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DM/84/42

INTERNATIONAL MONETARY FUND

Treasurer's Department

Gold Prices in World Markets in May 1984

Prepared by Samir I. Fawzi

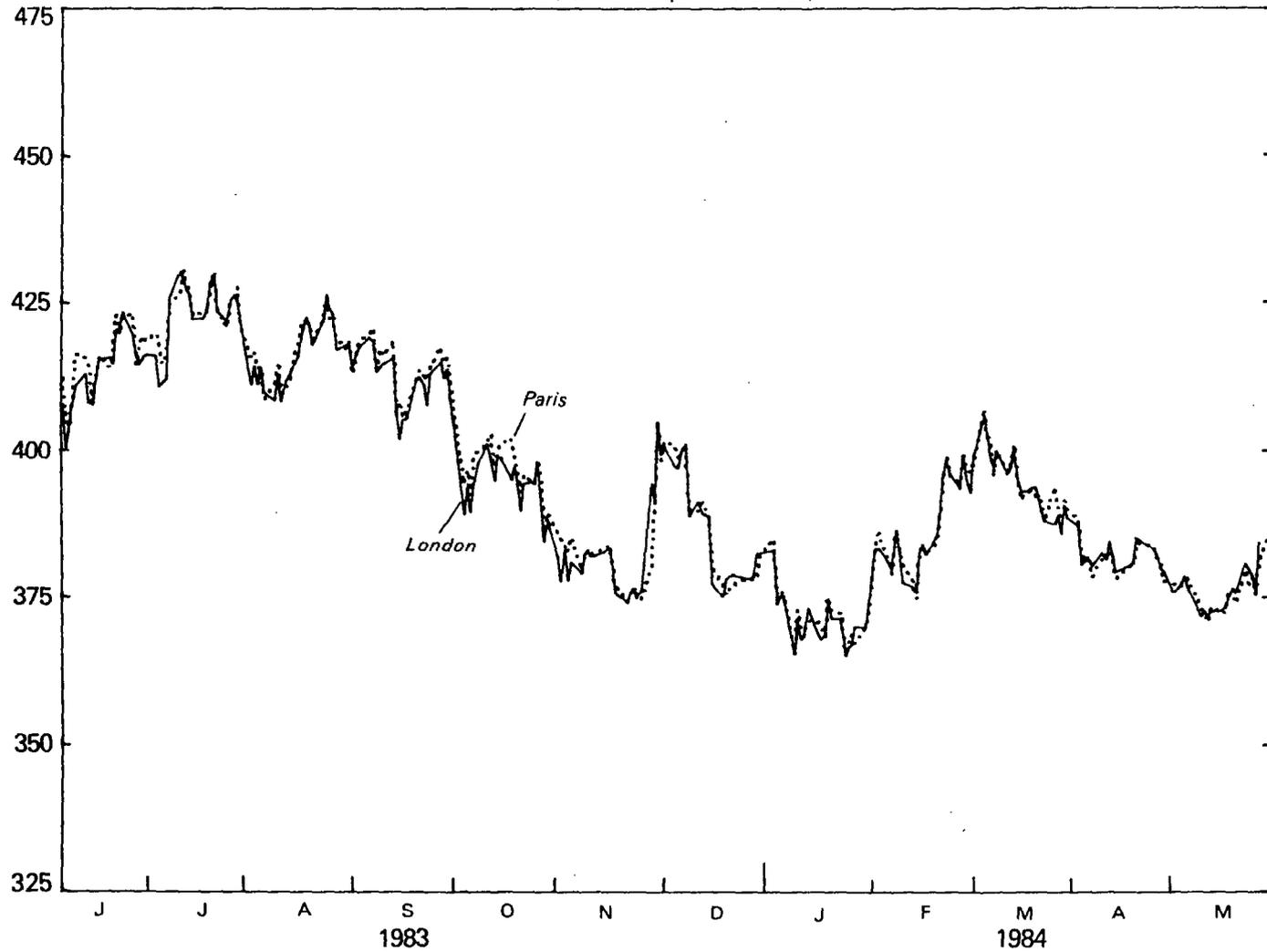
Approved by Muhammad N. Bhuiyan

June 21, 1984

Gold prices fluctuated narrowly during the greater part of May but rose modestly over the month on leading bullion markets. The continued strength of the U.S. dollar, the firmness of U.S. interest rates, and the seasonal slackness in demand for gold were among the factors having a bearish influence on gold prices. Liquidity problems reported for some U.S. banks and the escalating Iran/Iraq conflict with a bearing on oil shipments from the Middle East had, however, some positive effect on prices during the later part of the month. The volume of trading remained sluggish but higher than its level a month earlier. Over the month as a whole, gold prices rose in London by \$8.45 an ounce, compared with a decline of \$12.70 an ounce in April. Gold prices increased by slightly larger margins (\$9.17-\$11.00 per ounce) on other major bullion markets in May. The spread between the high and low daily fixings in London widened to \$16.30 an ounce from \$11.45 in April and the standard deviation of these fixings also rose to \$4.44 from \$2.47 per ounce as a result of some sharp movements in the last two weeks of the month.

The price of gold in London was little changed in the first week of May but dropped sharply by \$5.20 to \$371.50 an ounce on May 8, attributed to a significant appreciation of the U.S. dollar and the increase in U.S. prime lending rate by a half a percentage point to 12 1/2 percent. It moved in a very narrow range up to May 18 and reached \$375.60 per ounce, but rose sharply the next day to \$380.75 an ounce triggered in part by concerns over attacks on oil tankers in the Persian Gulf. The price declined to \$375.65 per ounce by May 24 on profit-taking but rose sharply the following day to \$384.20 an ounce on reports of large scale attacks on Persian Gulf shipping and financial difficulties faced by some major U.S. banks, and a sharp fall in the value of the U.S. dollar on exchange markets. The price changed little thereafter and closed the month at \$384.25 per ounce, \$8.45 an ounce higher than its level a month earlier.

CHART 1
GOLD PRICES IN LONDON AND PARIS
JUNE 1983 - MAY 1984
(In U.S. dollars per fine ounce)



In percentage terms, the increase in the price of gold in May was 2.25 percent in U.S. dollars and 2.64-4.30 percent in other major currencies and the SDR. The price at end-May 1984 was, however, lower than its level a year earlier by 12.17 percent in U.S. dollars, 4.97 percent in Deutsche mark, 9.14 percent in SDRs, and 14.85 percent in Japanese yen; in pounds sterling, it was higher by 1.45 percent (see Table 3).

Gold prices also firmed on futures markets in May. The premia of prices of the three- and six-month contracts over spot quotations, however, were negative in most trading days of the month when adjusted for interest costs. Margin requirements were lowered by the New York Commodity Exchange concomitant with reduced price volatility.

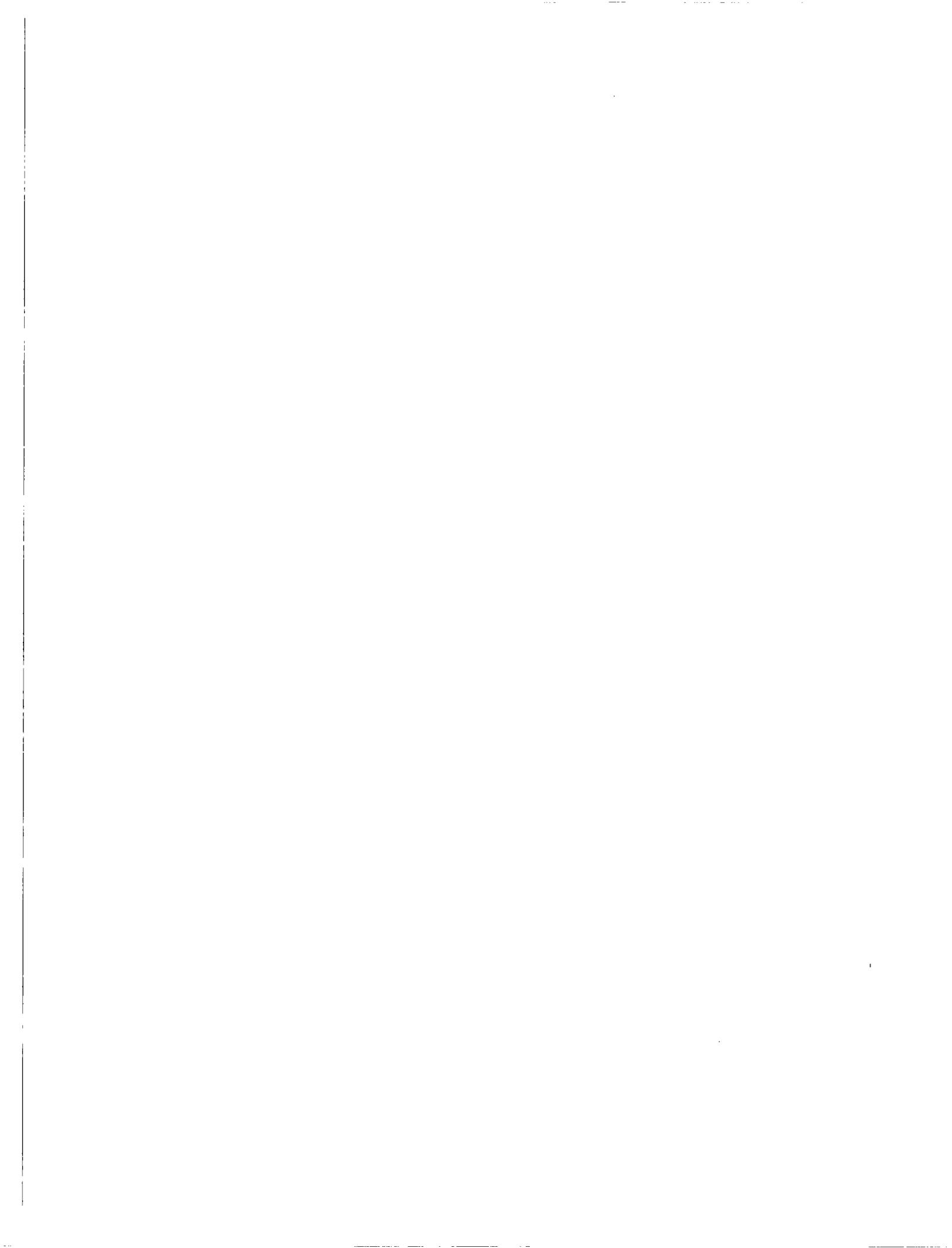
South Africa's gold output rose slightly to 1.83 million ounces in May from 1.81 million ounces produced in the preceding month. Gold marketed in May rose significantly, however, to 1.90 million ounces from 1.65 million ounces in April as 0.07 million ounces were drawn from official gold holdings in May compared with 0.16 million ounces added to gold reserves in the previous month.

Krugerrand sales dropped by 54,317 ounces to 200,874 ounces in May, with the bulk of the decline (51,690 ounces) concentrated in the sales of the one-ounce coin which amounted to 182,323 ounces.

A significant shift has reportedly taken place in the form in which gold is held by the Swiss private sector since the imposition in early 1980 of a sales tax (current rate is 6.2 percent) on physical gold transactions. According to the report, the bulk of these holdings is maintained in the form of bank accounts which require a minimum deposit of 32 ounces, equivalent to one kilogram.

I. London and Zurich Markets

The price of gold in London firmed slightly early in May but declined significantly by \$5.20 to \$371.50 per ounce on May 8, the day major U.S. banks raised their prime lending rate from 12.00 percent to 12.5 percent. It rose modestly, amid some fluctuations, to \$375.60 an ounce by May 18 and to \$380.75 per ounce the following day. The latter increase was associated with marked depreciation of the U.S. dollar on the exchange market and speculations that the escalating Iran/Iraq war might interrupt oil shipments from the Persian Gulf, leading to increased oil prices. This price gain dissipated, however, by May 24 on profit-taking, but renewed strength of the dollar and reports of liquidity problems affecting some major U.S. banks helped push the price to \$384.20 an ounce on May 25. It rose slightly thereafter before losing on the last day of the month. The closing price was \$384.25 per ounce, a net gain of \$8.45 an ounce over April. The



daily average price (\$377.18 per ounce), however, was slightly lower than it was in the preceding month (\$381.37 an ounce). In Zurich, price developments continued to follow those in London.

Prices of gold coins in London rose in May by larger margins than spot prices. The Krugerrand gained \$10.25 per ounce to close the month at \$397.38 an ounce; its premium over the spot price widened by 0.41 percentage point to 3.42 percent. The premia of mini-Krugerrands also rose to 6.77-12.23 percent in May from 6.24-11.43 percent in the previous month. The price of the New Sovereign rose by the equivalent of \$10.62 to \$387.07 an ounce, and its premium over the spot price increased to 0.73 percent in May from 0.17 percent a month earlier. Similarly, the price of the one-half New Sovereign increased to the equivalent of \$466.19 an ounce in May from \$453.44 per ounce in the previous month, and its premium over the bullion price increased to 21.32 percent from 20.66 percent in April.

II. Paris Market

The price of the standard 12 1/2 gold kilo bar rose slightly from the April closing of F 100,850 a kilo to F 102,100 per kilo by May 11, declined to F 101,500 a kilo over the following two days only to rise steadily and reach F 103,700 per kilo on May 21. It moved in a comparatively narrow range up to May 25 and increased sharply by F 1,300 to F 104,200 per kilo on May 28; the price closed the month at F 104,050 a kilo. In U.S. dollar terms, the price rose modestly in the first week of May but declined by the equivalent of \$7.46 to \$370.83 an ounce in the next two trading days. It increased, amid some fluctuations, to reach \$379.61 per ounce on May 21 but dropped to \$374.89 an ounce on May 24. The price rose sharply to \$386.16 per ounce by May 29 and ended the month at \$385.44 an ounce, \$9.17 per ounce higher than it was at end-April. As in London, the daily average price (\$376.84 per ounce) was lower (by \$4.50 an ounce) than its level in the previous month. The daily average price in May was at a marginal discount of 0.09 percent from that in London compared with a virtual parity in the previous month. The volume of trading was little changed in May; it averaged 4,976 ounces daily (valued at F 15.84 million), marginally up from the 4,955 ounces (valued at F 15.34 million) traded in the preceding month.

The price of the Napoleon stood at F 629 per coin (\$401.89 an ounce) at end-May, up from F 610 per coin (\$391.63 an ounce) a month ago, with its premium over the spot price in London increasing to 4.59 percent from 4.21 percent in April. Turnover in the coin rose sharply to a daily average of 2,298 coins in May from 1,513 coins in the previous month.

III. Other Spot Markets

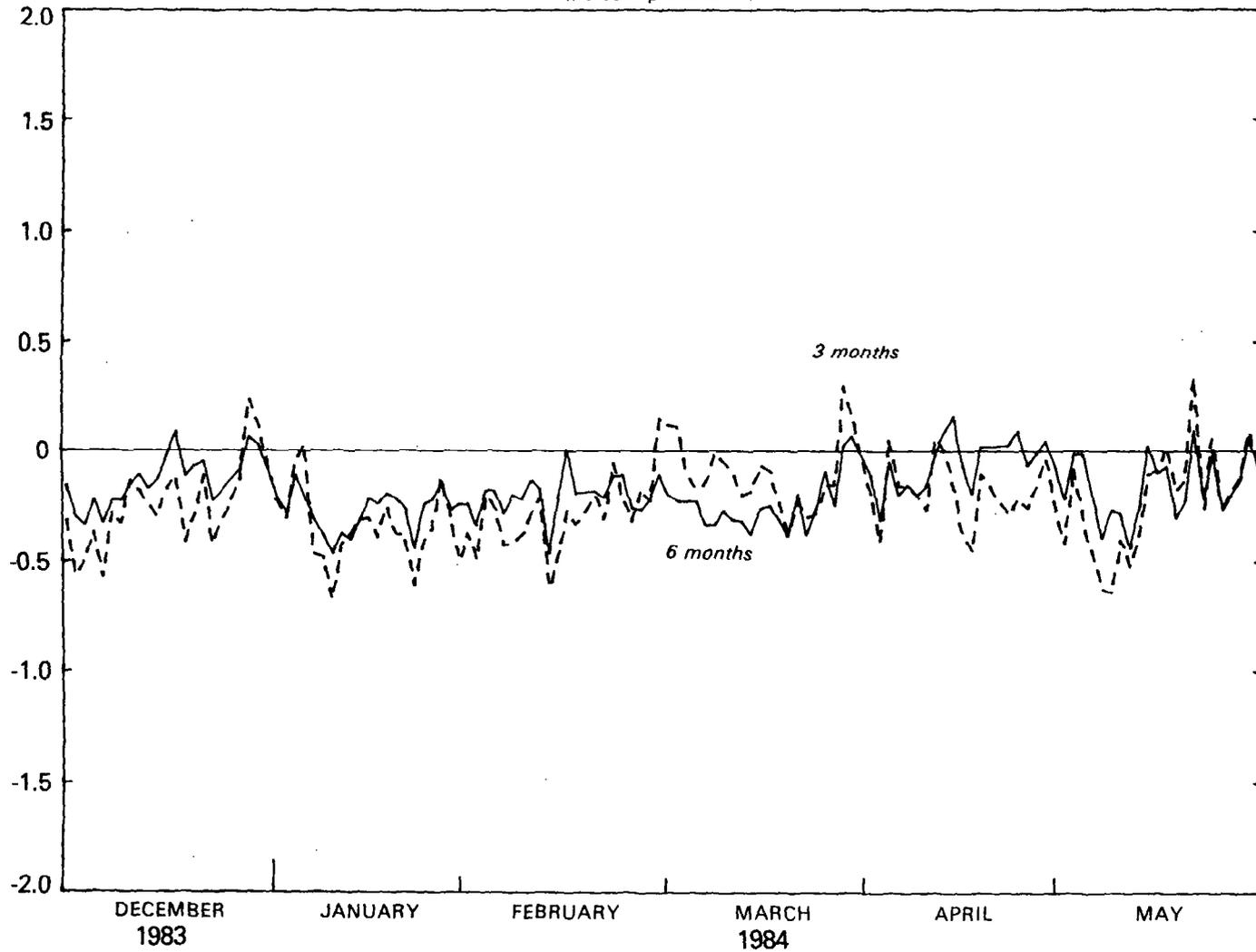
The price of gold rose by \$10.70 to \$386.80 an ounce on the New York Commodity Exchange in May, and its premium over the price in London widened to 0.66 percent from 0.08 percent a month earlier. The price in Singapore increased by \$5.50 to \$383.75 per ounce, and its April premium over that in London of 0.65 percent turned into a discount of 0.13 percent. In Hong Kong, the international gold price rose from \$375.95 to \$383.80 an ounce in May, with a discount from the London price of 0.12 percent compared with a premium of 0.04 percent in the preceding month. In Bombay, the price declined to Rs 1,935 per 10 grams (\$545.21 an ounce) in May from Rs 2,010 per 10 grams (\$571.34 an ounce) a month earlier. Its premium over the price in London dropped 10.14 percentage points to 41.89 percent at end-May.

IV. Futures Markets

Gold prices firmed on futures markets by \$7.30-\$14.40 an ounce for maturities ranging from August 1984 to October 1985 (see Table 1). The annualized premia of the prices of the three- and six-month contracts over spot quotations increased by 0.68-0.87 percentage point in May whereas interest costs of corresponding maturities rose on average by 0.71-0.96 percentage point. Consequently, these premia turned into discounts when adjusted for interest costs in most trading days of May (see Chart 2). The adjusted discounts widened modestly for both contracts to 0.15-0.21 percentage point in May from 0.06-0.18 percentage point in the preceding month. At month-end, the prices of the three- and six-month contracts were at marginal interest cost-adjusted discounts of 0.07 and 0.08 percentage point in May compared with an adjusted discount of 0.03 percentage point for the three-month maturity and an adjusted premium of 0.05 percentage point for the six-month contract at end-April.

The volume of trading picked up in May. It rose on the New York Commodity Exchange (COMEX) to a daily average of 3,789,300 ounces from 2,815,700 ounces in April and on Chicago's International Monetary Market (IMM) to 2,700 ounces from 900 ounces. The number of outstanding contracts increased on the COMEX to 145,157 contracts of 100 ounces at the end of May from 133,945 contracts in the previous month, but dropped on the IMM to 483 contracts from 594 contracts in April. The COMEX lowered margin requirements on speculative trading to \$1,100 from \$1,300 and for hedging to \$900 from \$1,000 per contract, effective May 9.

CHART 2
THREE AND SIX MONTH FUTURES PRICES¹
PREMIUM (+), OR DISCOUNT (-)
(Percent 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)

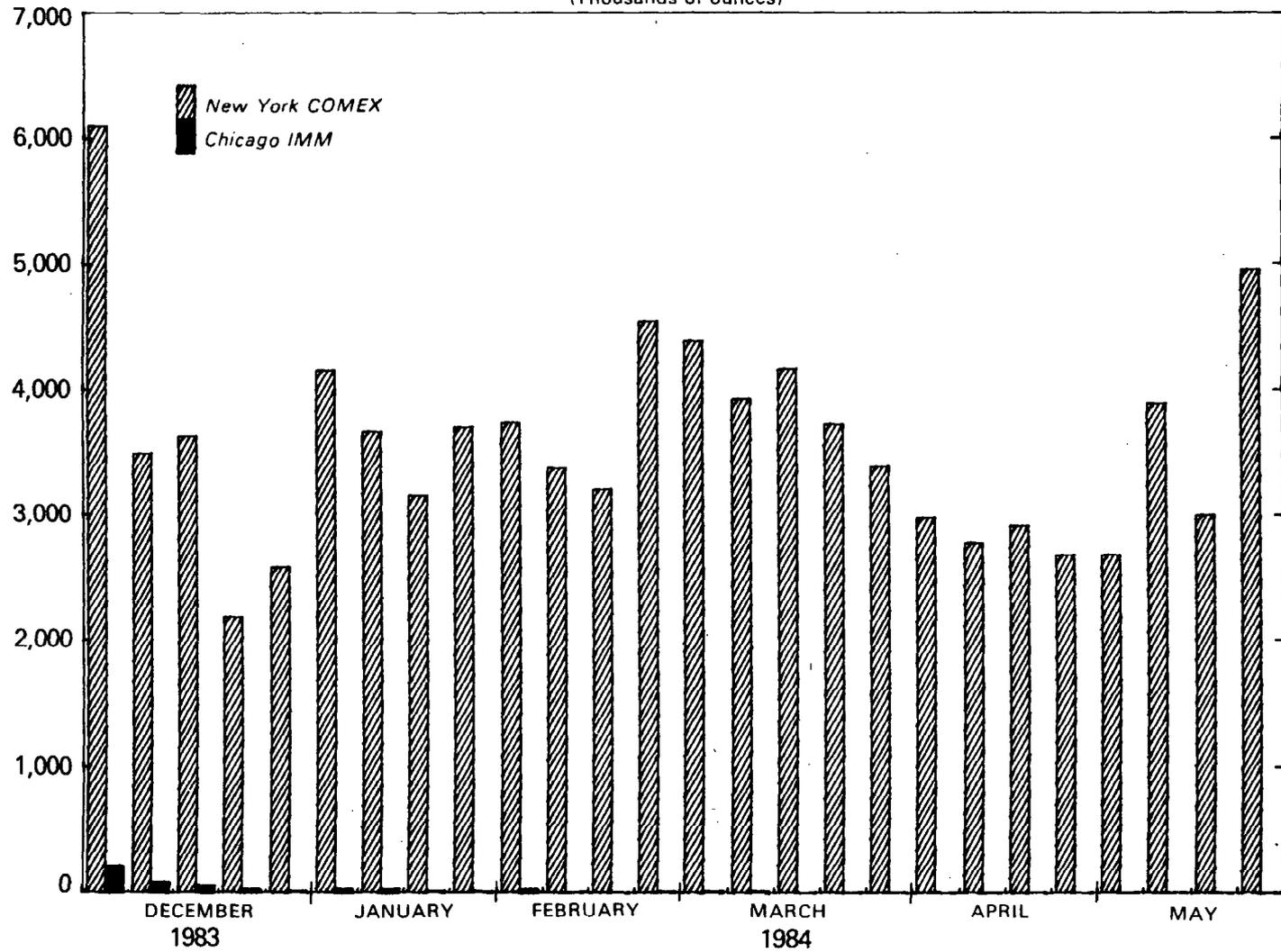


Table 1. Gold Prices, March-May 1984

(U.S. dollars per fine ounce)

	1984			Change from April to May	
	March	April	May		
<u>London market</u>					
End of month	388.50	375.80	384.25	+8.45	
High of month	406.85	387.25	386.40	-0.85	
Low of month	385.75	375.80	370.10	-5.70	
Average of month	394.50	381.37	377.18	-4.19	
Krugerrand (end of month)	400.38	387.13	397.38	+10.25	
% on London	+3.06	+3.01	+3.42	+0.41	
New Sovereign (end of month)	389.20	376.45	387.07	+10.62	
% on London	+0.18	+0.17	+0.73	+0.56	
<u>Zurich market (middle quotations)</u>					
End of month	388.95	375.75	386.75 ^{2/}	+11.00	
High of month	406.00	388.45	387.55	-0.90	
Low of month	386.25	375.75	369.35	-6.40	
Average of month	394.83	381.55	377.43	-4.12	
% on London	+0.08	+0.05	+0.07	+0.02	
<u>Paris market</u>					
End of month	389.76	376.27 ^{1/}	385.44 ^{3/}	+9.17	
High of month	407.22	388.42	386.16	-2.26	
Low of month	386.16	376.27	369.76	-6.51	
Average of month	394.98	381.34	376.84	-4.50	
% on London	+0.12	-0.01	-0.09	-0.08	
Napoleon (end of month)	422.50	391.63	401.89	+10.26	
% on London	+8.75	+4.21	+4.59	+0.38	
<u>Other markets (end of month)</u>					
New York	387.50	376.10	386.80	+10.70	
% on London	-0.26	+0.08	+0.66	+0.58	
Singapore	389.00	378.25	383.75	+5.50	
% on London	+0.13	+0.65	-0.13	-0.78	
Hong Kong	390.25	375.95	383.80	+7.85	
% on London	+0.45	+0.04	-0.12	-0.16	
Bombay	566.64	571.34	545.21	-26.13	
% on London	+45.85	+52.03	+41.89	-10.14	
<u>Futures Prices on the New York Commodity Exchange (End of Month)</u>					
Delivery: August	1984	401.20	386.30	393.60	+7.30
December	1984	416.40	401.10	410.40	+9.30
April	1985	432.50	417.10	428.30	+11.20
October	1985	458.70	443.40	457.80	+14.40

^{1/} Data relate to midday fixing as market was closed in afternoon.

^{2/} Data relate to closing quotation on May 30 as market was closed at month end.

^{3/} Data relate to midday fixing on May 30 as market was closed thereafter until end of month.

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	Percent of gold marketed
<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>	<u>21.84</u>	<u>+0.22</u>	<u>21.62</u>	<u>3.49</u>	<u>16.1</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
June	1.86	+0.06	1.80	0.41	22.8
July	1.81	--	1.81	0.12	6.6
August	1.85	-0.12	1.97	0.11	5.6
September	1.87	+0.03	1.84	0.27	14.7
October	1.85	+0.07	1.78	0.38	21.3
November	1.84	-0.04	1.88	0.35	18.6
December	1.72	+0.03	1.69	0.22	13.0
<u>1984</u>					
January	1.76	+0.05	1.71	0.24	15.8
February	1.79	-0.16	1.95	0.19	9.7
March	1.84	-0.02	1.86	0.16	8.6
April	1.81	+0.16	1.65	0.26	15.8
May	1.83	-0.07	1.90	0.20	10.5

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

(Percent change from the previous period)

End-of-period	U.S. dollar	Deutsche mark	Pound sterling	Japanese yen	SDR
<u>1981:</u> 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
June	-4.91	-4.29	-0.74	-4.73	-4.11
July	+1.44	+5.73	+2.32	+2.49	+2.66
August	-1.84	-0.04	-0.12	+0.07	-0.80
September	-2.23	-4.61	-2.47	-6.52	-3.36
October	-5.68	-5.68	-5.51	-6.32	-5.90
November	+6.02	+8.74	+8.34	+5.32	+6.90
December	-5.80	-4.92	-5.06	-6.14	-5.48
<u>1984:</u> January	-2.03	+1.30	+1.50	-0.75	-0.81
February	+5.48	-2.70	-0.85	+4.93	+2.89
March	-1.46	-1.62	+2.17	-5.14	-1.84
April	-3.27	+1.49	-0.52	-2.28	-1.69
May	+2.25	+2.64	+3.16	+4.30	+2.81
May 1984 to May 1983	-12.17	-4.97	+1.45	-14.85	-9.14

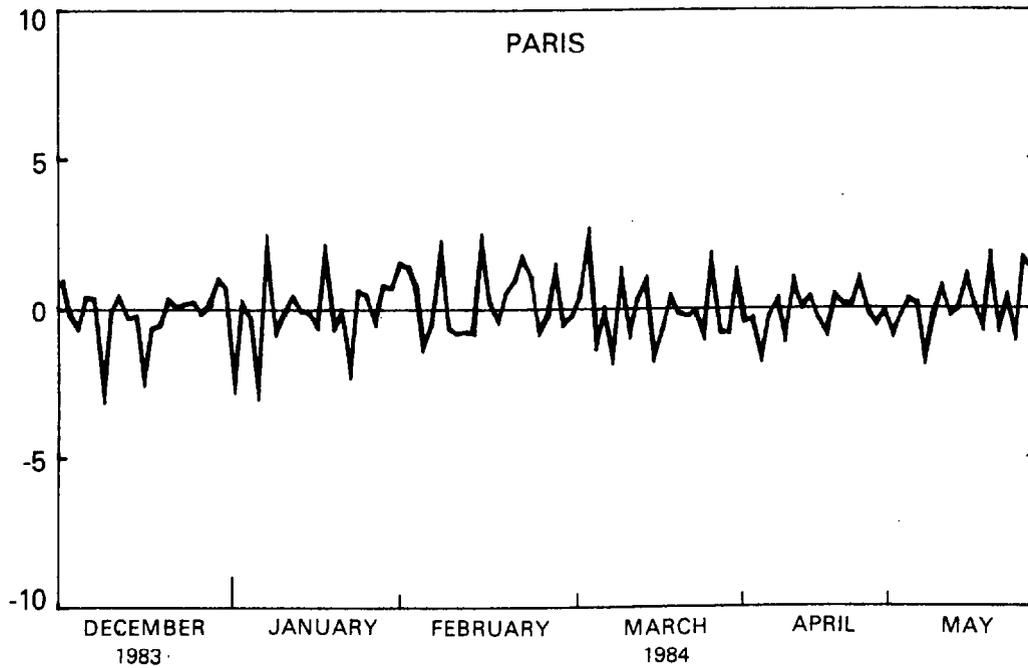
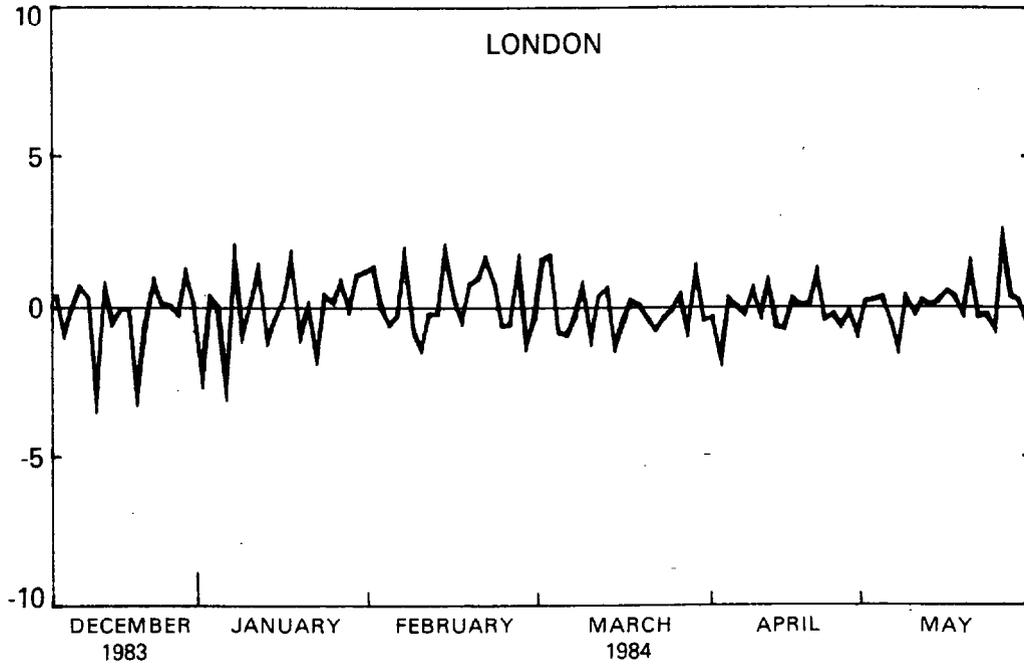
Table 4. Daily Prices in the Major Gold Markets

(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>1984</u>							
May: 1	376.40	376.50	n.a.	n.a.	n.a.	n.a.	377.10
2	377.35	377.35	377.25	377.15	377.22	376.83	378.30
3	378.30	378.50	379.25	378.75	378.72	377.80	378.40
4	378.30	376.70	378.65	376.65	377.68	378.29	376.00
7	n.a.	n.a.	374.35	374.45	373.86	n.a.	371.90
8	371.50	371.50	372.25	372.75	n.a.	n.a.	373.60
9	372.65	372.60	372.75	371.95	372.12	371.86	371.20
10	370.10	371.75	369.35	371.50	369.76	370.83	372.90
11	373.00	372.50	373.55	374.00	372.64	373.29	371.30
14	371.20	372.55	371.25	372.65	370.74	372.36	373.60
15	373.35	373.25	373.05	373.05	372.22	372.22	374.70
16	374.80	375.25	374.75	375.25	374.62	375.95	376.50
17	376.65	376.50	377.15	376.25	376.27	376.30	375.00
18	375.00	375.60	376.05	375.85	373.82	373.90	378.30
21	380.35	380.75	379.25	381.45	379.90	379.61	379.10
22	379.15	379.50	380.35	379.85	377.08	377.15	379.00
23	378.50	378.55	379.25	379.00	377.28	378.35	376.60
24	375.30	375.65	376.50	375.65	374.97	374.89	378.50
25	380.50	384.20	380.65	384.25	380.61	381.12	389.70
28	n.a.	n.a.	386.25	387.55	385.98	385.94	n.a.
29	385.50	385.60	386.00	385.55	386.10	386.16	385.20
30	384.75	386.40	383.85	386.75	385.44	n.a.	384.50
31	383.45	384.25	n.a.	n.a.	n.a.	n.a.	386.80

CHART 4 DAILY CHANGES IN GOLD PRICES¹

(In percent)



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

