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INTERNATIONAL MONETARY FUND

Treasurer's Department

Gold Prices in World Markets in June 1985

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Gold prices were little changed in June, fluctuating briefly in the second half of the month in reaction to changes in interest rates and the market's perception of the pace of economic activity in the United States. Over the month as a whole the price of gold rose by \$3.75 to \$317.75 an ounce in London and by the equivalent of \$0.84 to \$314.47 an ounce in Paris but fell by \$0.50 to \$315.70 an ounce in New York (Chart 1 and Table 1). The spread between the high and the low daily fixings in London narrowed from \$15.30 an ounce in May to \$14.65 an ounce in June and the standard deviation of daily fixings declined from \$4.09 an ounce in May to \$3.27 an ounce in June.

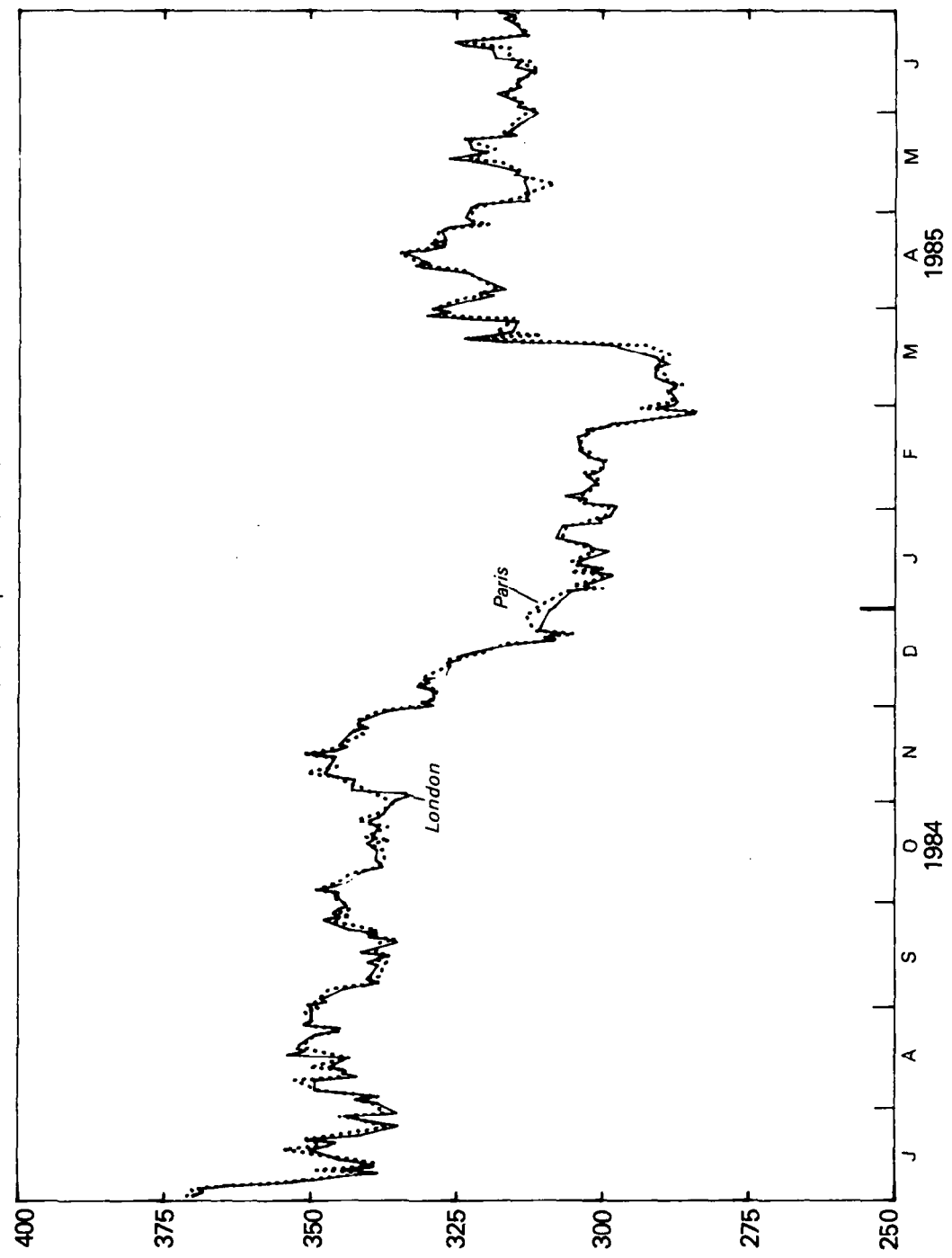
In terms of major currencies the London gold price was narrowly mixed in June (Table 2). The price firmed by 1.19 percent in U.S. dollars and by 0.65 percent in SDRs, it eased by 0.58 percent in pounds sterling, and was virtually unchanged in Deutsche mark and Japanese yen. However, over the 12-month period ended in June, the gold price was 7 percent to 15 percent lower in terms of major currencies.

Gold futures prices in the New York Commodity Exchange declined by significantly larger margins than the spot price in June (see Table 1). Throughout the month futures contracts continued to be priced at discounts from spot quotations when adjusted for interest costs, although the adjusted discounts narrowed noticeably because of declining interest rates.

South Africa's official gold holdings were reduced by some 0.02 million ounces in June. Its cumulative output for the first five months of this year fell slightly below a year earlier. 1/

1/ South Africa's gold output for June was not yet available when this report was issued.

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



Krugerrand sales were extremely low, amounting to only 8,994 ounces in June, compared with 60,994 ounces in May and average monthly sales of some 220,000 ounces in 1984. Sales in the first half of 1985 amounted to only one-half those in the same period last year. In early June the U.S. House of Representatives approved by ample margin a bill which, among other sanctions against South Africa, would ban imports of Krugerrands. By the end of June the measure was not yet in effect, pending Senate approval, but sales of Krugerrands in the United States--the biggest market for the coin--have already declined substantially in anticipation of the restriction while sales of the Canadian Maple Leaf have reportedly increased by about one third so far this year. A new one-ounce coin, the Angel, which is minted in the Isle of Man where it is technically legal tender, has been recently introduced in the U.S. market.

Fears that South Africa's gold production might be disrupted by labor unrest diminished in June when agreement was reached between employers and unions representing white officials and miners, while negotiations continued with black workers who have substantially moderated their initial wage demands.

In early June, Gold Fields of South Africa announced that it had found a major new gold deposit in the Western Transvaal, in an area adjacent to the one presently exploited by Kloof Gold Mining Company, a Gold Fields' subsidiary. The newly discovered reserves could yield a total of some 12.5 million ounces of gold. The area would be brought into production by 1990 eventually reaching an output of 0.7 million ounces per year, about 3 percent of South Africa's current annual gold output.

I. London and Zurich Markets

The price of gold in London opened at \$316.85 an ounce in June, about one percent above the end of the preceding month, but declined somewhat later on, fluctuating around \$315 an ounce during most of the first two weeks except for a temporary decline to \$310.75 an ounce--the month's minimum--on June 10 (Table 4). During this period market participants were reportedly very cautious owing to uncertainties about the direction of interest rates in the United States, while medium-term prospects for gold prices continued to be depressed because of the view that world inflation rates would remain moderate, as evidenced by the weakening of oil prices in recent months. The price of gold moved up during the third week, in response to a one-half percentage point cut in major U.S. banks' prime rates and a general easing of interest rates in U.S. dollar-denominated financial assets, and reached the maximum for the month, \$325.40 an ounce, on June 19. The subsequent decline in the price of gold was mainly attributed to the release of the flash estimate of the second quarter U.S. GNP, which showed higher

growth (3.1 percent on an annual basis) than had been expected. At the end of June gold was priced in London at \$317.75 an ounce, \$3.75 an ounce more than a month earlier. The average price remained in June at the same level as in May. Price developments in Zurich were similar to those in London.

The prices of most gold coins in London eased relative to the price of bullion (see Table 1). The Krugerrand price fell by \$1.88 to \$324.00 an ounce at the end of June and its premium also fell (from 3.78 percent in May to 1.97 percent in June). The premia on mini-Krugerrands also fell (from a range of 6.93-11.46 percent in May to a range of 5.35-9.36 percent in June). The price of the New Sovereign rose by \$0.53 to \$319.64 an ounce at the end of June, with its premium falling (from 1.63 percent in May to 0.59 percent in June). However, the price of the one-half New Sovereign rose by \$8.50 to \$393.98 an ounce, with its premium over the price of bullion widening (from 22.76 percent in May to 23.99 percent in June).

II. Paris Market

The French franc price of a standard 12 1/2 kilo bar was very stable during June, moving within a range of F 94,200 to F 95,500. In U.S. dollar terms, movements of the price of gold in Paris generally reflected those in London and Zurich (see Chart 1 and Table 4). The price rose from the equivalent of \$313.63 an ounce at the end of May to the equivalent of \$314.47 an ounce at the end of June. However, the daily average price in Paris was slightly lower in June, and consequently the discount from the average London price rose from 0.26 percent in May to 0.31 percent in June. The volume of trading rose from an average of 3,181 daily ounces valued at F 9.4 million in May to an average of 3,802 daily ounces valued at F 11.2 million in June.

The price of the Napoleon fell by 1.1 percent in June to F 547 at the end of the month; in U.S. dollar terms it fell by the equivalent of \$0.21 to \$317.20 an ounce (see Table 1). The U.S. dollar price of the coin was at a discount of 0.17 percent from the price of bullion in London, compared with its premium of 1.09 percent at the end of May. The daily average turnover rose from 1,660 coins in May to 1,784 coins in June.

III. Other Spot Markets

In June the price of gold fell marginally in New York but rose by less than one percent in the Far East and by about 2.5 percent in India (in U.S. dollar terms). On the New York Commodity Exchange the price fell by \$0.50 to \$315.70 an ounce, turning its premium of 0.70 percent over the London spot price in May into a discount of 0.65 percent in June (see Table 1). The price in Singapore rose by \$3.25 to \$316.25

an ounce and that in Hong Kong similarly rose by \$3.45 to \$316.45 an ounce, with their discounts from the London spot price widening (from 0.32 percent for both markets in May to 0.47 percent for Singapore and 0.41 percent for Hong Kong in June). In Bombay the price of gold rose from Rs 2,050 per 10 grams (\$514.49 an ounce) at the end of May to Rs 2,085 per 10 grams (\$527.67 an ounce) at the end of June. Its premium over the London spot price rose by 2.21 percentage points to 66.06 percent.

IV. Futures Markets

In the New York Commodity Exchange (COMEX) gold futures prices fell by \$1.80-3.30 per ounce in June (see Table 1). The annualized premia of futures prices over spot quotations in June decreased on average by 0.27 and 0.45 percentage point for the three- and six-month maturities, respectively. Since interest costs decreased more--by 0.51 and 0.60 percentage point--the average cost-adjusted discounts for the three- and six-month maturities narrowed by 0.24 and 0.15 percentage point. At the end of June, prices of the three- and six-month contracts, after adjusting for interest costs, were at discounts of 0.63 and 0.61 percent, respectively, compared with the cost-adjusted discounts of 0.93 and 0.81 percent at the end of May (Chart 2).

The volume of trading on the COMEX fell from a daily average of 3,420,800 ounces in May to 2,218,300 ounces in June (Chart 3), with the daily average of ounces traded in the first half of 1985 being 14 percent less than in the same period in 1984. The number of outstanding contracts of 100 ounces fell from 128,224 contracts in May to 124,562 contracts in June, 7 percent less than a year earlier.

Table 1. Gold Prices, April-June 1985

(U.S. dollars per fine ounce)

	April	1985 May	June	Change from May to June
<u>London market</u>				
End of month	321.35	314.00	317.75	+3.75
High of month	334.25	326.50	325.40	-1.10
Low of month	316.75	311.20	310.75	-0.45
Average of month	325.08	316.38	316.39	+0.01
Krugerrand (end of month)	330.50	325.88	324.00	-1.88
% on London	+2.85	+3.78	+1.97	-1.81
New Sovereign (end of month)	323.89	319.11	319.64	+0.53
% on London	+0.79	+1.63	+0.59	-1.04
<u>Zurich market</u> (middle quotations)				
End of month	321.75	313.85	317.65	+3.80
High of month	334.38	326.50	327.00	+0.50
Low of month	313.75	309.85	310.85	+1.00
Average of month	325.21	315.99	316.76	+0.77
% on London	+0.04	-0.12	+0.12	+0.24
<u>Paris market</u>				
End of month	325.07 ^{1/}	313.63	314.47	+0.84
High of month	334.98	323.95	323.42	-0.53
Low of month	316.47	308.32	310.86	+2.54
Average of month	325.40	315.56	315.41	-0.15
% on London	+0.10	-0.26	-0.31	-0.05
Napoleon (end of month)	328.95	317.41	317.20	-0.21
% on London	+2.37	+1.09	-0.17	-1.26
<u>Other markets</u> (end of month)				
New York	314.50	316.20	315.70	-0.50
% on London	-2.13	+0.70	-0.65	-1.35
Singapore	323.25	313.00	316.25	+3.25
% on London	+0.59	-0.32	-0.47	-0.15
Hong Kong	324.85	313.00	316.45	+3.45
% on London	+1.09	-0.32	-0.41	-0.09
Bombay	550.16	514.49	527.67	+13.18
% on London	+71.20	+63.85	+66.06	+2.21
<u>Futures Prices on the New York Commodity Exchange (End of Month)</u>				
Delivery: August 1985	320.70	319.50	317.70	-1.80
December 1985	329.90	327.40	325.30	-2.10
April 1986	340.50	336.20	333.70	-2.50
October 1986	358.30	351.00	347.70	-3.30

^{1/} 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> 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
June	+1.19	+0.23	-0.58	+0.07	+0.65
June 1985 (year-on-year)	-14.82	-7.23	-11.70	-10.84	-12.01

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 ^{1/}	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 ^{1/}	0.29	15.8
February	1.83	-0.33	1.83 ^{1/}	0.14	7.7
March	1.85	-0.38	1.85 ^{1/}	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
June	...	-0.02	...	0.01	...

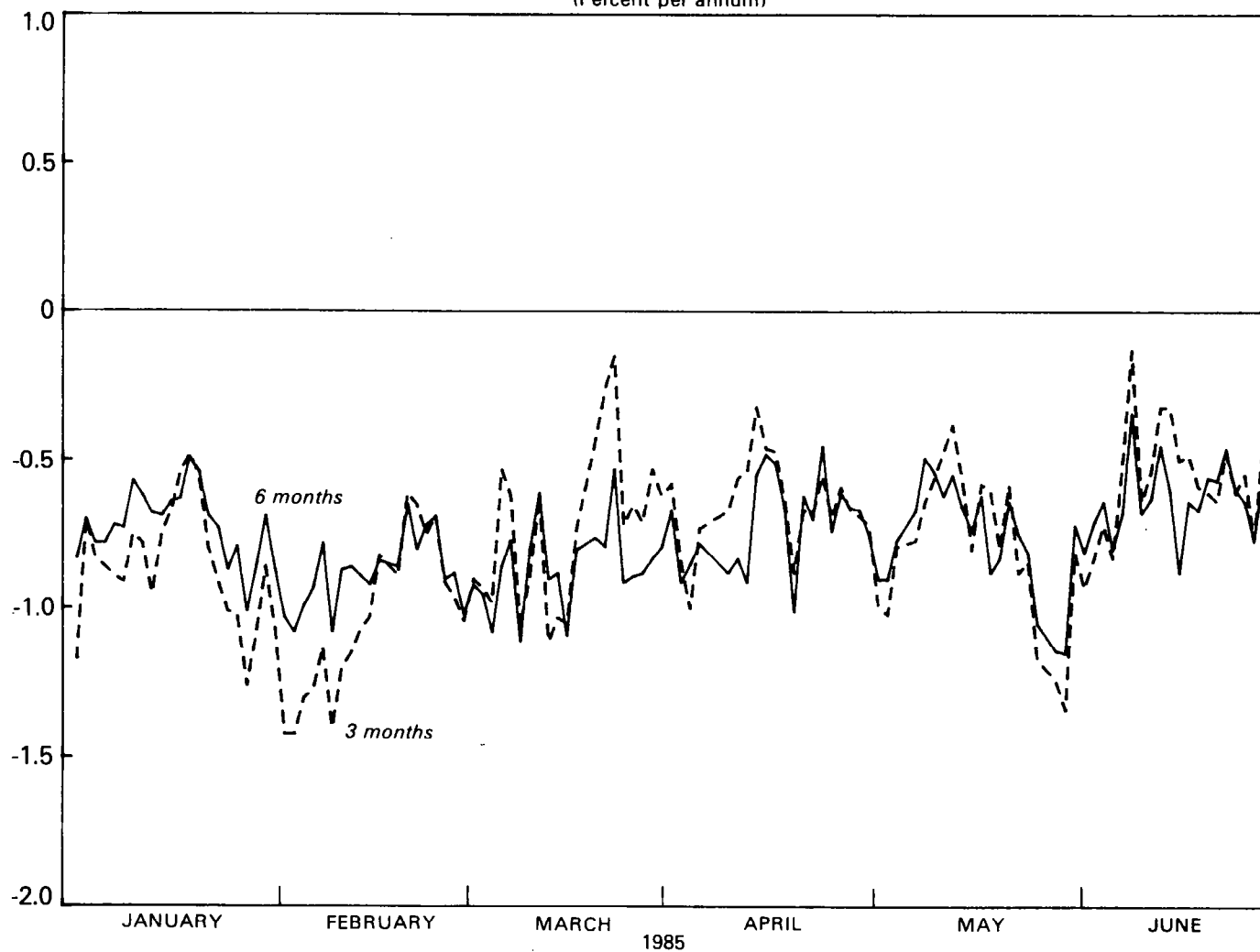
^{1/} Estimate takes account of gold believed to have been sold under swap arrangements.

Table 4. Daily Prices in the Major Gold Markets

(U.S. dollars per fine ounce)

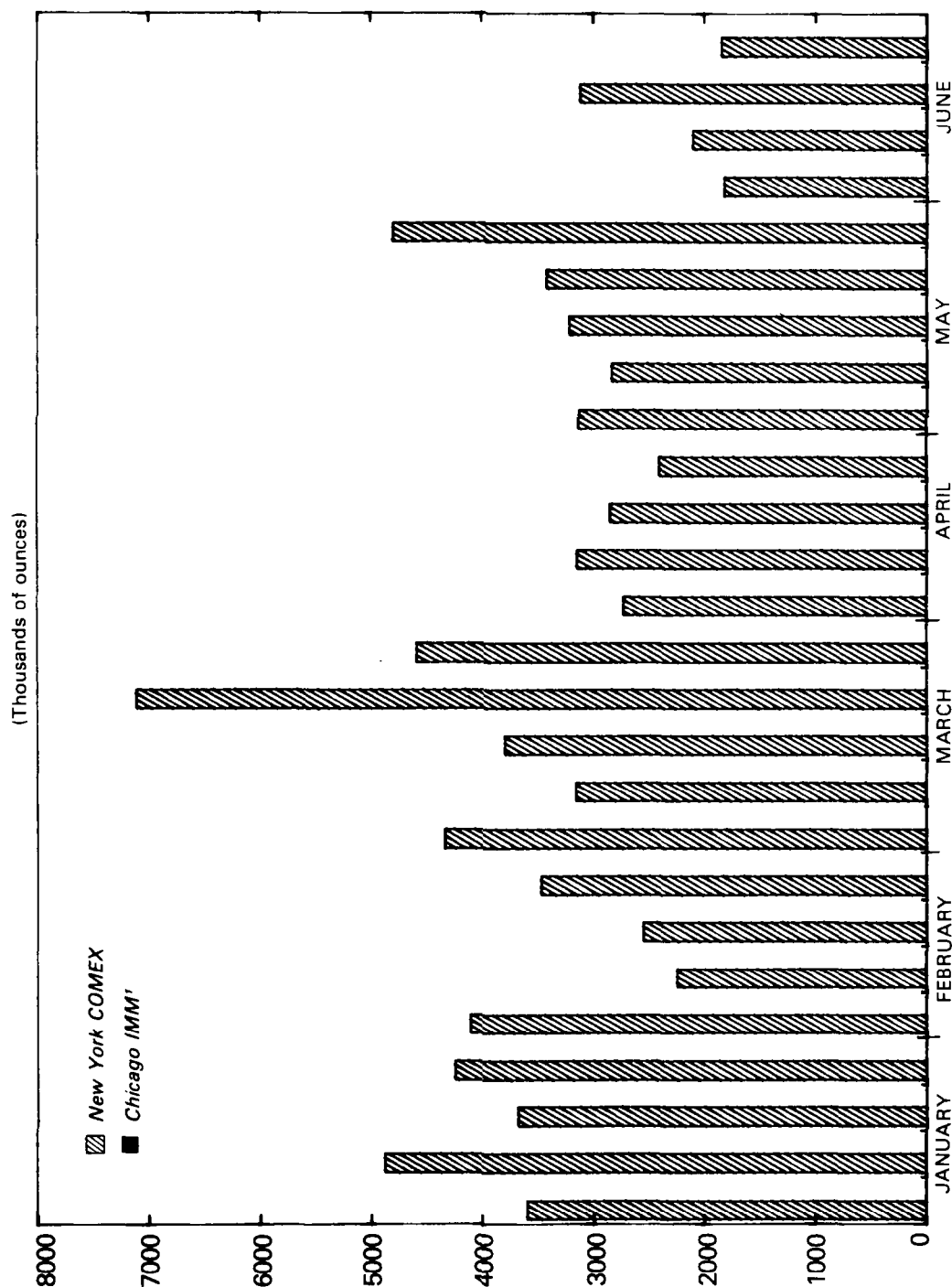
Date	London		Zurich		Paris		New York
	A.M. fixing	P.M. fixing	Opening (middle quotations)	Closing	Midday fixing	P.M. fixing	Closing
<u>1985</u>							
June 3	316.85	318.10	317.15	318.40	317.40	316.64	317.00
4	316.25	315.65	316.65	315.45	315.89	316.59	315.80
5	314.75	314.20	314.95	314.75	314.78	314.49	315.20
6	314.90	314.80	315.15	314.95	314.57	314.80	315.70
7	315.00	314.30	315.95	314.60	314.97	314.79	314.40
10	310.75	312.00	312.85	310.85	310.86	311.01	314.10
11	313.25	315.00	313.05	314.15	311.26	311.69	313.80
12	313.75	314.50	314.15	315.05	312.77	313.42	313.60
13	314.10	313.75	313.75	314.20	313.23	312.48	314.40
14	315.75	318.25	314.55	319.13	314.67	316.27	319.10
17	317.25	318.90	317.55	319.00	317.26	315.67	318.90
18	321.65	323.75	318.95	322.65	319.48	319.50	327.70
19	325.20	325.40	327.00	325.65	322.89	323.42	322.30
20	322.00	318.10	322.25	318.45	320.37	320.49	313.70
21	315.25	313.45	325.35	313.55	314.17	312.52	314.20
24	314.10	314.65	313.65	314.65	313.76	314.40	315.60
25	315.90	315.50	316.05	316.05	315.11	315.30	316.00
26	316.50	316.75	316.15	316.85	315.03	315.03	315.70
27	316.25	315.00	316.35	316.25	315.71	314.45	316.90
28	316.50	317.75	316.65	317.65	314.87	314.47	315.70

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



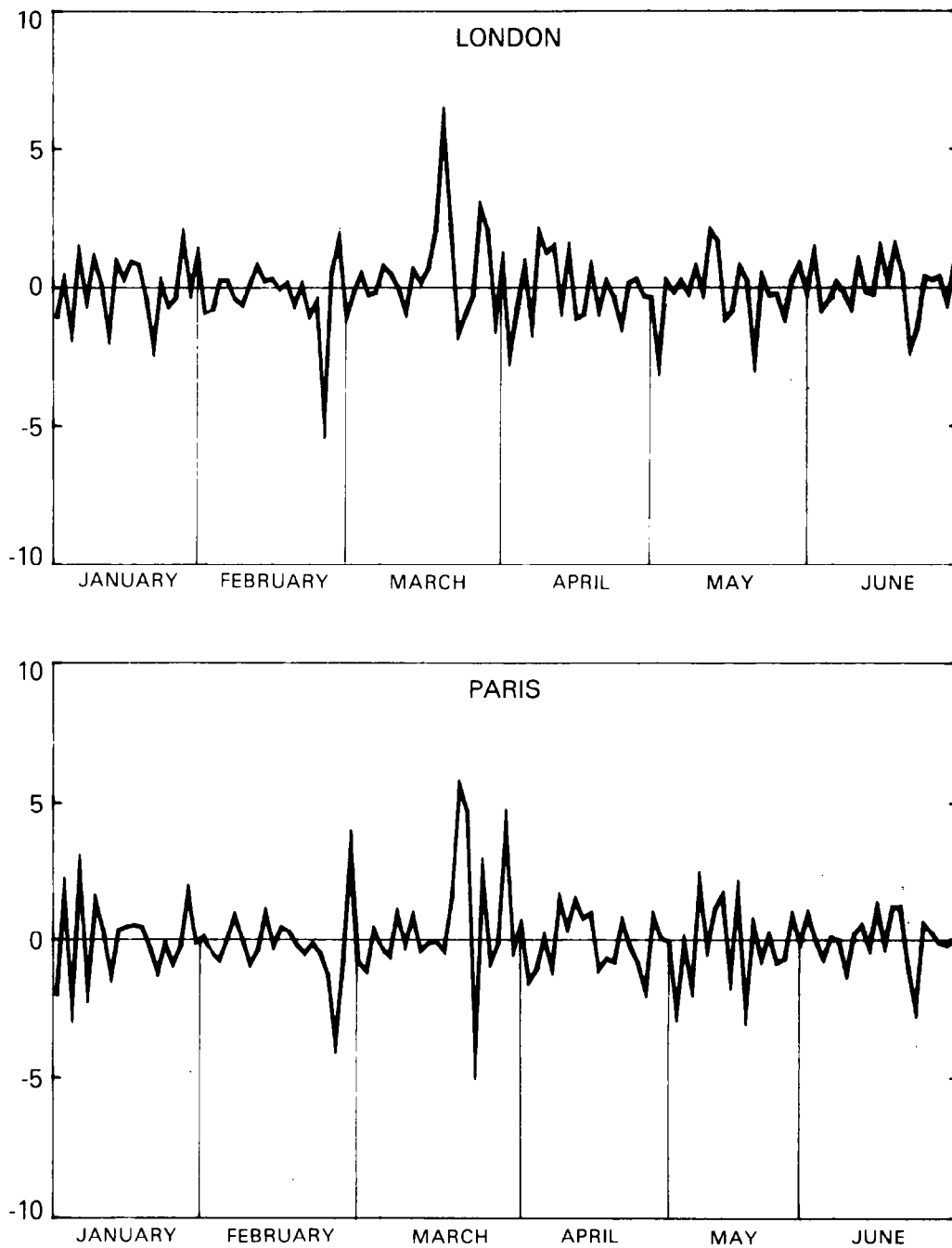
¹Annualized premium of three and six month futures prices on the New York COMEX over spot prices minus euro dollar interest rates.

CHART 3
WEEKLY AVERAGE FUTURES VOLUMES ON THE NEW YORK COMEX
AND CHICAGO IMM



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

CHART 4
DAILY CHANGES IN GOLD PRICES¹
(In percent)



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