

MASTER FILES

ROOM C-120

11

Any views expressed in the Departmental Memoranda (DM) Series represent the opinions of the authors and, unless otherwise indicated, should not be interpreted as official Fund views.

DM/83/30

INTERNATIONAL MONETARY FUND

Treasurer's Department

Gold Prices in World Markets in March 1983

Prepared by Samir I. Fawzi

Approved by Muhammad N. Bhuiyan

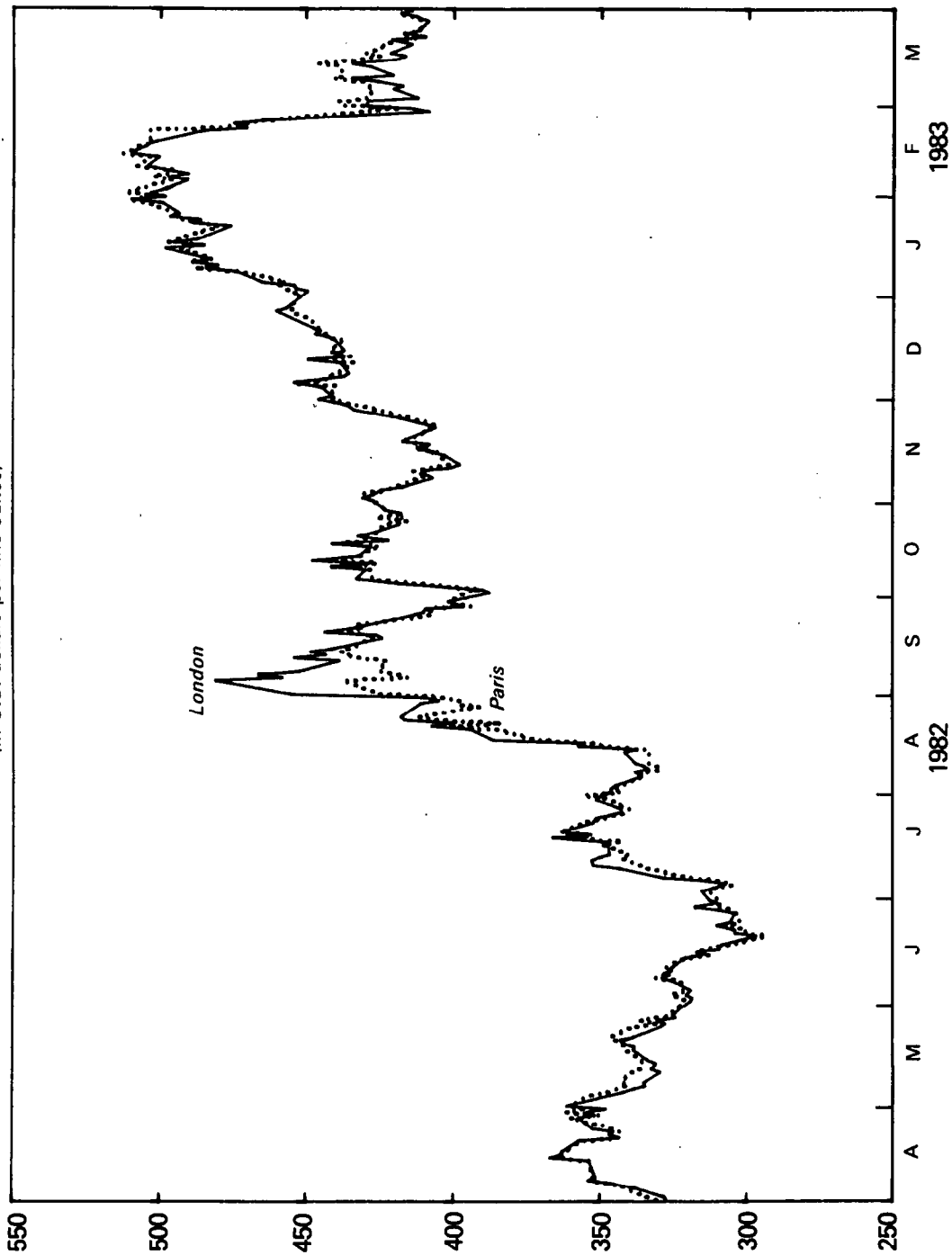
April 26, 1983

Gold prices moved erratically throughout the month on leading bullion markets (see Chart 1). The market appeared to have lost direction with many major traders and investors staying on the sidelines after the heavy losses they sustained in the preceding month. Price movements also reflected, to some extent, the abrupt reversal of sentiments about the outcome of the negotiations between major oil producers over pricing and production policies. In general, however, the price of gold increased moderately up to mid-March when agreement on oil prices and production targets was reached, but lost most of that gain in the remainder of the month. Profit-taking, concern over further declines in oil prices, expectations of lower inflation rates, possibility of gold sales by the Soviet Union following rumors about platinum sales, and reported gold sales by a number of non-oil developing countries were cited as the main factors which led to the fall in gold prices in the second half of the month. The decline was also associated with the firmness of the U.S. dollar which gained significantly in effective terms during this period. Over the month as a whole, the price of gold rose in London by \$6.25 an ounce to \$414.75 per ounce. The volume of trading was low and the market was relatively quiet; the standard deviation of the daily fixings in London fell sharply to \$7.49 in March from \$21.51 an ounce a month earlier.

In percentage terms, the rise in the price of gold in March was 1.53 per cent in U.S. dollars, 1.38 per cent in Deutsche mark, 2.02 per cent in Japanese yen, 3.50 per cent in pounds sterling, and 2.59 per cent in SDRs. Compared with March 1982, there was an increase in the price of gold of 29.61 per cent in U.S. dollars, 24.79 per cent in Japanese yen, 30.31 per cent in Deutsche mark, 33.74 per cent in SDRs, and 55.67 per cent in terms of the pound sterling.

Gold prices dropped on futures markets in March with larger declines for longer maturities, reflecting perhaps the market perception of the future course of gold prices. After adjustments for interest costs, futures prices were at discounts from spot quotations throughout the

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



month. The New York Commodity Exchange lowered margin requirements on futures trading following the reduction in price volatility.

The Philippines sold 43,000 ounces of gold from its official holdings in March, while Canada did not make sales this month under its four-year program of reducing the volume of gold held as part of its international reserves. Information on South Africa's gold output in March is not yet available.

Sales of South African Krugerrands rose sharply to 602,234 ounces in March from 256,359 ounces marketed a month earlier. The bulk of the increase was concentrated in the one-ounce coin whose sales were up by 314,062 ounces to 563,527 ounces; sales of mini-Krugerrands also increased sharply by 31,813 ounces to 38,707 ounces.

The South African authorities have decided to restrict the coverage of the state assistance scheme for marginal gold mines beginning April 1983 and to terminate it altogether as from June 1984 following the recommendations of a commission of inquiry appointed in December 1981. The scheme was introduced in 1968 to provide state funds to mines in temporary difficulties because of low gold prices as long as they could continue to operate without further help when the price of gold recovered. Last year, four mines received assistance under the scheme. The Reserve Bank of South Africa, which markets all the country's gold, is reportedly considering to pay for the bullion it buys from local mines in U.S. dollars rather than in rand. Payment in rand has been remunerative to the mines because of the depreciation of that currency against the U.S. dollar; it has provided significant compensation for mining companies in periods of falling gold prices on international markets.

Bolivia is reported to be taking steps to curb illegal gold prospecting and smuggling. The Government's program envisages increased exploration by the state mining company, and purchases of locally produced gold by the state mineral bank at competitive prices.

I. London and Zurich Markets

The price of gold in London opened the month higher and advanced to \$430.00 an ounce on March 2 from the February closing of \$408.50 per ounce, reflecting strong buying interest from Europe reportedly on behalf of Middle Eastern and Soviet interests. The price declined sharply to \$412.50 an ounce on March 4 amid uncertainty about the outcome of the meeting in London of major oil exporters on future oil prices and production quotas. The attitude of the market toward the oil situation caused the gold price to fluctuate while moving upward to \$434.50 per ounce by mid-March when oil-exporting countries reached agreement. The price moved erratically lower to \$408.75 an ounce through March 28 on concerns that the agreed oil prices might not hold, expectations that the rates of inflation in the industrial

countries would continue to fall, reported gold sales by a number of developing countries, and a strong U.S. dollar which gained 2.52 per cent in effective terms during the period. It firmed slightly on position-squaring before the Easter holidays to close the month at \$414.75 per ounce, \$6.25 an ounce higher than its level a month earlier. On a daily average basis, however, the price (\$420.18 an ounce) declined sharply by \$72.11 per ounce. In Zurich, the price of gold was at a marginal discount from that in London of 0.12 per cent at the end of the month but at a small premium of 0.11 per cent on a daily average basis.

Gold coins in London gained little in March. The Krugerrand rose marginally by \$0.50 to \$428.50 per ounce in March, and its premium over the bullion price in London dropped by 1.45 percentage points to 3.32 per cent. The premia of mini-Krugerrands similarly declined in March to 6.57-11.51 per cent from 7.96-12.61 per cent in February. The price of the New Sovereign increased by \$2.65 to \$417.87 an ounce over the month, with its premium over the spot price in London falling to 0.75 per cent from 1.65 per cent a month ago. The premium of the one-half New Sovereign also dropped to 22.06 per cent in March from 23.74 per cent in the preceding month.

II. Paris Market

The price of the standard 12 1/2 kilo bar rose from F 95,000 a kilo at the end of February to F 97,000 per kilo on March 3, dropped to F 94,500 a kilo the next day, before rising again to F 97,500 per kilo on March 11. The price continued to fluctuate thereafter in the range of F 94,000-F 98,000 per kilo until it closed the month at F 97,800 a kilo. In U.S. dollar terms, the price advanced to the equivalent of \$439.18 per ounce on March 3 from \$430.54 an ounce at the end of the preceding month, dropped to \$427.77 per ounce on March 7, then rose to \$446.11 an ounce at midmonth; it declined to \$410.57 per ounce on March 23 before firming to \$418.44 an ounce at end-month. The closing price was \$12.10 per ounce lower than that a month ago. The daily average price (\$425.97 an ounce) declined sharply by \$70.08 per ounce, and its premium over the corresponding price in London was 1.38 per cent in March compared with 0.76 per cent a month earlier. The daily average turnover on the Paris market fell sharply to 5,622 ounces valued at F 16.80 million in March from 7,098 ounces valued at F 24.23 million in the preceding month.

The price of the Napoleon declined by the equivalent of \$24.11 an ounce to stand at \$504.03 per ounce at the end of March. Its premium over the bullion price in London fell to 21.53 per cent in March from 29.29 per cent a month ago. The daily trading volume in the coin dropped to 1,672 coins from 1,985 coins in February.

III. Other Spot Markets

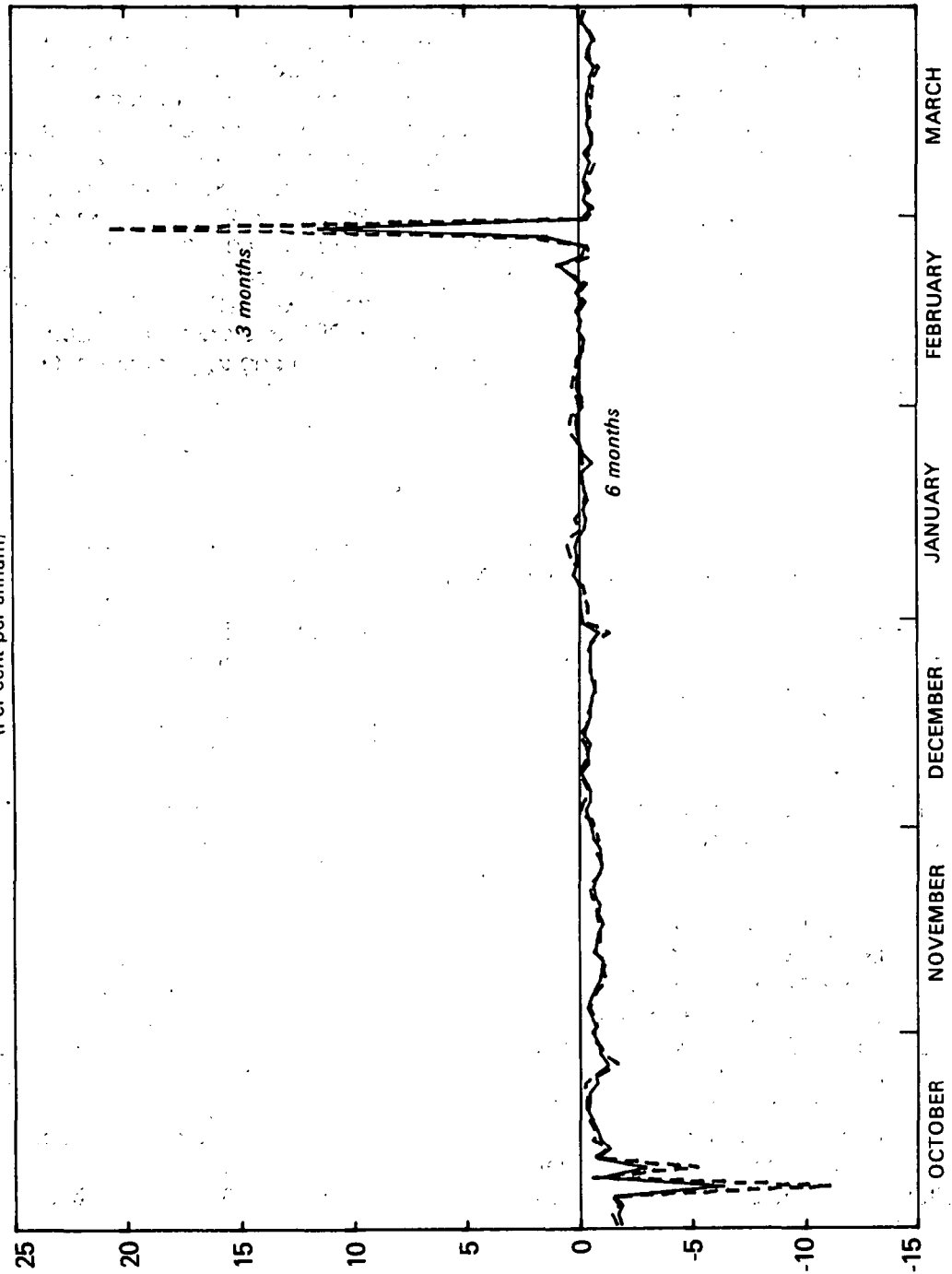
Gold prices were mixed on other spot markets. On the New York Commodity Exchange, the price of gold recovered by \$15.40 an ounce to \$415.90 per ounce at end-March. This price was at a premium of 0.28 per cent over that in London compared with a discount of 1.96 per cent in February. In Singapore, gold lost \$4.75 an ounce and stood at \$413.75 per ounce at March end, with that price being at a discount from London of 0.24 per cent in contrast with a premium of 2.45 per cent a month earlier. The international gold price in Hong Kong dropped \$4.70 to \$413.80 per ounce which was at a discount from the price in London of 0.23 per cent while the February price was at a premium of 2.45 per cent. In Bombay, the gold price firmed to Rs 1,800 per 10 grams from Rs 1,762 per 10 grams a month ago. In U.S. dollar terms, it rose by the equivalent of \$17.83 to \$562.99 an ounce, and its premium over the London price was up by 2.29 percentage points to 35.74 per cent.

IV. Futures Markets

Gold prices declined on futures markets by \$8.50-\$14.90 an ounce over the month for contracts maturing between June 1983 and August 1984. During the month, the annualized premia of futures prices over spot quotations were consistently below the level of interest rate costs. This was the result of lower premia which declined in March by 1.10-1.61 per cent for the three- and six-month contracts, while interest rate costs remained almost unchanged. Hence, the interest cost adjusted premia which averaged 0.67-1.19 per cent for these contracts in February turned into discounts of 0.41-0.51 per cent this month. At end-March, the prices of both maturities were also at discounts, after adjustment for interest costs, of 0.23-0.29 per cent compared with premia of 11.47-20.82 per cent last month.

The daily average turnover declined sharply on the New York Commodity Exchange (COMEX) to 4,728,900 ounces from 5,548,100 ounces in the preceding month, and on the Chicago International Monetary Market (IMM) to 452,100 ounces from 790,700 ounces, respectively. On the London Gold Futures market, the daily volume rose to 105,857 ounces in March from 100,800 ounces traded a month ago. Outstanding contracts declined very sharply on the COMEX by 3,360,000 to 9,286,500 ounces this month and also on the IMM by 202,600 to 522,000 ounces. The COMEX lowered margin requirements during the month to \$3,000 from \$4,000 on speculative contracts and to \$2,000 from \$2,500 on hedging, reflecting reduced price volatility.

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)

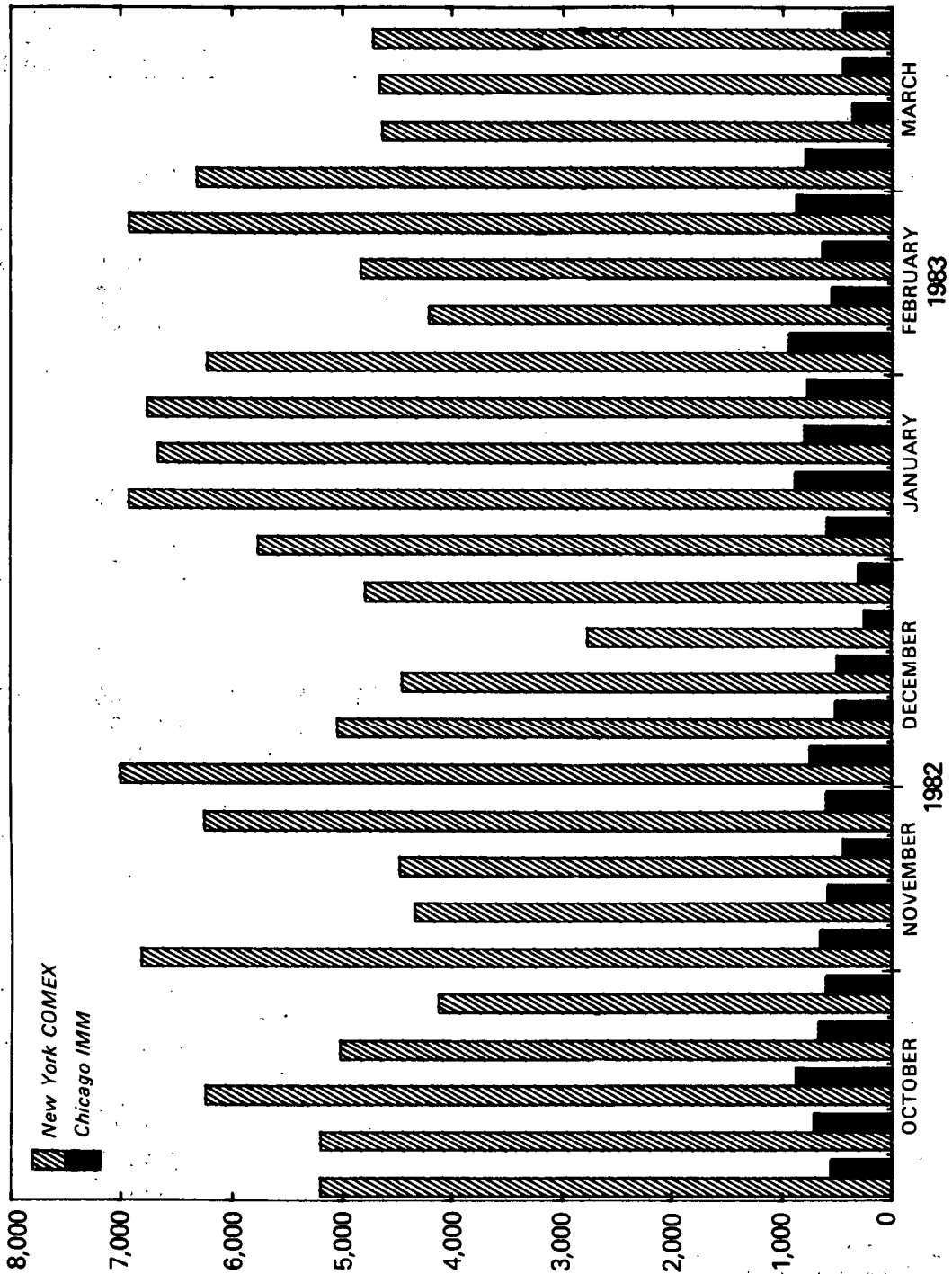


Table 1. Gold Prices, January 1983-March 1983

(U.S. dollars per fine ounce)

	1983			Change from
	January	February	March	February to March
<u>London market</u>				
End of month	499.50	408.50	414.75	+6.25
High of month	503.00	511.50	436.50	-75.00
Low of month	449.50	408.50	408.75	+0.25
Average of month	481.56	492.29	420.18	-72.11
Krugerrand (end of month)	514.50	428.00	428.50	+0.50
% on London	+3.00	+4.77	+3.32	-1.45
New Sovereign (end of month)	501.76	415.22	417.87	+2.65
% on London	+0.45	+1.65	+0.75	-0.90
<u>Zurich market (middle quotations)</u>				
End of month	499.50	405.00	414.25	+9.25
High of month	500.00	511.75	437.50	-74.25
Low of month	450.75	405.00	405.50	+0.50
Average of month	479.48	492.50	420.66	-71.84
<u>Paris market</u>				
End of month	504.44	430.54	418.44	-12.10
High of month	504.44	512.77	447.98	-64.79
Low of month	451.90	426.19	410.43	-15.76
Average of month	481.00	496.05	425.97	-70.08
% on London	-0.12	+0.76	+1.38	+0.62
Napoleon (end of month)	569.91	528.14	504.03	-24.11
% on London	+14.10	+29.29	+21.53	-7.76
<u>Other markets (end of month)</u>				
New York	510.10	400.50	415.90	+15.40
% on London	+2.12	-1.96	+0.28	+2.24
Singapore	495.50	418.50	413.75	-4.75
% on London	-0.80	+2.45	-0.24	-2.69
Hong Kong	494.50	418.50	413.80	-4.70
% on London	-1.00	+2.45	-0.23	-2.68
Bombay	548.94	545.16	562.99	+17.83
% on London	+9.90	+33.45	+35.74	+2.29
<u>Futures Prices on the New York Commodity Exchange</u>				
Delivery: June 1983	526.20	430.50	422.00	-8.50
August 1983	534.60	437.80	428.60	-9.20
February 1984	560.40	461.60	449.60	-12.00
August 1984	588.00	486.50	471.60	-14.90

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> 1/	<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 1/	0.33	18.1
November	1.77	-0.54	1.77 1/	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> 1/	<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 1/	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	n.a.	-0.06	n.a.	0.60	n.a.

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)

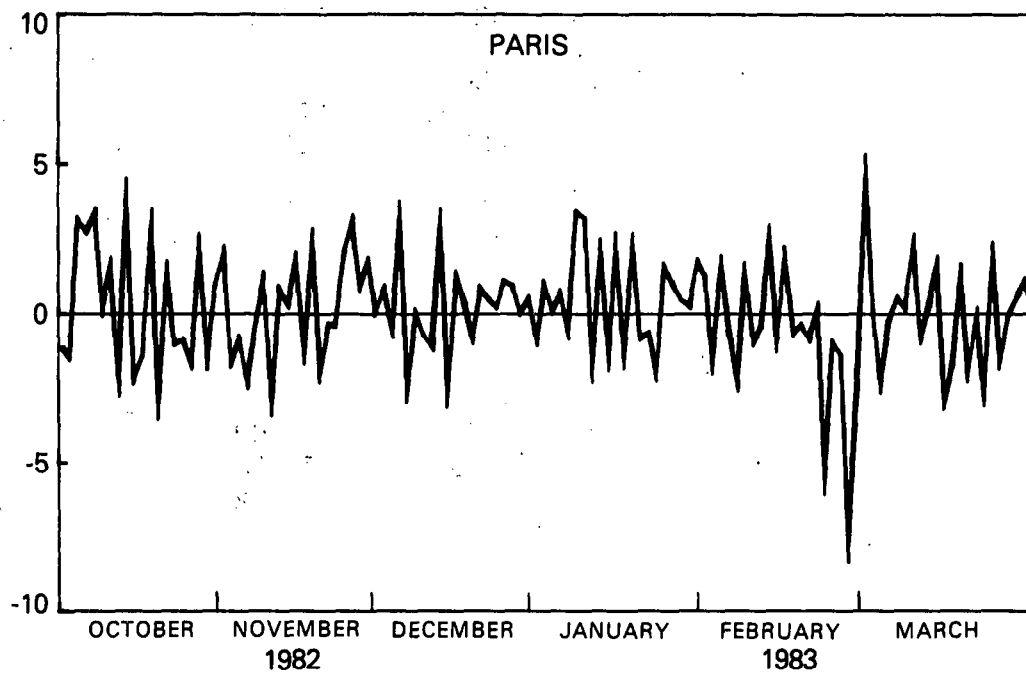
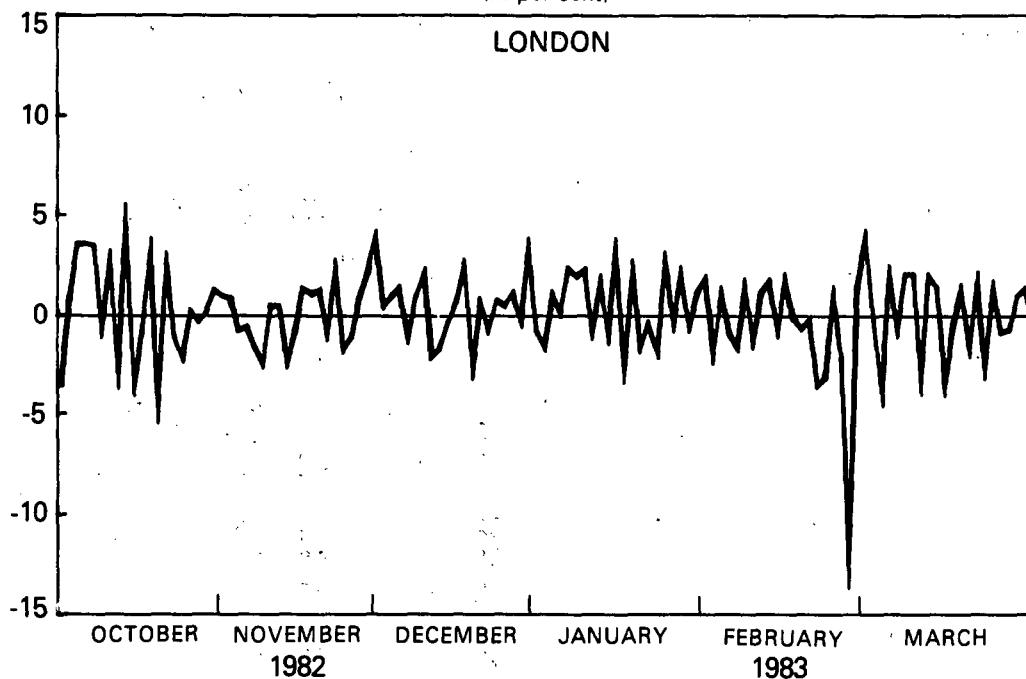
End-of-period	U.S. dollar	Deutsche mark	Pound sterling	Japanese yen	SDR
<u>1980:</u> March	-22.37	-14.73	-18.33	-22.89	-19.11
April	+4.75	-3.38	+0.19	+0.29	+1.23
May	+3.38	+2.13	-0.34	-3.72	+2.07
June	+22.04	+21.06	+21.38	+20.38	+20.83
July	-6.01	-5.14	-5.49	-2.79	-5.12
August	+2.77	+3.43	+0.47	-0.98	+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
March	+1.53	+1.38	+3.50	+2.02	+2.59
March 1983 to March 1982	+29.61	+30.31	+55.67	+24.79	+33.74

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>							
March 1	414.50	414.00	405.50	413.50	418.52	419.65	412.40
2	431.00	430.00	423.25	429.25	434.27	438.80	433.50
3	431.75	429.50	436.75	433.00	435.02	439.18	430.30
4	415.50	412.50	430.25	416.75	424.75	428.86	417.60
7	421.25	420.75	420.50	421.00	425.05	427.77	427.00
8	422.25	417.50	426.00	418.50	430.03	430.09	422.20
9	424.25	426.00	423.75	424.75	430.66	430.90	424.20
10	433.00	434.75	427.50	435.00	438.51	440.93	431.00
11	424.00	420.50	427.00	421.00	430.61	437.50	427.50
14	431.75	428.50	427.75	427.50	438.04	438.77	436.70
15	436.50	434.50	437.50	434.50	447.98	446.11	426.20
16	424.00	419.00	428.50	420.00	433.57	432.93	418.10
17	416.75	416.50	418.75	416.25	423.93	425.26	419.60
18	419.75	421.75	419.50	421.75	426.68	430.49	415.40
21	414.50	414.50	412.50	415.25	424.82	422.17	420.00
22	420.75	421.25	420.50	422.50	420.89	421.71	418.70
23	413.00	410.00	418.75	411.50	413.63	410.57	417.90
24	415.00	415.50	414.75	416.50	415.71	418.26	410.00
25	411.25	411.75	412.75	411.75	410.63	411.70	414.00
28	412.00	408.75	412.50	408.75	410.43	411.49	412.00
29	412.00	412.75	412.00	411.50	413.00	413.80	415.80
30	416.25	418.00	417.00	417.75	418.13	418.13	413.20
31	414.25	414.75	414.50	414.25	416.42	418.44	415.90

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.