effective terms, brought the price down, amid some fluctuations, to \$432.75 an ounce by May 23. In the remainder of the month, the price moved in a narrow range but firmed slightly to \$437.50 an ounce at the end of May. This closing price was \$8.25 per ounce higher than that in the preceding month. In Zurich, the price of gold continued to move in parallel to that in London and was at a premium over the London price of 0.20 per cent at end-month and 0.11 per cent on a daily average basis.

Coin prices also rose in London but by margins higher than those of bullion prices. The price of the Krugerrand increased by \$11.00 to \$450.50 an ounce over the month, with its premium over the spot price in London widening to 2.97 per cent in May from 2.39 per cent a month earlier. The premia of mini-Krugerrands rose slightly for the one-half ounce coin from 5.65 per cent to 6.74 per cent this month and sharply for the one-quarter and the one-tenth ounce coins from 7.86-10.66 per cent to 12.00-15.43 per cent, respectively. The New Sovereign was traded at the equivalent of \$439.11 an ounce at end-May after gaining \$12.21 per ounce over the month; its April discount from the bullion price in London of 0.55 per cent turned into a premium of 0.37 per cent this month. The premium of the one-half New Sovereign, however, declined marginally to 20.64 per cent in May from 20.73 per cent a month ago.

II. Paris Market

The price of the standard 12 1/2 kilo bar rose, amid fluctuations, from the April closing of F 102,250 to F 106,000 per kilo at the end of May. In U.S. dollar terms, the price increased by the equivalent of \$10.67 an ounce to \$441.78 per ounce by May 18 before reversing the course and losing part of that gain in the remainder of the month. The closing price of the equivalent of \$436.07 an ounce was \$4.96 per ounce higher than that in the preceding month. The daily average price also increased modestly by \$3.51 to \$437.79 per ounce, with its premium over the corresponding London price narrowing sharply to 0.07 per cent from 1.17 per cent in April. Turnover on the Paris market rose to a daily average of 3,785 ounces (valued at F 12.30 million) in May from 3,303 ounces (valued at F 10.49 million) in April.

The price of the Napoleon declined by the equivalent of \$8.71 to \$483.89 per ounce over the month and its premium over the bullion price in London dropped by 4.16 percentage points to 10.60 per cent in May. The daily volume of trading in the coin increased to 1,567 coins this month from 1,129 coins in April.

III. Other Spot Markets

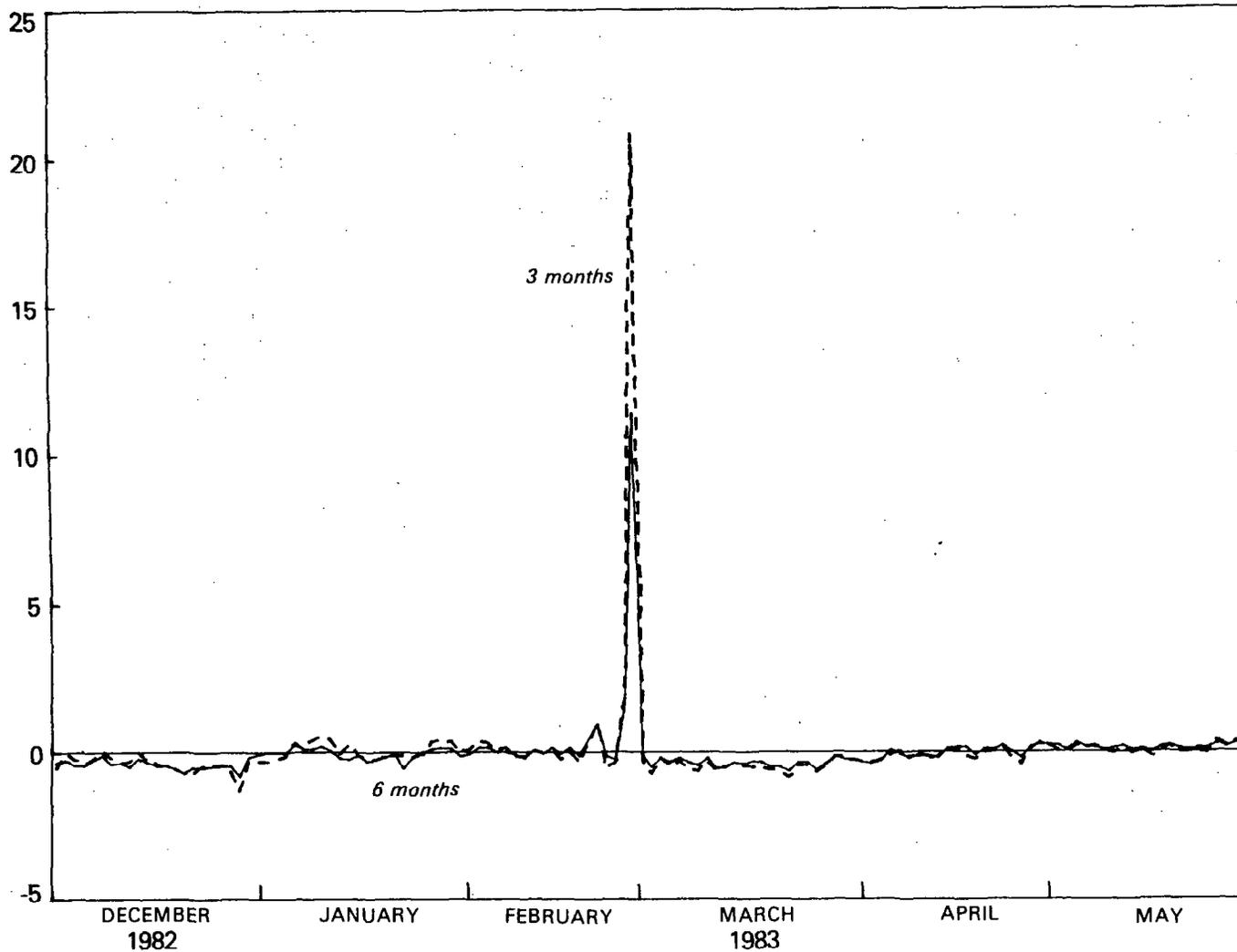
Gold prices firmed moderately in Singapore and Hong Kong but eased in New York and Bombay. On the New York Commodity Exchange, the price of gold dropped by \$18.30 to \$412.00 an ounce in May as a result of a very sharp decline (\$23.90 per ounce) on the last day of the month. The end-May price moved to a discount of 5.83 per cent from a premium of 0.24 per cent over the price in London a month earlier. In Hong Kong and Singapore, gold prices rose by \$9.50 per ounce to \$439.25 an ounce over the month, and their premia over the London price widened to 0.40 per cent from 0.12 per cent a month ago. In Bombay, the gold price was unchanged in rupees at Rs 1,875 per 10 grams and in U.S. dollar terms it dropped slightly by the equivalent of \$0.58 to \$579.93 per ounce. Its premium over the price in London fell to 32.56 per cent in May from 35.24 per cent in the preceding month.

IV. Futures Markets

Gold prices declined in May on the futures markets by larger margins than on the spot market in New York; the decline amounted to \$20.20-\$21.50 an ounce for contracts maturing between August 1983 and October 1984 compared with that of \$18.30 per ounce in the spot price (see Table 1). The annualized premia of futures prices over spot quotations were little changed during the month from those in April while interest costs dropped slightly. When adjusted for these costs, futures prices were at slight premia averaging 0.07-0.12 per cent in the month of May for the three- and six-month contracts compared with marginal discounts of 0.05-0.11 per cent in the preceding month. The cost adjusted premia widened to 0.36-0.43 per cent for these contracts at end-May from 0.25-0.28 per cent at the end of the previous month.

The volume of transactions picked up on major futures gold markets in May. The daily average turnover rose on the New York Commodity Exchange (COMEX) to 4,153,500 ounces from 3,563,300 ounces in April, and on Chicago's International Monetary Market (IMM) to 474,700 ounces from 421,200 ounces, respectively. On the London Gold Futures Market, trading declined slightly to a daily average of 61,745 ounces this month from 66,289 ounces in April. Outstanding futures contracts also increased on the COMEX to 10,956,900 ounces in May from 10,514,600 ounces in April and on the IMM to 544,100 ounces from 509,400 ounces, respectively. The COMEX lowered slightly the margin requirements on futures trading for the third successive month: the margin requirement on speculative contracts was reduced from \$2,000 to \$1,700 and that on hedging contracts from \$1,200 to \$1,100 per contract of 100 ounces.

CHART 2
THREE AND SIX MONTH FUTURES PRICES¹
PREMIUM (+), OR DISCOUNT (-)
(Per cent per annum)



¹Annualized 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)

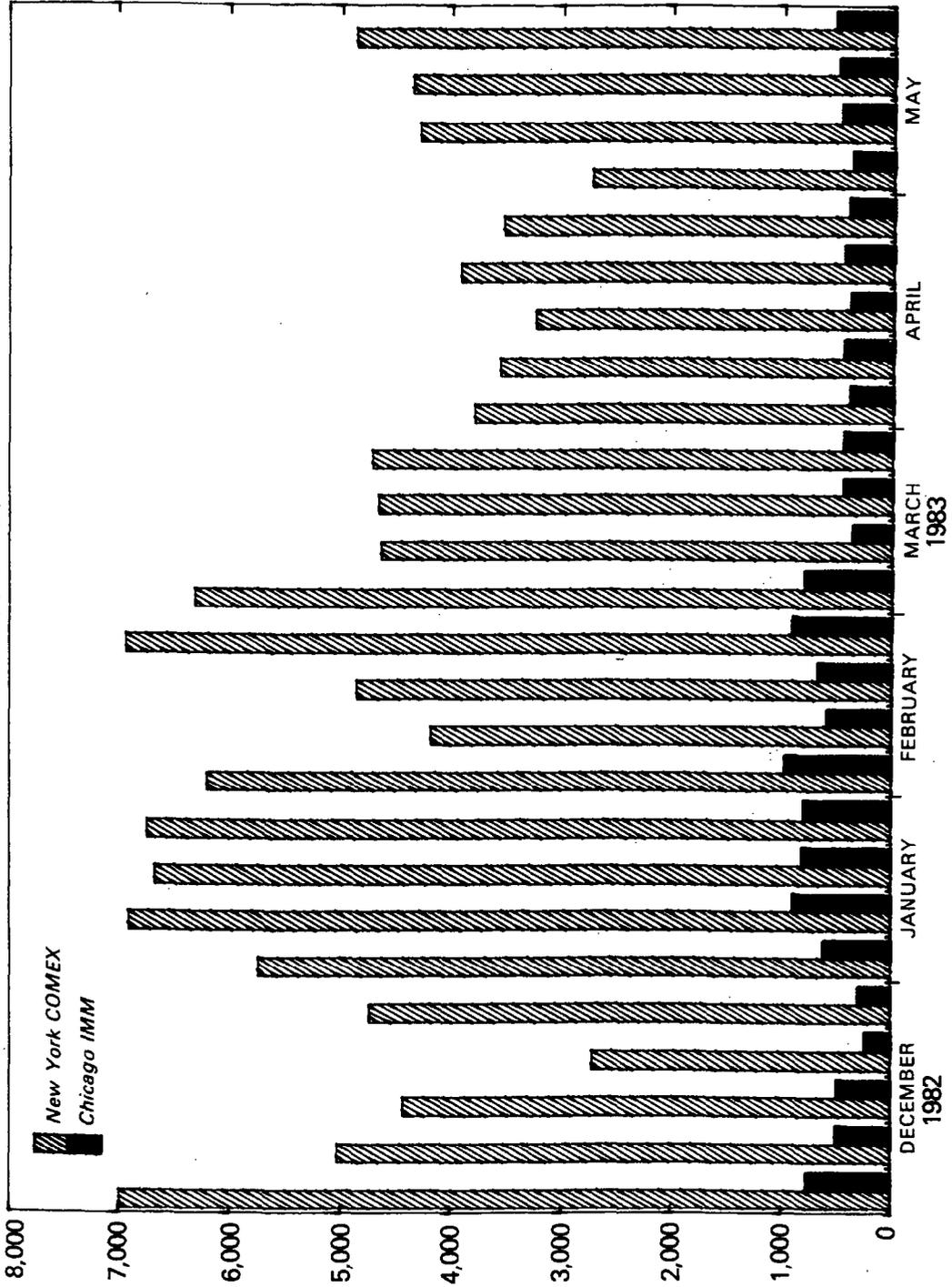


Table 1. Gold Prices, March-May 1983

(U.S. dollars per fine ounce)

	1983			Change from April to May	
	March	April	May		
<u>London market</u>					
End of month	414.75	429.25	437.50	+8.25	
High of month	436.50	443.00	443.75	+0.75	
Low of month	408.75	421.25	431.00	+9.75	
Average of month	420.18	433.03	437.70	+4.67	
Krugerrand (end of month)	428.50	439.50	450.50	+11.00	
% on London	+3.32	+2.39	+2.97	+0.58	
New Sovereign (end of month)	417.87	426.90	439.11	+12.21	
% on London	+0.75	-0.55	+0.37	+0.92	
<u>Zurich market (middle quotations)</u>					
End of month	414.25	430.25	438.38	+8.13	
High of month	437.50	444.00	444.00	--	
Low of month	405.50	420.75	428.12	+7.37	
Average of month	420.66	433.42	437.98	+4.56	
<u>Paris market</u>					
End of month	418.44	431.11	436.07	+4.96	
High of month	447.98	446.15	444.33	-1.82	
Low of month	410.43	423.58	430.11	+6.53	
Average of month	425.97	434.28	437.79	+3.51	
% on London	+1.38	+1.17	+0.07	-1.10	
Napoleon (end of month)	504.03	492.60	483.89	-8.71	
% on London	+21.53	+14.76	+10.60	-4.16	
<u>Other markets (end of month)</u>					
New York	415.90	430.30	412.00	-18.30	
% on London	+0.28	+0.24	-5.83	-6.07	
Singapore	413.75	429.75	439.25	+9.50	
% on London	-0.24	+0.12	+0.40	+0.28	
Hong Kong	413.80	429.75	439.25	+9.50	
% on London	-0.23	+0.12	+0.40	+0.28	
Bombay	562.99	580.51	579.93	-0.58	
% on London	+35.74	+35.24	+32.56	-2.68	
<u>Futures Prices on the New York Commodity Exchange</u>					
Delivery: August	1983	428.60	440.00	418.50	-21.50
December	1983	442.40	453.50	432.60	-20.90
April	1984	456.80	467.90	447.40	-20.50
October	1984	479.40	490.80	470.60	-20.20

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> <u>1/</u>	<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 <u>1/</u>	0.33	18.1
November	1.77	-0.54	1.77 <u>1/</u>	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> <u>1/</u>	<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 <u>1/</u>	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
March	1.81	-0.06	1.87	0.60	32.1
April	1.82	+0.02	1.80	0.13	7.2
May	1.84	+0.05	1.79	0.17	9.5

1/ 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> 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
March	+1.53	+1.38	+3.50	+2.02	+2.59
April	+3.50	+5.03	-1.46	+3.18	+3.21
May	+1.92	+4.33	-0.83	+2.17	+2.33
May 1983 to May 1982	+34.51	+44.69	+50.54	+32.08	+40.35

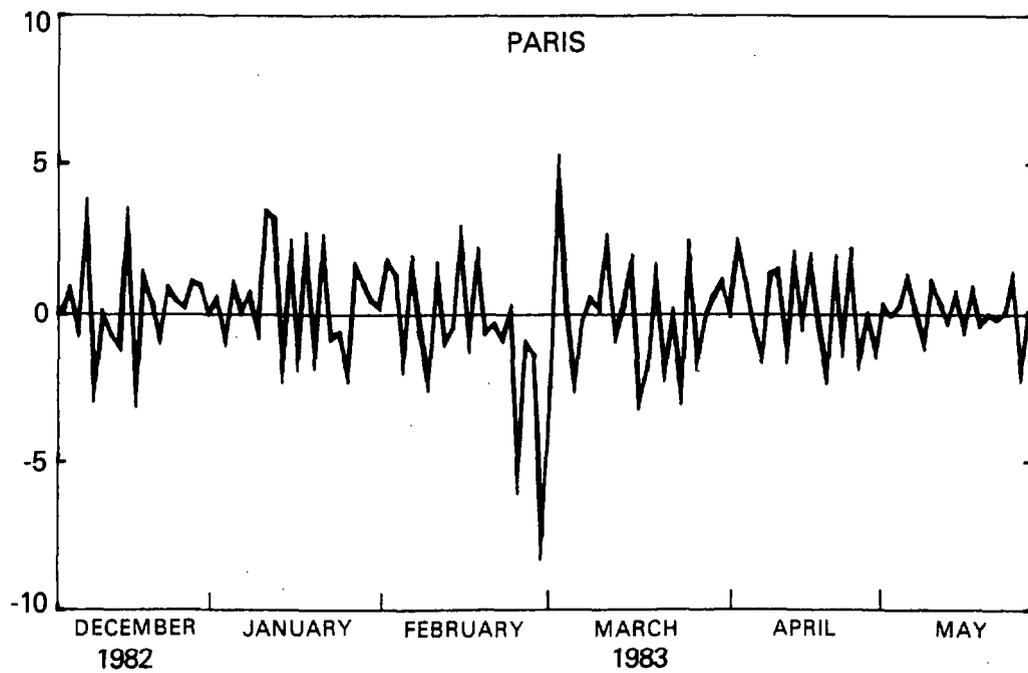
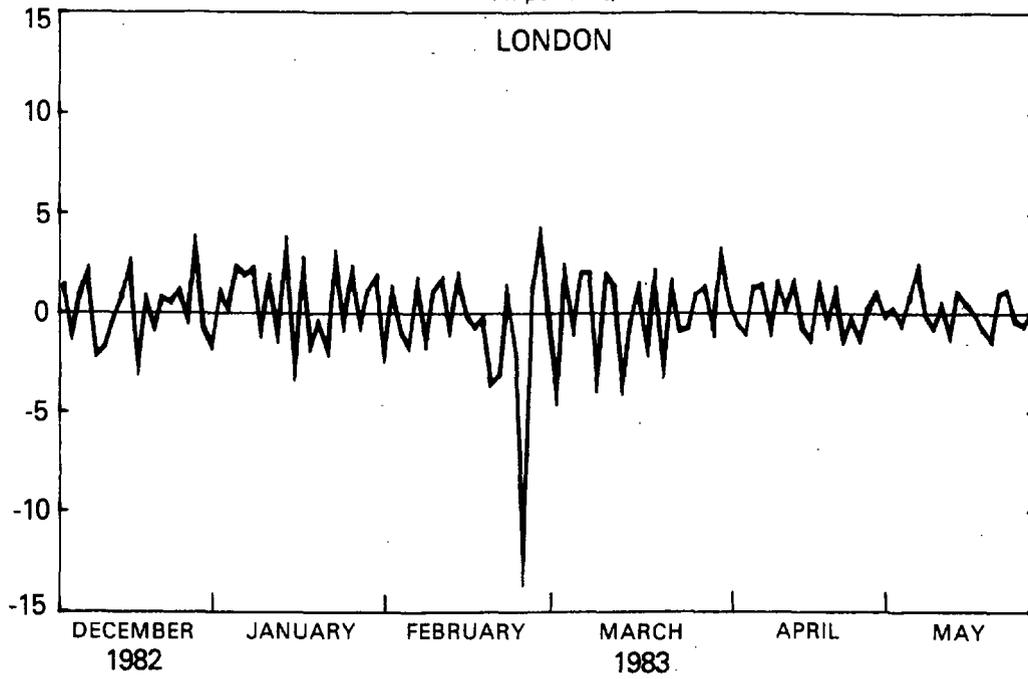
Table 4. Daily Prices in the Major Gold Markets

(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>							
May 2	n.a.	n.a.	n.a.	428.12	430.11	430.87	429.50
3	431.00	433.50	431.12	432.12	431.57	432.13	433.70
4	434.50	432.75	435.38	433.38	437.35	437.38	435.10
5	435.00	433.75	436.12	433.88	437.44	437.54	432.40
6	431.50	431.25	431.88	431.62	433.51	433.14	437.20
9	435.00	434.00	435.88	434.12	436.73	437.61	441.60
10	439.25	443.75	439.88	444.00	440.70	439.26	443.20
11	443.25	443.00	443.38	443.12	442.51	n.a.	443.90
12	438.25	439.75	443.00	n.a.	n.a.	n.a.	438.70
13	438.00	441.25	438.62	441.12	437.69	438.06	441.20
16	438.50	436.25	436.38	435.88	439.68	440.82	438.60
17	437.50	440.75	437.88	440.50	437.60	438.47	443.10
18	442.15	442.75	442.50	442.38	441.27	441.78	440.10
19	440.00	442.60	440.15	443.38	440.23	440.09	438.30
20	439.00	438.75	438.85	439.75	441.06	439.97	437.20
23	433.00	432.75	n.a.	n.a.	n.a.	n.a.	438.40
24	437.25	436.80	437.75	437.38	439.42	439.15	437.10
25	437.60	441.75	437.62	440.62	439.05	439.21	440.10
26	441.25	440.00	442.12	440.38	444.33	440.30	437.30
27	436.85	437.25	438.12	437.12	434.20	435.63	435.90
30	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
31	439.00	437.50	439.35	438.38	436.17	436.07	412.00

CHART 4 DAILY CHANGES IN GOLD PRICES¹

(In per cent)



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