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INTERNATIONAL MONETARY FUND

Treasurer's Department

Gold Prices in World Markets in May 1985

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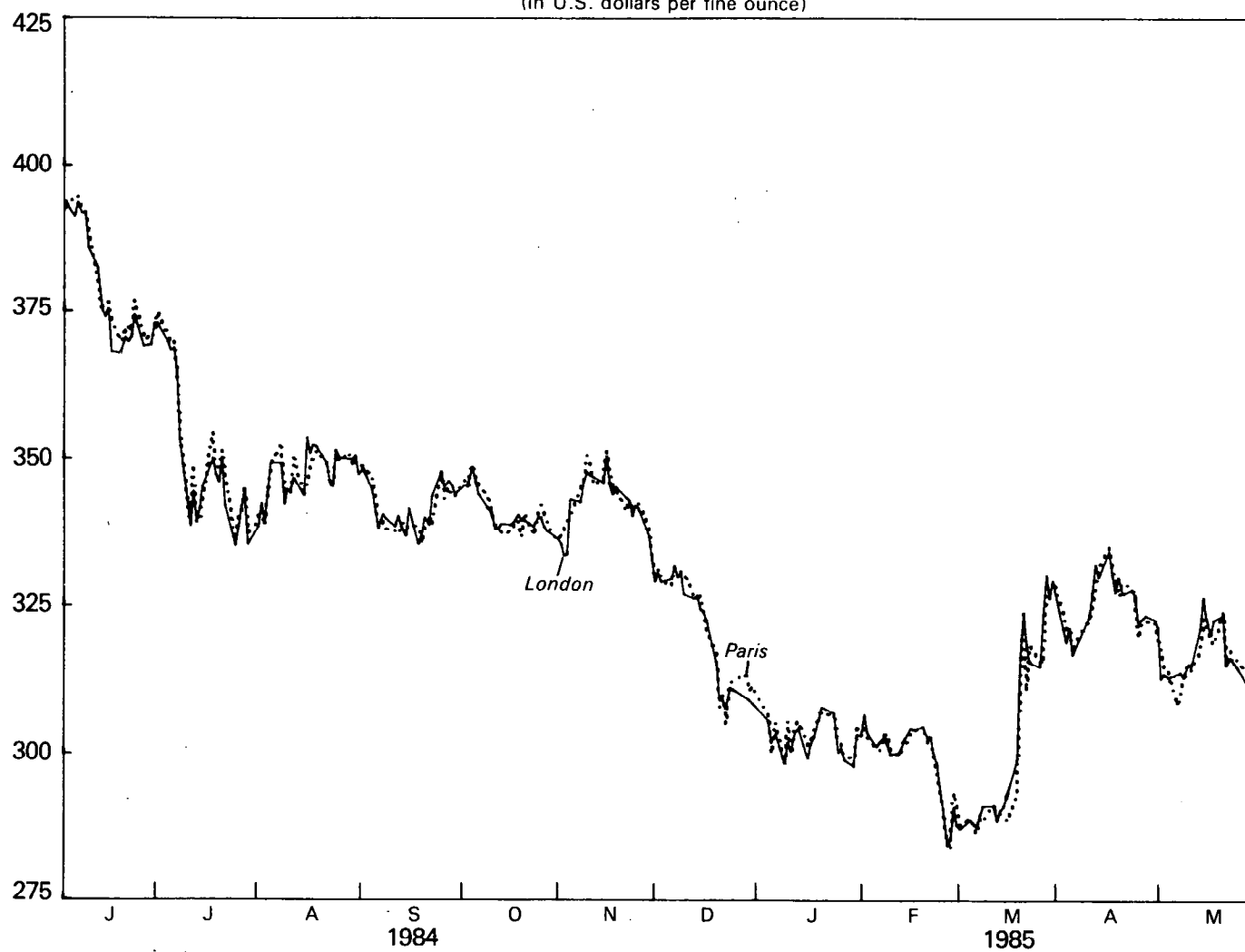
June 26, 1985

Gold prices fell in the second half of May, erasing gains recorded earlier in the month when there was concern over financial difficulties of savings and loan associations in the United States. Otherwise, trading was generally featureless. End-month prices reflect a large decline in New York the last day of April followed by London and Paris at the beginning of May. Thus, over May as a whole the price of gold eased by \$7.35 to \$314.00 an ounce in London and by the equivalent of \$11.44 to \$313.63 an ounce in Paris (Chart 1 and Table 1), but it rose marginally in New York. However, average gold prices in May fell by \$8.70 an ounce in London, by the equivalent of \$9.84 an ounce in Paris, and by \$8.45 an ounce in New York. The spread between the high and the low daily fixings in London narrowed from \$17.50 an ounce in April to \$15.30 an ounce in May, and the standard deviation of daily fixings declined from \$4.35 an ounce in April to \$4.09 an ounce in May.

In terms of major currencies, the London gold price eased in May by a range of 2-6 percent. The gold price eased by 2.29 percent in U.S. dollars, by 3.53 percent in Deutsche mark, by 5.72 percent in pounds sterling, by 2.40 percent in Japanese yen, and by 2.46 percent in SDRs (Table 2). On a year-on-year basis the price at the end of May was lower by 18.28 percent in U.S. dollars, by 8.52 percent in Deutsche mark, by 12.00 percent in pounds sterling, by 11.36 percent in Japanese yen, and by 14.29 percent in SDRs.

Gold futures prices moved in line with spot prices in the New York Commodity Exchange. The annualized discounts of futures prices over spot quotations, adjusted for interest costs, increased marginally in May (Chart 2). The discounts for three- and six-month contracts averaged 0.80 and 0.77 percent, respectively, in May compared with average discounts of 0.65 and 0.70 percent in April.

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



South Africa's gold output declined from 1.75 million ounces in April to 1.74 million ounces in May (Table 3), with the cumulative output for the first five months of this year falling slightly below a year earlier. Some 0.20 million ounces were added to its official gold holdings, and its newly-mined gold marketed was estimated at 1.54 million ounces, compared with 1.65 million ounces in April.

Krugerrand sales rose from 44,137 ounces in April--the lowest level of sales since February 1980--to 60,994 ounces in May but remained well below average monthly sales of some 220,000 ounces in 1984. Sales in the first five months of this year totaled 685,225 ounces, 34 percent less than a year ago.

Developments in the gold market in 1984 were reviewed by Consolidated Gold Fields in its report "Gold 1985" published in May 1985. The supply of gold bullion--comprising noncommunist world mine production, net official sales or purchases, and net trade with the communist bloc--is reported to have risen by 6.8 percent to 1,439 metric tons in 1984. This increase was substantially less marked than the 17.8 percent of the preceding year. Mine production rose merely by 3.3 percent to 1,149 metric tons, well below the 8.5 percent increase of the preceding year. South African production increased marginally, with its share declining from 61.1 percent of noncommunist world mine production in 1983 to 59.5 percent in 1984. The largest increases in production in 1984 occurred in the United States (10.6 metric tons or 17.4 percent), Canada (7.8 metric tons or 10.6 percent), and Australia (8.4 metric tons or 27.5 percent), amounting to almost three-fourths the total increase; and the largest decline occurred in Brazil (3.6 metric tons or 6.1 percent), after a sharp expansion in its alluvial output the preceding year. Net official sales, comprising those of central banks and government-controlled investment institutions, were 85 metric tons in 1984, compared with 142 metric tons the preceding year. Sales from communist countries are estimated to have reached 205 metric tons, after the low level of 93 metric tons the preceding year, with most of the increase resulting from larger sales from the Soviet Union.

According to the report, the fabrication of new gold into jewelry and other products (netting out the fabrication of recovered gold from old scrap) rose by 22.0 percent to 1,221 metric tons in 1984. The increase was almost totally due to a larger use of gold for jewelry, especially in the Far East and India. The production of official coins fell but the use of gold for electronics continued to increase while there was not much change in other industrial and decorative uses.

Report estimates show a net increase in bullion holdings in 1984 (the difference between the supply of gold bullion and the fabrication of new gold), amounting to 218 metric tons. This accumulation was substantially smaller than the 346 metric tons estimated for the preceding year but still somewhat above the average of 205 metric tons for the last 10 years. Identified investment holdings reached 334 metric tons,

of which some 45 percent was attributed to Taiwan, Hong Kong, Singapore, Indonesia and other Far East countries excluding Japan, some 33 percent to Japan, and 10 percent to Saudi Arabia and Yemen. These investment holdings were some 116 metric tons in excess of the estimated net increase in bullion holdings. Approximately half this difference is estimated to have been covered by sales of unidentified investors and the other half by recovered scrap gold in excess of its use for fabrication.

#### I. London and Zurich Markets

The price of gold in London opened at \$315.60 an ounce in May, \$5.75 an ounce below the end of the previous month, and it continued to decline to \$311.25 an ounce on May 7 (Table 4). It then increased moderately for a few days but accelerated on May 13 reflecting concern over the financial difficulties of savings and loan associations in Maryland (United States), and the following day the price reached the maximum for the month at \$326.50 an ounce. The price generally declined since then, with the minimum of the month recorded on May 29 at \$311.20 an ounce. At the end of May gold was priced in London at \$314.00 an ounce, \$7.35 an ounce less than a month earlier, with the decline in the average price being somewhat larger at \$8.70 an ounce. Price developments in Zurich were similar to those in London.

Prices of gold coins in London fell proportionately less than the price of the bullion (see Table 1). The Krugerrand price fell the least, by \$4.62 to \$325.88 an ounce at the end of May, with its premium over the spot price of the bullion rising (from 2.85 percent in April to 3.78 percent in May). The premia on mini-Krugerrands also rose somewhat (from a range of 6.11-11.25 percent in April to a range of 6.93-11.46 percent in May). The price of the New Sovereign fell by \$4.78 to \$319.11 an ounce at the end of May, with its premium widening (from 0.79 percent in April to 1.63 percent in May). The price of the one-half New Sovereign fell by \$7.43 to \$385.48 an ounce, with its premium widening somewhat (from 22.27 percent in April to 22.76 percent in May).

#### II. Paris Market

The price of a standard 12 1/2 kilo bar opened the month of May at F 97,150 per kilo, F 1,250 below the price at the end of April. It moved to the month's high of F 98,250 per kilo the following day and remained at that level through May 6. After falling to F 96,000 per kilo, the price rose to F 96,900 on May 14 in reaction to the news of the financial difficulties of savings and loan associations in Maryland. Thereafter, the price generally declined, ending the month at F 95,000 per kilo, 3.5 percent below the price at the end of the preceding month. In U.S. dollar terms, movements of the price of gold in Paris generally reflected those in London and Zurich (see Table 4). The price fell

from the equivalent of \$325.07 an ounce at the end of April to the equivalent of \$313.63 at the end of May. The daily average price in Paris fell by the equivalent of \$9.84 an ounce, a somewhat more pronounced decline than in London, turning its premium of 0.10 percent over the average London price in April into a discount of 0.26 percent in May. The average volume of trading continued to decline (from an average of 3,298 daily ounces valued at F 10.1 million in April to an average of 3,181 daily ounces valued at F 9.4 million in May).

The price of the Napoleon fell by 4.7 percent in May to F 553 at the end of the month; in U.S. dollar terms it fell by the equivalent of \$11.54 to \$317.41 an ounce (see Table 1). The U.S. dollar price of the coin was at a premium of 1.09 percent over the spot price of the bullion in London, lower than its premium of 2.37 percent at the end of April. The daily average turnover rose from 1,590 coins in April to 1,660 coins in May.

### III. Other Spot Markets

In May the price of gold rose marginally in New York, while it fell by a range of 2.3-3.5 percent in the European markets. On the New York Commodity Exchange the price rose by \$1.70 an ounce, turning its discount of 2.13 percent over the London spot price in April into a premium of 0.70 percent in May (see Table 1). Prices in Singapore and Hong Kong fell somewhat more markedly than in London during May. In both markets the price of gold stood at \$313.00 an ounce at the end of May, with a discount of 0.32 percent over the London spot price (the premia in April had been 0.59 percent in Singapore and 1.09 percent in Hong Kong). In Bombay the price of gold fell from Rs 2,215 per 10 grams (\$550.16 an ounce) at the end of April to Rs 2,050 per 10 grams (\$514.49 an ounce) at the end of May. The large decline in U.S. dollar terms (\$35.67 an ounce) in May, which followed an increase of some \$20 an ounce the preceding month when prices in all other markets had fallen, narrowed the premium over the London price by 7.35 percentage points to 63.85 percent at the end of May.

### IV. Futures Markets

Gold futures prices moved in line with spot prices in the New York Commodity Exchange (COMEX). For maturities ranging from August 1985 to October 1986 prices fell by \$1.20-7.30 per ounce in May (see Table 1), following a decline of \$18.00-21.60 per ounce in April when prices fell by \$10.80-12.10 per ounce in the last day of the month. The annualized premia of futures prices over spot quotations in May decreased on average by 0.74 and 0.70 percentage point for the three- and six-month maturities, respectively. However, since interest costs of corresponding maturities decreased less--by 0.59 and 0.63 percentage point--the average cost-adjusted discounts for the three- and six-month maturities widened

by 0.15 and 0.07 percentage point. At the end of May, prices of the three- and six-month contracts, after adjusting for interest costs, were at discounts of 0.93 and 0.81 percent, respectively, compared with the cost-adjusted discounts of 0.72 and 0.75 percent at the end of April (see Chart 2).

The volume of trading on the COMEX rose from a daily average of 2,855,200 ounces in April to 3,420,800 ounces in May (Chart 3). However, the daily average of ounces traded in the first five months of 1985 was 11 percent less than in the preceding year. The number of outstanding contracts of 100 ounces fell from 129,094 contracts in April to 128,224 contracts in May, 12 percent less than a year earlier.

Table 1. Gold Prices, March-May 1985

(U.S. dollars per fine ounce)

	1985			Change from
	March	April	May	April to May
<u>London market</u>				
End of month	329.25	321.35	314.00	-7.35
High of month	333.25	334.25	326.50	-7.75
Low of month	286.70	316.75	311.20	-5.55
Average of month	303.57	325.08	316.38	-8.70
Krugerrand (end of month)	340.38	330.50	325.88	-4.62
% on London	+3.38	+2.85	+3.78	+0.93
New Sovereign (end of month)	332.38	323.89	319.11	-4.78
% on London	+0.95	+0.79	+1.63	+0.84
<u>Zurich market (middle quotations)</u>				
End of month	329.25	321.75	313.85	-7.90
High of month	347.50	334.38	326.50	-7.88
Low of month	286.65	313.75	309.85	-3.90
Average of month	304.07	325.21	315.99	-9.22
% on London	+0.16	+0.04	-0.12	-0.16
<u>Paris market</u>				
End of month	329.27	325.07 <sup>1/</sup>	313.63	-11.44
High of month	330.48	334.98	323.95	-11.03
Low of month	285.24	316.47	308.32	-8.15
Average of month	302.33	325.40	315.56	-9.84
% on London	-0.41	+0.10	-0.26	-0.36
Napoleon (end of month)	346.48	328.95	317.41	-11.54
% on London	+5.23	+2.37	+1.09	-1.28
<u>Other markets (end of month)</u>				
New York	329.60	314.50	316.20	+1.70
% on London	+0.11	-2.13	+0.70	+2.83
Singapore	330.75	323.25	313.00	-10.25
% on London	+0.46	+0.59	-0.32	-0.91
Hong Kong	331.25	324.85	313.00	-11.85
% on London	+0.61	+1.09	-0.32	-1.41
Bombay	530.22	550.16	514.49	-35.67
% on London	+61.04	+71.20	+63.85	-7.35
<u>Futures Prices on the New York Commodity Exchange (End of Month)</u>				
Delivery: August 1985	338.70	320.70	319.50	-1.20
December 1985	349.20	329.90	327.40	-2.50
April 1986	360.80	340.50	336.20	-4.30
October 1986	379.90	358.30	351.00	-7.30

<sup>1/</sup> Midday fixing. The market was closed in the afternoon because of a holiday.

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 1/ mark	Pound sterling	Japanese yen	SDR
<u>1982:</u> 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
April	-2.40	-1.91	-2.81	-2.19	-2.39
May	-2.29	-3.53	-5.72	-2.40	-2.46
May 1985 (year-on-year)	-18.28	-8.52	-12.00	-11.36	-14.29

1/ London afternoon fixing, end of month.



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 <sup>1/</sup>	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 <sup>1/</sup>	0.29	15.8
February	1.83	-0.33	1.83 <sup>1/</sup>	0.14	7.7
March	1.85	-0.38	1.85 <sup>1/</sup>	0.15	8.2
April	1.75	+0.10	1.65	0.04	2.4
May	1.74	+0.20	1.54	0.06	3.9

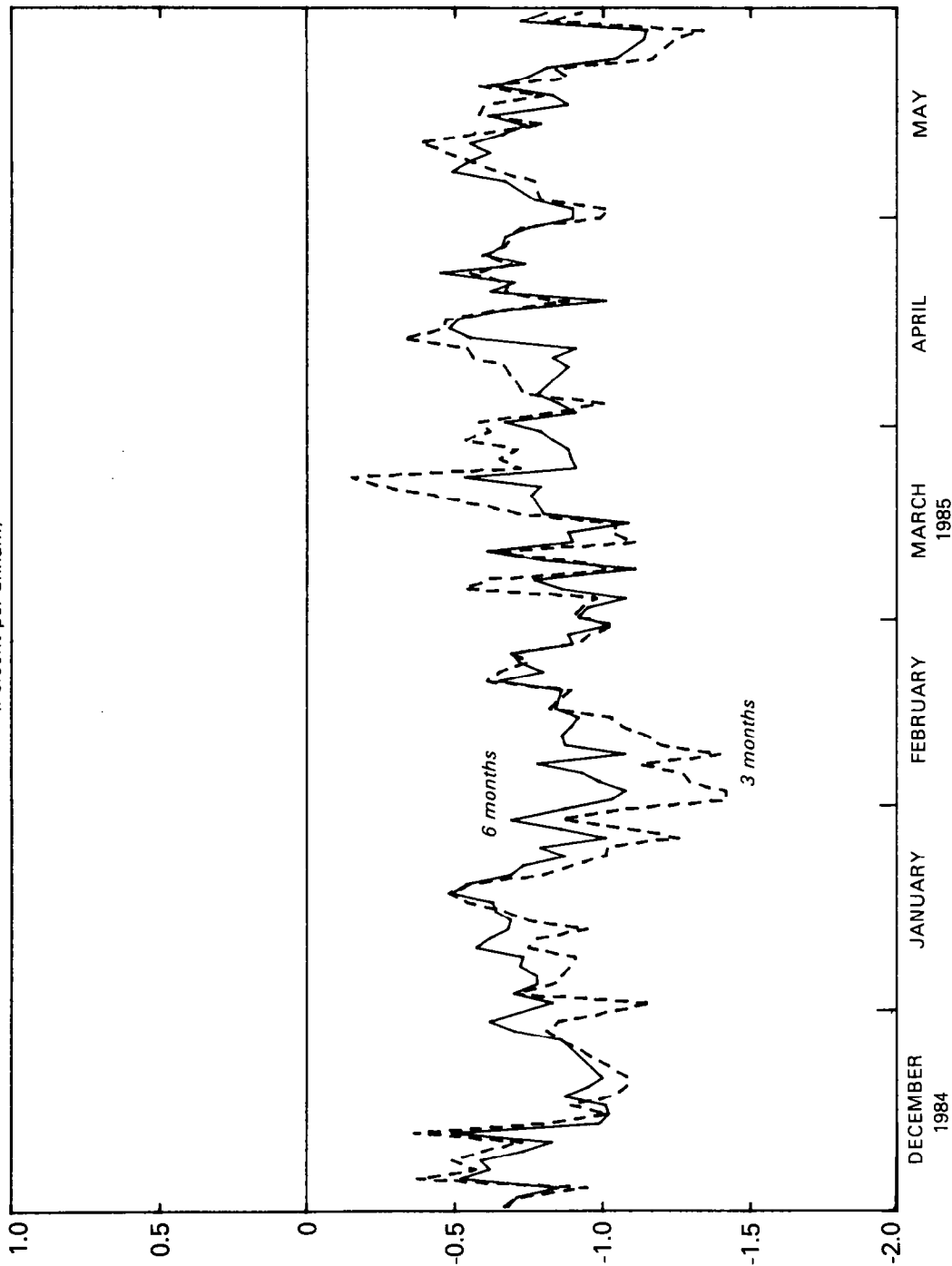
<sup>1/</sup> Estimate takes account of gold believed to have been sold under swap arrangements.

Table 4. Daily Prices in the Major Gold Markets

(U.S. dollars per fine ounce)

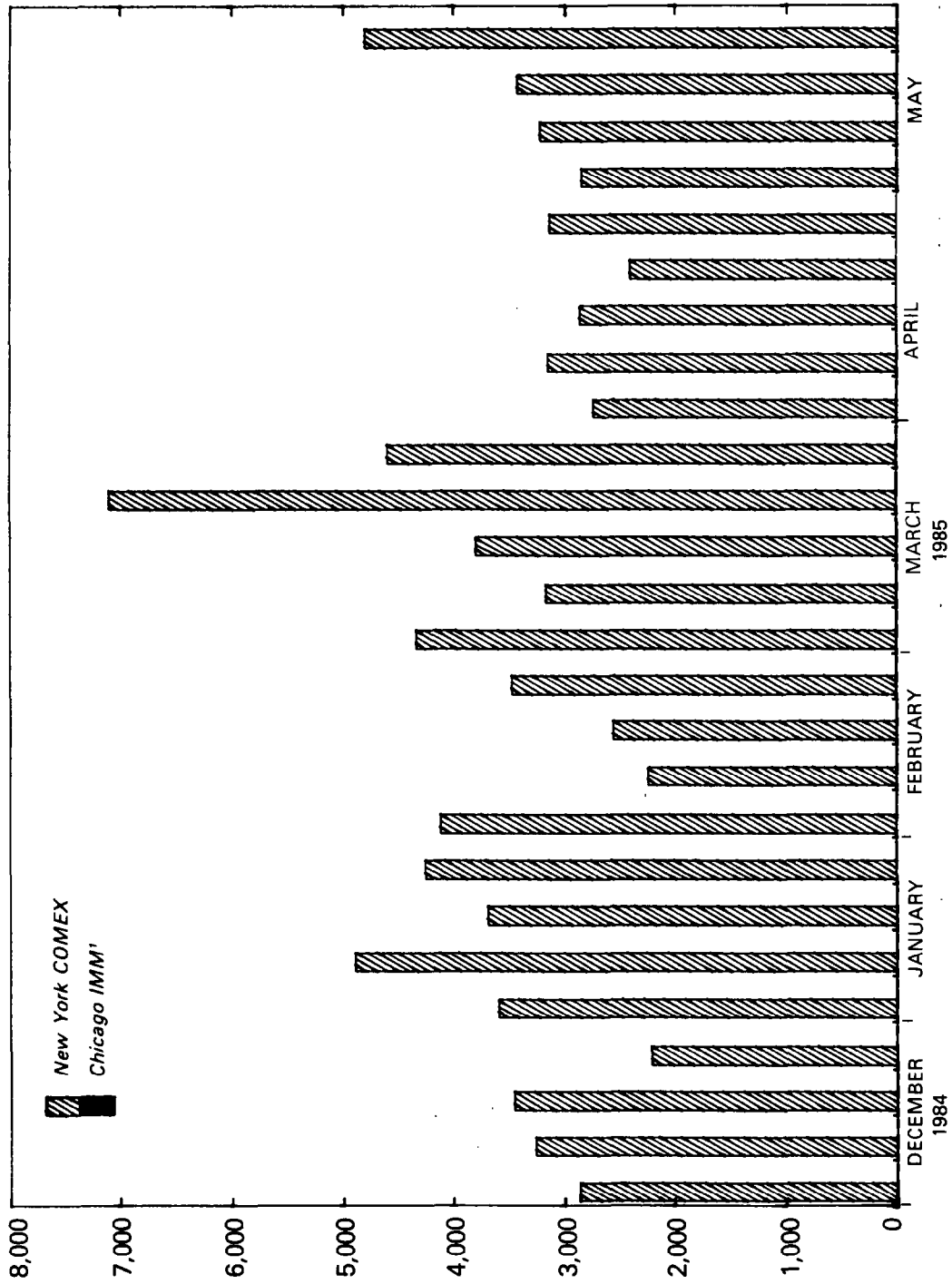
Date	London		Zurich		Paris		New York
	A.M. fixing	P.M. fixing	Opening (middle quotations)	Closing	Midday fixing	P.M. fixing	Closing
<u>1985</u>							
May. 1	315.60	312.50	n.a.	n.a.	n.a.	n.a.	313.50
2	314.25	313.25	314.25	313.20	315.08	314.00	314.60
3	313.70	312.75	314.50	313.25	315.03	313.74	311.60
6	n.a.	n.a.	310.25	309.85	308.59	308.32	308.90
7	311.25	313.50	310.00	314.25	309.27	n.a.	314.90
8	313.35	312.85	314.35	313.55	n.a.	n.a.	312.80
9	314.50	315.10	315.00	315.25	313.13	314.86	313.00
10	313.55	314.50	313.45	314.45	313.64	313.94	316.10
13	316.75	321.00	317.55	318.45	315.46	317.56	324.90
14	324.75	326.50	323.45	326.50	323.29	322.85	324.60
15	322.85	322.75	323.55	322.85	322.38	n.a.	323.00
16	320.40	320.10	n.a.	n.a.	n.a.	n.a.	320.60
17	319.80	322.50	319.75	322.00	318.46	318.46	320.10
20	323.65	323.30	323.95	323.35	322.22	323.95	313.20
21	316.50	314.90	315.25	315.85	316.38	315.63	317.10
22	317.40	316.25	315.85	317.25	316.99	317.49	315.50
23	316.40	315.40	315.55	315.85	315.06	315.27	315.60
24	316.35	314.70	316.75	315.00	316.92	315.90	314.50
27	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
28	313.90	311.25	314.25	312.95	313.90	313.32	310.10
29	311.20	312.00	310.85	311.25	311.11	311.19	315.40
30	315.00	314.60	314.75	314.50	315.34	313.93	313.20
31	313.15	314.00	312.75	313.85	313.83	313.63	316.20

CHART 2  
THREE AND SIX MONTH FUTURES PRICES<sup>1</sup>  
PREMIUM (+), OR DISCOUNT (—)  
(Percent 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.

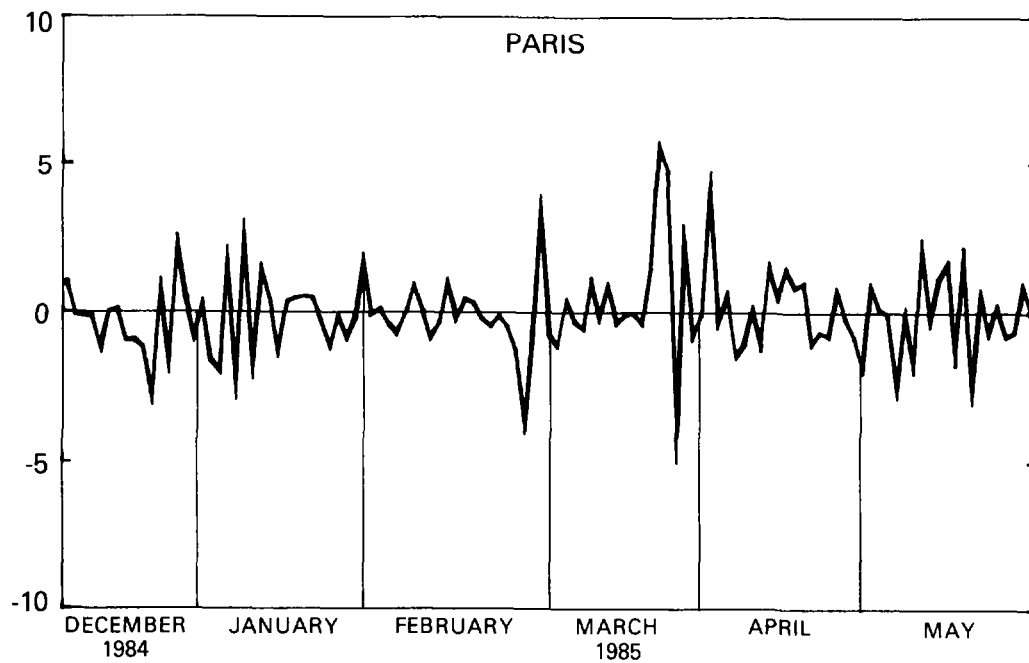
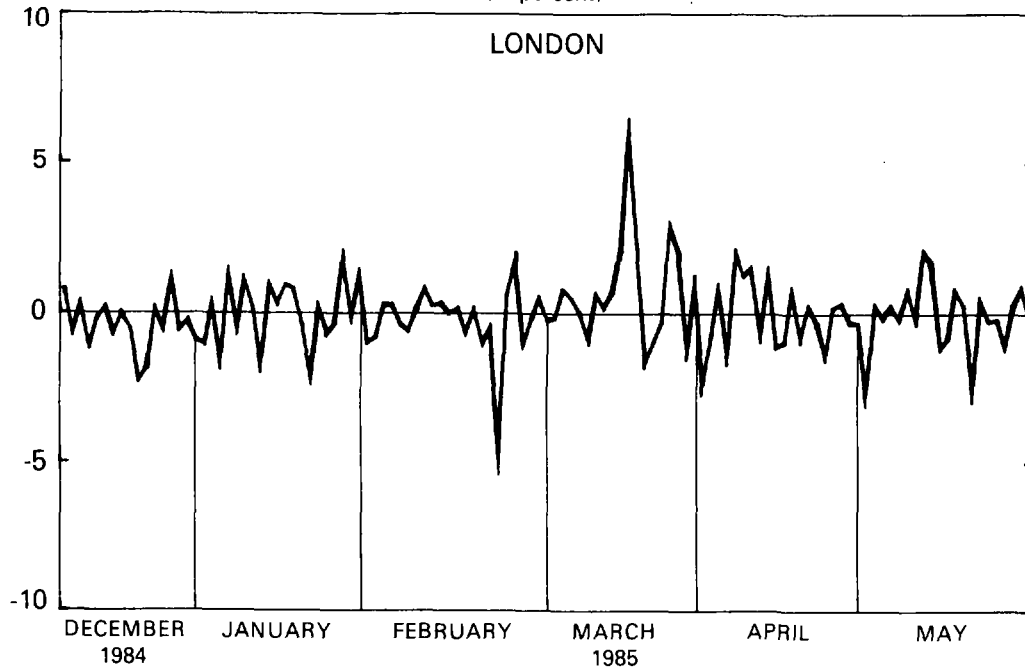
CHART 3  
WEEKLY AVERAGE FUTURES VOLUMES ON THE NEW YORK COMEX  
AND CHICAGO IMM  
(Thousands of ounces)



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

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

(In percent)



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

