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INTERNATIONAL MONETARY FUND

Treasurer's Department

Gold Prices in World Markets in March 1985

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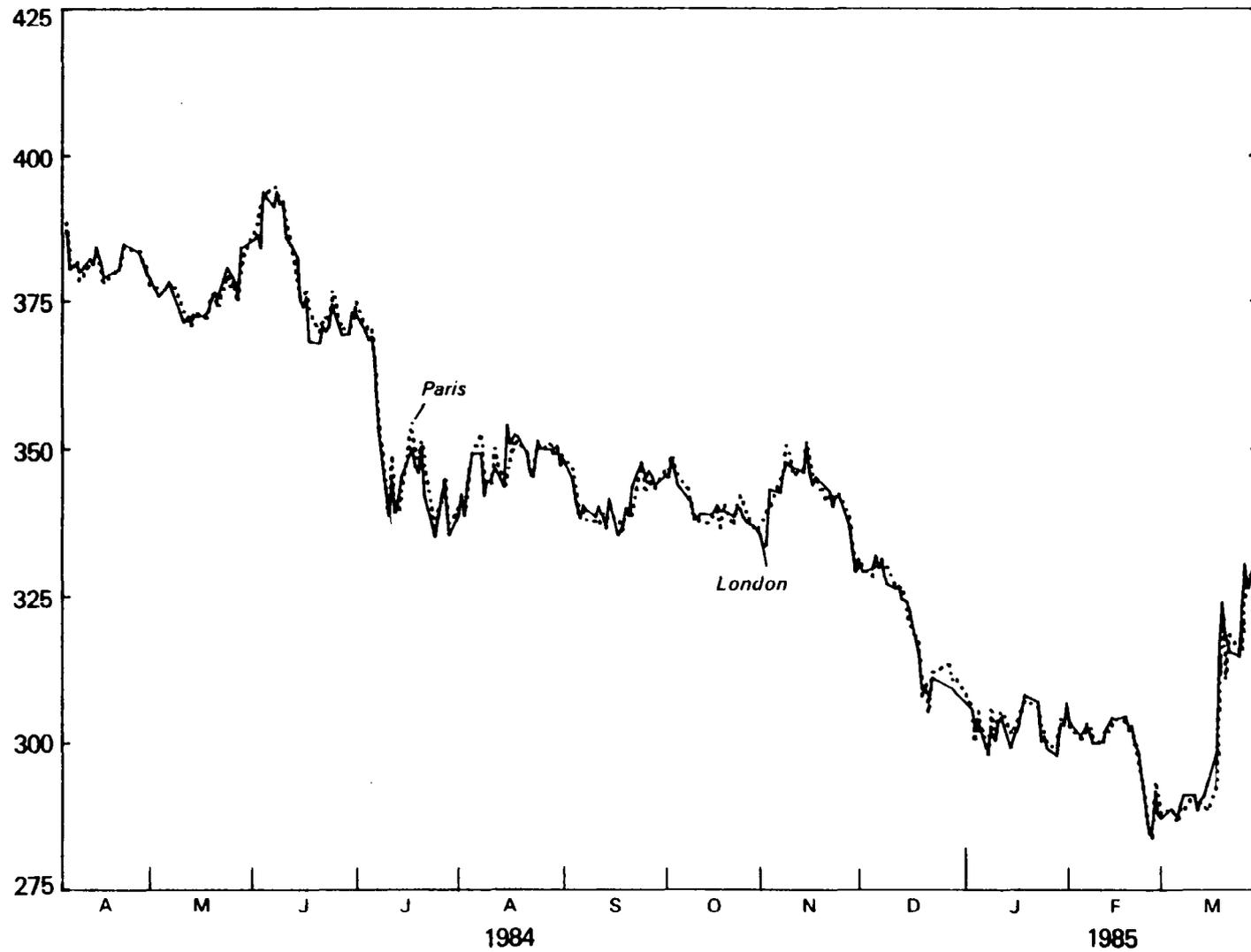
April 18, 1985

Gold prices firmed sharply on leading bullion markets in the second half of March, returning to levels prevailing toward the end of November 1984. The renewed interest in gold largely reflected movement in the value of the U.S. dollar, which depreciated sharply in terms of other leading currencies in March. Over the month as a whole, gold prices firmed by \$41.50 to \$329.25 an ounce in London, by the equivalent of \$38.16 to \$329.27 an ounce in Paris, and by \$42.60 to \$329.60 an ounce in New York (Chart 1 and Table 1). The spread between the high and the low daily fixings in London widened substantially to \$46.55 an ounce in March from \$20.70 an ounce in February, and the standard deviation of daily fixings rose to \$16.83 an ounce in March from \$6.08 an ounce in February.

In terms of major currencies, the price of gold in March firmed by 14.42 percent in U.S. dollars, by 10.67 percent in Japanese yen and by 5.47 percent in Deutsche mark, but eased slightly in pound sterling which appreciated the most in terms of U.S. dollars in March; the price firmed by 10.75 percent in SDRs (Table 2). On a year-on-year basis, however, the price at the end of March was lower by 15.25 percent in U.S. dollars, by 1.44 percent in pound sterling, by 5.36 percent in Japanese yen, and by 9.01 percent in terms of the SDR; it was 0.70 percent higher in Deutsche mark.

Gold prices rose sharply over the month on the futures markets (see Table 1), but the annualized premia of futures prices over spot quotations continued to be negative when adjusted for interest costs. However, the discounts declined during March, particularly in the shorter maturities, reflecting some renewed optimism about the prospect of the metal. The discounts for three- and six-month contracts averaged 0.73 percent and 0.86 percent, respectively, in March; this compared with average discounts of 1.04 percent and 0.88 percent for the corresponding maturities in February.

CHART 1
GOLD PRICES IN LONDON AND PARIS
APRIL 1984-MARCH 1985
(In U.S. dollars per fine ounce)



South Africa's gold output rose marginally to 1.84 million ounces in March from 1.83 million ounces in February (Table 3). Official gold holdings declined significantly by 0.38 million ounces in March, due almost entirely to further gold swaps, and the newly-mined gold marketed in March was estimated at 1.84 million ounces, compared with 1.83 million ounces in February. Krugerrand sales rose to 0.15 million ounces in March from 0.14 million ounces in February but were down from 0.16 million ounces in March 1984. Sales in the first quarter of this year totaled 580,094 ounces, down slightly from 588,637 ounces in the same period a year ago.

South Africa's relative position in world gold output, which accounts for the bulk of world gold production, appears to have been slowly declining for a number of years; its share in total gold production of noncommunist countries has declined to an estimated 65 percent last year from about 80 percent 10 years ago. Four other producers, namely Canada, the United States, Brazil, and Australia, presently account for about 23 percent of production, up from their combined share of about 12 percent 10 years ago. In the last five years, Brazil and the United States have more than doubled their output, Australia has nearly doubled it, and Canada has increased it by more than 50 percent.

I. London and Zurich Markets

The price of gold in London opened March at \$288.10 an ounce. After falling briefly on March 6 to \$286.70 per ounce, the minimum of the month, the price increased somewhat but remained at around \$290.00 per ounce on average, not significantly different from the average of the last days of the previous month. The price rose substantially on March 18 and continued to rise sharply to reach its peak of \$333.25 an ounce on March 20 (Table 4). The increase took place in conjunction with a sharp depreciation of the U.S. dollar in terms of other leading currencies, which was partly caused by concern over the temporary closing of 71 savings and loan associations in Ohio, followed by the release of information about the performance of the U.S. economy in the recent past which was interpreted to be much less favorable than had been anticipated earlier. However, the price fell back immediately and fluctuated within a wide range of \$312.00-\$324.00 for a few days as the U.S. dollar tended to regain part of its strength. The price increased sharply to a peak of \$330.40 on March 27 when the U.S. dollar eased again substantially against other leading currencies, following the rumor that some Texas banks might experience difficulties because of overexposure in energy-related lending. The price declined the following day and recovered partly on March 29, ending the month at \$329.25 per ounce. While the end-month price denoted an increase of \$41.50 an ounce over the month, the daily average price of gold in London increased by only a small margin from \$299.47 per ounce in February to \$303.57 per ounce in March. Price developments in Zurich were similar to those in London.

Prices of gold coins in London rose sharply in March, in line with the increase in the price of the bullion (see Table 1). The Krugerrand price rose by \$43.00 to \$340.38 an ounce at the end of March, and its premium over the spot price of the bullion were little changed (3.38 percent in March, compared with 3.35 percent in February). The premia on mini-Krugerrands narrowed somewhat to 6.38-10.48 percent in March from 6.60-11.64 percent in February. The price of the New Sovereign rose by \$37.69 to \$332.38 an ounce at the end of March, and its premium over the spot price of the bullion narrowed to 0.95 percent from 2.41 percent in February. The price of the one-half New Sovereign rose sharply to the equivalent of \$400.35 an ounce in March from \$351.50 an ounce in February; its premium over the spot price of bullion narrowed somewhat (21.54 percent in March, compared with 22.15 percent in February).

II. Paris Market

Gold prices in the Paris market in terms of francs reflected the increase in the price of the metal in terms of U.S. dollars but moderated by the appreciation of the franc against the U.S. dollar. Therefore, the price movement in terms of francs, although generally conforming to the pattern in terms of U.S. dollars in London and Zurich, was substantially less pronounced. The price of a standard 12 1/2 kilo gold bar opened the month of March at F 94,800 per kilo, which was also the month's low. The price increased during the first week of March to F 97,000 per kilo; it declined somewhat during the following week but recovered toward the end to F 96,400 per kilo on March 15. Thereafter, the price rose rapidly, reaching the maximum of the month of F 104,000 per kilo on March 20. After declining to around F 100,000 per kilo, the price reached a new peak of F 102,000 on March 27. The price declined during the following two days, and ended March at F 99,800, for an increase of about 5 percent in terms of francs over the month. In U.S. dollar terms, the price of gold in the Paris market reflected closely the movements in London and Zurich (see Table 4). The price was quite stable during the first half of the month, remaining just below \$290.00 per ounce on average, but rose sharply to \$326.07 per ounce on March 20. The price fluctuated widely thereafter, reaching the month's peak of \$330.48 per ounce in the morning of the last day of the month but declined in the afternoon to \$329.27 per ounce, \$38.16 above the price at the end of February. The daily average price in March rose by the equivalent of \$3.05 to \$302.33 an ounce and the discount over the London average price rose from 0.06 percent in February to 0.41 percent in March. The average volume of trading rose sharply in March to 4,029 ounces daily (valued at F 12.3 million), compared with the average of 2,491 ounces daily (valued at F 7.5 million) in February.

The price of the Napoleon rose significantly to F 608 per coin at the end of March from F 589 per coin at the end of February; in U.S. dollar terms, it rose sharply by the equivalent of \$37.46 to \$346.48 an ounce, reflecting the appreciation of the French franc against the U.S. dollar (see Table 1). The dollar price of the coin was at a premium of 5.23 per cent over the spot price in London, lower than its premium of 7.39 percent in February. The daily average turnover in the coin rose to 1,967 coins in March from 1,318 coins in February.

III. Other Spot Markets

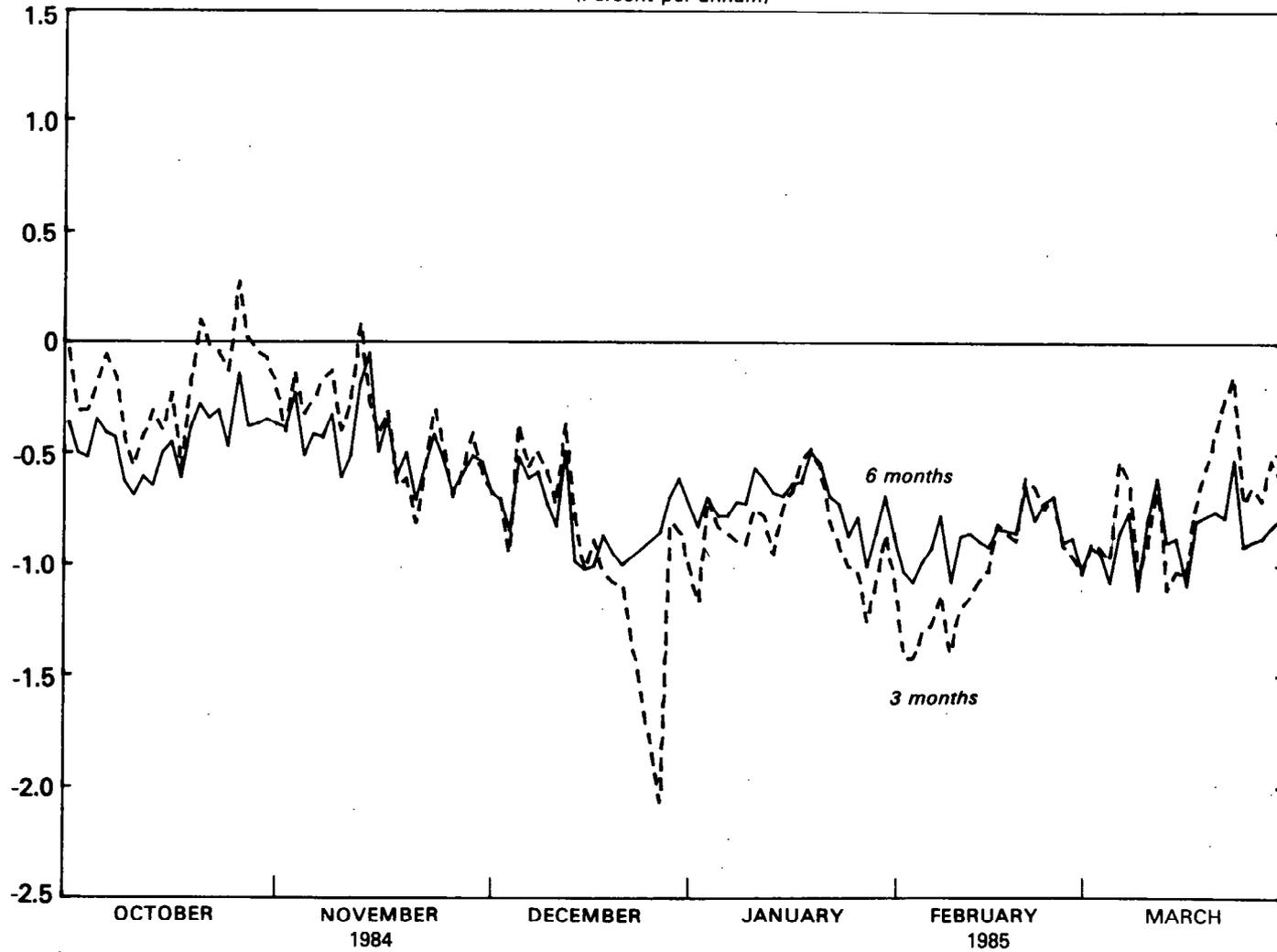
The price of gold rose sharply, by \$42.60 an ounce on the New York Commodity Exchange at the end of March, thus turning it to a premium of 0.11 percent over the London spot price in March from a discount of 0.26 percent in February (see Table 1). The price in Singapore increased by \$40.00 to \$330.75 an ounce at the end of March, and its premium over the London spot price declined to 0.46 percent in March from 1.04 percent in February. In Hong Kong, the international gold price rose similarly by \$40.60 to \$331.25 an ounce at the end of March, and its premium over the the London price narrowed to 0.61 percent in March from 1.01 percent in February. In Bombay, the price of gold rose to Rs 2,130 per 10 grams (\$530.22 an ounce) at the end of March from Rs 2,065 per 10 grams (\$490.00 an ounce) at the end of February. Its premium over the London price narrowed by 9.25 percentage points to 61.04 percent at the end of March.

IV. Futures Markets

As in the spot markets, gold prices on the futures markets also increased sharply by \$41.10-\$42.90 per ounce for maturities ranging from June 1985 to August 1986 (See Table 1). The annualized premia of futures prices over spot quotations in March increased on average by 0.55 and 0.49 percentage points respectively. Interest costs of corresponding maturities increased less, by 0.24 and 0.47 percentage points and consequently, the average cost-adjusted discounts for the three- and six-month maturities narrowed by 0.31 and 0.02 percentage points, respectively, to 0.73 and 0.86 percent. The interest-adjusted discounts on three- and six-month contracts were slowly rising through the first half of March; they declined substantially for a few days, reflecting renewed optimism in the future course of gold prices but rose again to end the month at discounts of 0.62 and 0.79 percent, still substantially below the average level during the first half of the month (Chart 2).

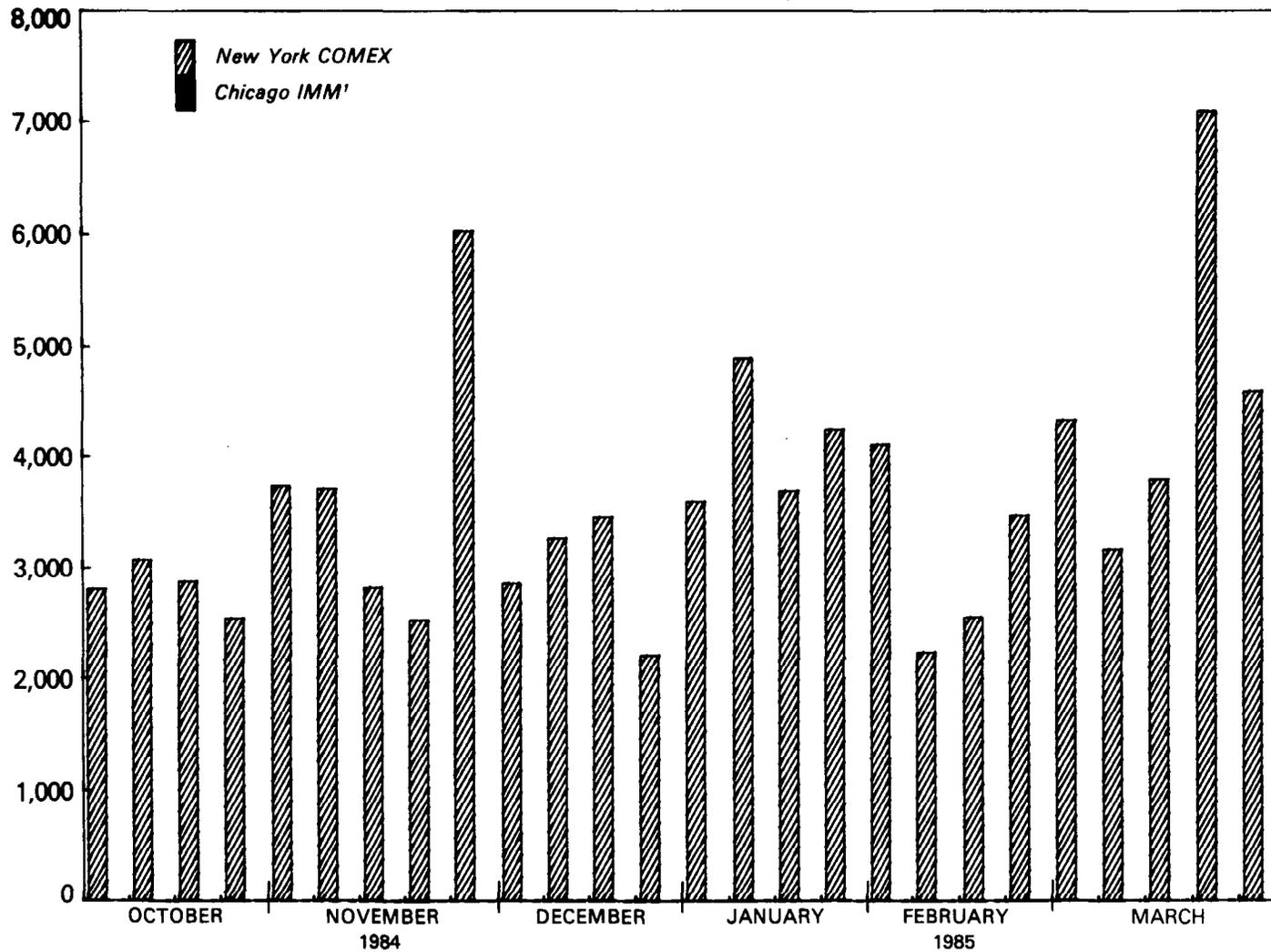
The volume of trading on the New York commodity Exchange (COMEX) increased to a daily average of 4,584,600 ounces in March from 3,104,500 ounces in February, with a very large volume of trading in the week of March 18-22 (Chart 3). The number of outstanding contracts, however, decreased on the COMEX to 121,394 contracts of 100 ounces at the end of March from 146,139 contracts at the end of February. The COMEX is by far the most important market in gold futures in the world, attracting more than 90 percent of the contracts traded each year. The volume of trading on options on gold futures, which COMEX introduced in 1982, has grown rapidly, with contracts in options amounting to about 30 percent of those for gold futures in 1984. A gold futures market is expected to start a pilot project on the European Options Exchange in Amsterdam by the end of May.

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)



¹On the Chicago IMM, the volume of trading has been negligible since February 1984.

Table 1. Gold Prices, January-March 1985

(U.S. dollars per fine ounce)

	1985			Change from February to March
	January	February	March	
<u>London market</u>				
End of month	306.65	287.75	329.25	+41.50
High of month	308.00	304.95	333.25	+28.30
Low of month	296.75	284.25	286.70	+2.45
Average of month	302.72	299.47	303.57	+4.10
Krugerrand (end of month)	315.88	297.38	340.38	+43.00
% on London	+3.01	+3.35	+3.38	+0.03
New Sovereign (end of month)	307.43	294.69	332.38	+37.69
% on London	+0.25	+2.41	+0.95	-1.46
<u>Zurich market (middle quotations)</u>				
End of month	306.55	289.00	329.25	+40.25
High of month	308.00	306.15	347.50	+41.35
Low of month	296.25	283.75	286.65	+2.90
Average of month	302.79	299.68	304.07	+4.39
% on London	+0.02	+0.07	+0.16	+0.09
<u>Paris market</u>				
End of month	304.26	291.11	329.27	+38.16
High of month	307.50	305.13	330.48	+25.35
Low of month	297.98	283.64	285.24	+1.60
Average of month	303.41	299.28	302.33	+3.05
% on London	+0.23	-0.06	-0.41	-0.35
Napoleon (end of month)	322.87	309.02	346.48	+37.46
% on London	+5.29	+7.39	+5.23	-2.16
<u>Other markets (end of month)</u>				
New York	304.10	287.00	329.60	+42.60
% on London	-0.83	-0.26	+0.11	+0.37
Singapore	304.85	290.75	330.75	+40.00
% on London	-0.59	+1.04	+0.46	-0.58
Hong Kong	304.75	290.65	331.25	+40.60
% on London	-0.62	+1.01	+0.61	-0.40
Bombay	488.31	490.00	530.22	+40.22
% on London	+59.24	+70.29	+61.04	-9.25
<u>Futures Prices on the New York Commodity Exchange (End of Month)</u>				
Delivery: June 1985	311.60	293.00	334.10	+41.10
August 1985	315.90	297.50	338.70	+41.20
February 1986	330.40	312.90	355.00	+42.10
August 1986	347.10	330.40	373.30	+42.90

Table 2. 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>1982:</u> 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
June	-2.91	-1.16	-0.91	-0.52	-1.95
July	-8.23	-4.10	-4.71	-5.13	-6.61
August	+1.72	+1.13	+1.71	+0.31	+1.39
September	+1.29	+4.89	+4.58	+0.74	+0.45
October	-2.98	-4.25	-1.75	-3.44	-2.71
November	-1.35	+1.21	-0.42	-0.63	-0.66
December	-6.08	-4.70	-2.92	-4.52	-5.20
<u>1985:</u> January	-0.76	-0.49	+1.65	+0.50	-0.23
February	-6.16	-0.81	-1.69	-4.45	-4.64
March	+14.42	+5.47	-0.11	+10.67	+10.75
March 1985 (year-on-year)	-15.25	+0.70	-1.44	-5.36	-9.01

Table 3. 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>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>	<u>21.86</u>	<u>-0.43</u>	<u>21.80</u>	<u>2.64</u>	<u>12.1</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
June	1.82	+0.05	1.77	0.33	18.6
July	1.82	+0.01	1.81	0.48	26.5
August	1.89	+0.03	1.86	0.17	9.1
September	1.82	-0.03	1.85	0.12	6.5
October	1.81	+0.02	1.79	0.13	7.3
November	1.84	-0.49	1.84 <u>1/</u>	0.09	4.9
December	1.83	+0.02	1.81	0.27	14.9
<u>1985</u>					
January	1.84	-0.42	1.84 <u>1/</u>	0.29	15.8
February	1.83	-0.33	1.83 <u>1/</u>	0.14	7.7
March	1.84	-0.38	1.84 <u>1/</u>	0.15	8.2

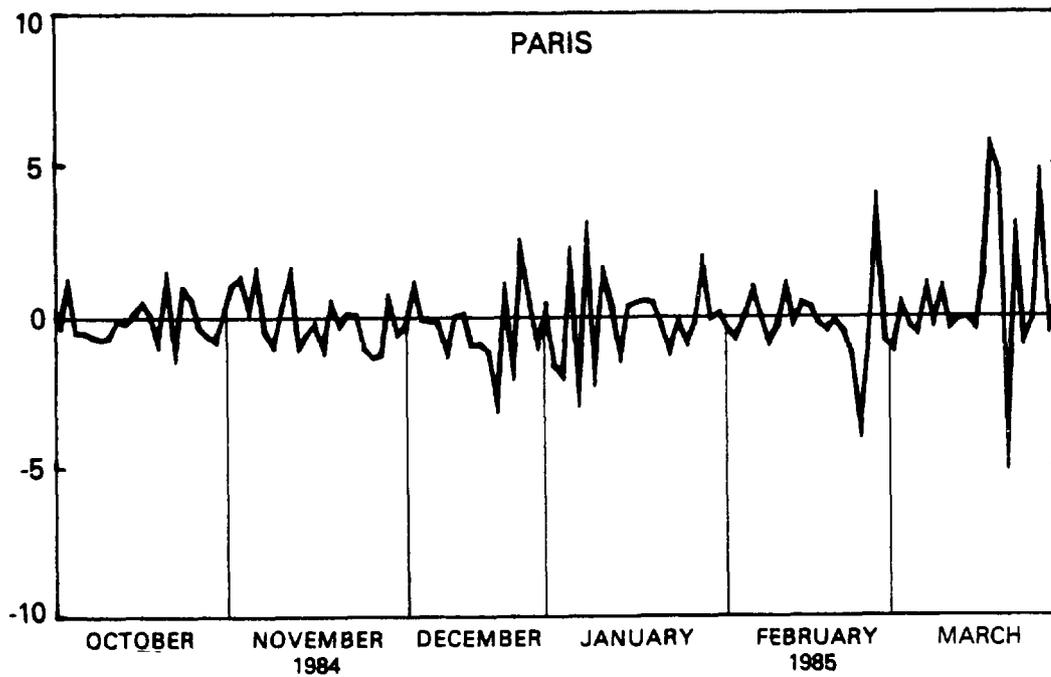
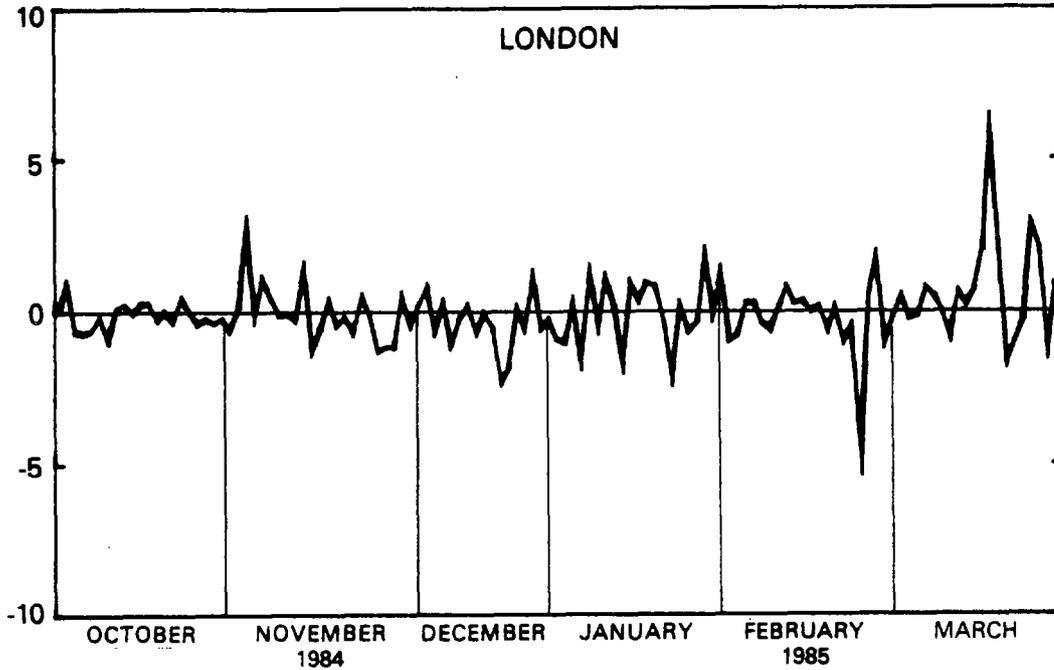
1/ Estimate takes account of gold believed to have been sold under swap arrangements.

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>1985</u>							
Mar. 1	288.10	287.25	288.00	287.85	289.07	287.85	289.90
4	288.30	288.65	289.60	288.25	289.85	288.95	290.20
5	288.85	287.90	288.75	288.35	288.81	288.05	286.30
6	286.70	287.40	286.65	287.00	285.24	286.38	291.40
7	289.30	289.60	290.85	290.00	290.03	289.19	289.60
8	289.00	291.00	289.15	291.25	287.91	288.65	287.30
11	290.25	291.00	289.75	291.00	291.61	291.22	289.10
12	288.75	288.45	290.65	288.95	292.16	290.12	291.20
13	290.10	290.25	290.25	290.60	290.78	289.78	291.10
14	290.25	290.75	291.25	291.25	290.23	289.63	291.00
15	289.90	292.70	290.35	291.75	288.64	288.50	294.50
18	293.70	298.85	294.55	299.25	293.03	292.77	303.30
19	307.25	316.75	302.75	316.25	304.37	309.20	339.00
20	333.25	324.00	347.50	322.00	326.07	323.79	323.80
21	312.50	318.50	320.13	319.00	308.90	310.71	317.10
22	320.75	315.50	314.50	317.50	317.82	318.37	316.40
25	315.90	314.60	314.50	314.85	316.00	315.77	316.10
26	316.00	323.75	315.55	323.50	314.97	315.31	324.20
27	329.90	330.40	331.50	331.50	327.63	328.58	327.70
28	328.75	326.25	328.00	326.00	324.68	327.40	326.80
29	329.80	329.25	331.25	329.25	330.48	329.27	329.60

CHART 4
DAILY CHANGES IN GOLD PRICES¹
(In percent)



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