

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/83/73

INTERNATIONAL MONETARY FUND

Treasurer's Department

Gold Prices in World Markets in September 1983

Prepared by Samir I. Fawzi

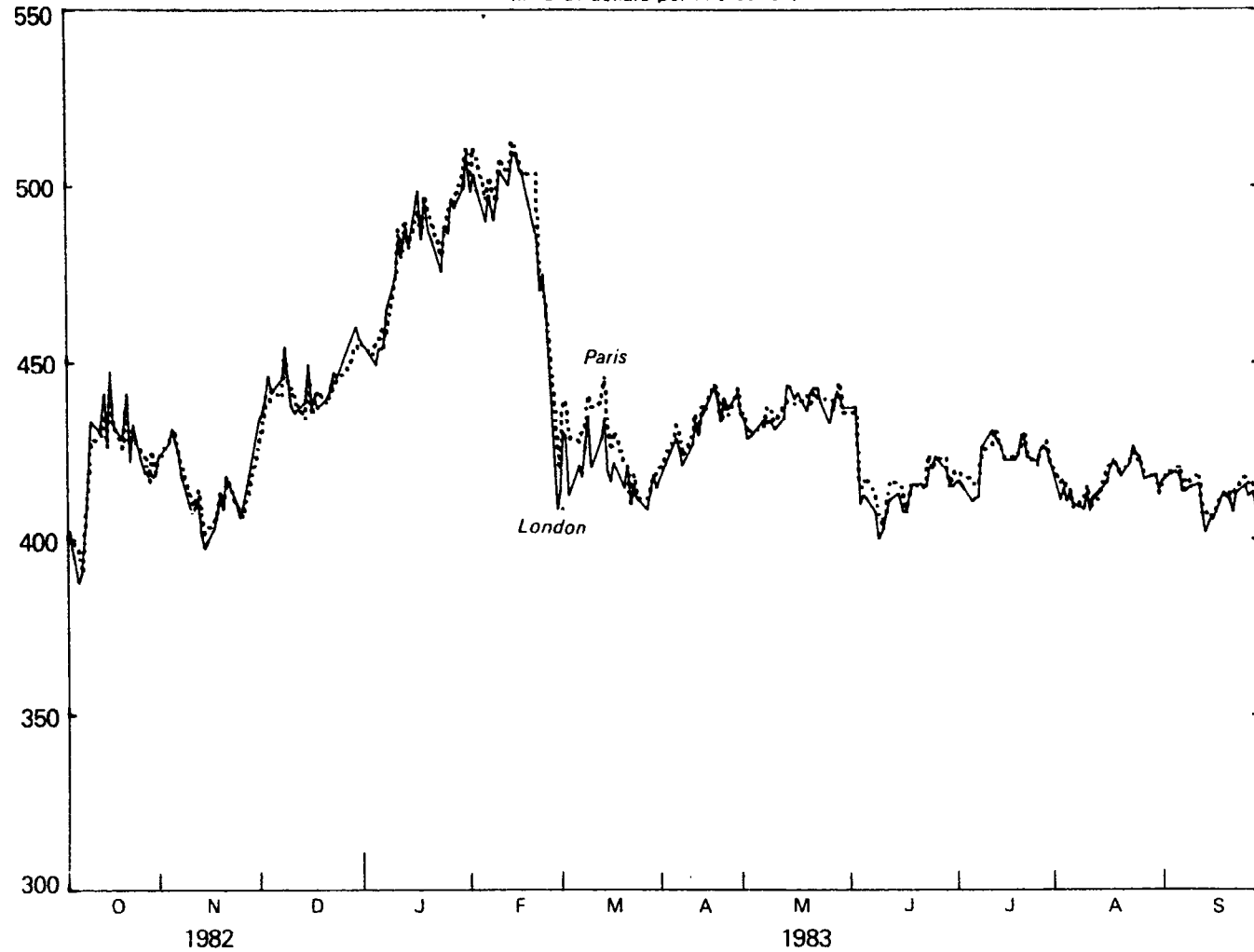
Approved by Muhammad N. Bhuiyan

October 27, 1983

Gold prices eased amidst some erratic fluctuations in featureless and sluggish trading on major international markets in September in an environment of uncertainty about the direction of U.S. interest rates and lack of price response to traditionally bullish factors, particularly sharply increased political tensions. Over the month, gold lost \$6.16-\$12.50 per ounce on bullion markets with the declines occurring mainly in the final days of the month. On the London market, there were moderate price increases early in the month which were reversed at the end of the first week on reports of sales by Portugal of part of its official gold holdings, estimated at about 1.6 million ounces, to repay obligations to the BIS. The price was little changed through September 12 but declined significantly by \$14.00 an ounce over the next two days to reach the low of the month of \$401.75 per ounce as the U.S. dollar strengthened sharply on foreign exchange markets on expectation of continued high U.S. interest rates. The low price level induced some buying and short-covering which helped it firm to \$412.25 an ounce by September 19. It rose modestly over the following week before turning the course and dropping to \$405.00 per ounce at end-September. This closing price was \$9.25 an ounce lower than its level a month ago. The spread between the high and low daily fixings in London (\$18.25 per ounce) was about the same as that in the preceding month (\$18.40), but the standard deviation of daily fixings dropped to \$4.71 from \$5.18 an ounce in August.

The decline in the bullion price in September was equivalent to 2.23 percent in U.S. dollars, 2.47 percent in pounds sterling, and 3.36-6.52 percent in other major currencies and the SDR. The price in September was, however, higher than it was a year ago by 2.02 percent in U.S. dollars, 3.51 percent in SDRs, 6.18 percent in Deutsche mark, and 15.42 percent in pounds sterling; in terms of the Japanese yen, the price was 10.45 percent lower, reflecting the appreciation of that currency against the U.S. dollar over the period (see Table 3).

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



On futures markets, gold prices declined by greater margins than on spot markets, reflecting probably market expectation about the price trend in the near term. The annualized premia of futures prices over spot quotations were on average lower than those in the preceding month, yet they compared favorably with interest costs in most trading days of September as a result of the slightly larger decline in these costs.

South Africa produced 1.87 million ounces of gold in September, up slightly from 1.85 million ounces mined in the preceding month. Gold marketed during the month fell, however, to 1.84 million ounces from 1.97 million ounces in August as 0.03 million ounces were added to official holdings in September while 0.12 million ounces were sold from reserves in August. The Philippines recorded a decline of 260,000 ounces in its gold holdings during the month while Hungary increased its holdings by 150,000 ounces in the same period.

Krugerrand sales rose sharply to 274,520 ounces in September from 107,952 ounces traded in the preceding month, attributed mainly to an increase in the sale of the one-ounce coin by 148,427 to 246,008 ounces.

Italy's exports of gold jewelry, which increased significantly in 1982, are reportedly slowing down this year. Gold purchases by Italian manufacturers did not appear to have picked up in September as they had in past years. Italy has long held a prominent position in jewelry fabrication which accounted last year for 25 percent of the world's total and 64 percent of that of Europe.

I. London and Zurich Markets

The bullion price in London firmed slightly from the August closing of \$414.25 an ounce to \$419.10 per ounce by September 5 before reported gold sales by Portugal brought it down to \$413.25 an ounce on September 7. It increased marginally to \$415.75 per ounce through September 12 only to drop sharply to \$401.75 an ounce on September 14, attributed in part to the sharp appreciation of the U.S. dollar against major currencies. The price rose to \$412.25 per ounce by September 19 in a technical correction, and moved erratically to reach \$415.00 an ounce on September 26 before declining, in concert with the sharp fall in the price of silver, to close the month at \$405.00 per ounce, \$9.25 an ounce below its level a month earlier. Price developments in Zurich continued to parallel those in London; compared with corresponding prices in London, the end-month price in Zurich was at a marginal discount of 0.06 percent, while the daily average price was at a marginal premium of 0.10 percent.

Prices of gold coins dropped over the month by margins smaller than those of spot prices. The price of New Sovereign fell by the equivalent of \$6.91 to \$408.31 an ounce at end-September, and was at a premium over the spot price in London of 0.82 percent compared with 0.23 percent in August. The one-half New Sovereign was traded at \$489.55 per ounce at end-September compared with \$501.23 an ounce in August; its premium over

that in London dropped marginally to 20.88 percent from 21.00 percent a month earlier. The price of the Krugerrand declined by \$7.75 to \$419.63 an ounce in September, and its premium over the bullion price in London rose slightly by 0.44 percentage point to 3.61 percent. Prices of mini-Krugerrands were at premia over the London bullion price; these premia increased to 6.98-12.04 percent from 6.34-11.08 percent in the preceding month.

II. Paris Market

The price of the standard 12 1/2 kilo bar rose to F 109,500 a kilo on September 2 from the August closing of F 108,200 per kilo but dropped, amid some fluctuations, to F 105,700 a kilo by September 16. It rose steadily thereafter to reach F 107,600 per kilo on September 26 before turning downward to close the month at F 104,750 a kilo. In U.S. dollar terms, the price rose early in the month by the equivalent of \$7.74 an ounce to reach the high of the month of \$420.69 per ounce on September 6, dropped significantly the next day before stabilizing in the range of \$416.10-\$418.59 an ounce through September 12. It fell to the low of the month of \$405.55 per ounce on September 15 only to rise steadily to \$417.60 an ounce by September 26. It declined thereafter to end the month at \$406.79 per ounce, \$6.16 an ounce lower than its level a month ago. The daily average price (\$413.62 an ounce) declined by \$3.13 per ounce from that in the preceding month, and was at a premium of 0.39 percent over the corresponding price in London compared with 0.13 percent in August. The spread between the high and low daily fixings dropped to \$15.14 in September from \$17.16 per ounce a month ago. Average turnover rose significantly to 3,189 ounces daily valued at F 10.63 million in September from 2,143 ounces valued at F 7.18 million in the preceding month.

The Napoleon lost \$7.81 an ounce over the month to stand at the equivalent of \$453.74 per ounce at end-September; this price was at a premium over the bullion price in London of 12.03 percent compared with that of 11.42 percent in August. The volume of trading in the coin rose to an average of 1,648 coins daily in September from 1,177 coins in the previous month.

III. Other Spot Markets

The price of gold declined also on other spot markets, the exception being the Bombay market. In New York, the price dropped over the month by \$12.50 to \$401.90 an ounce which was at a discount of 0.77 percent from that in London compared with a marginal premium of 0.04 percent in August. In Singapore and Hong Kong, the price stood at \$402.75 per ounce at end-September, \$12.00 and \$12.10 an ounce, respectively, lower than its level in the previous month. The price in both markets was below the price in London by 0.56 percentage point compared with a premium of 0.12-0.14 percent a month earlier. In Bombay, the price firmed moderately

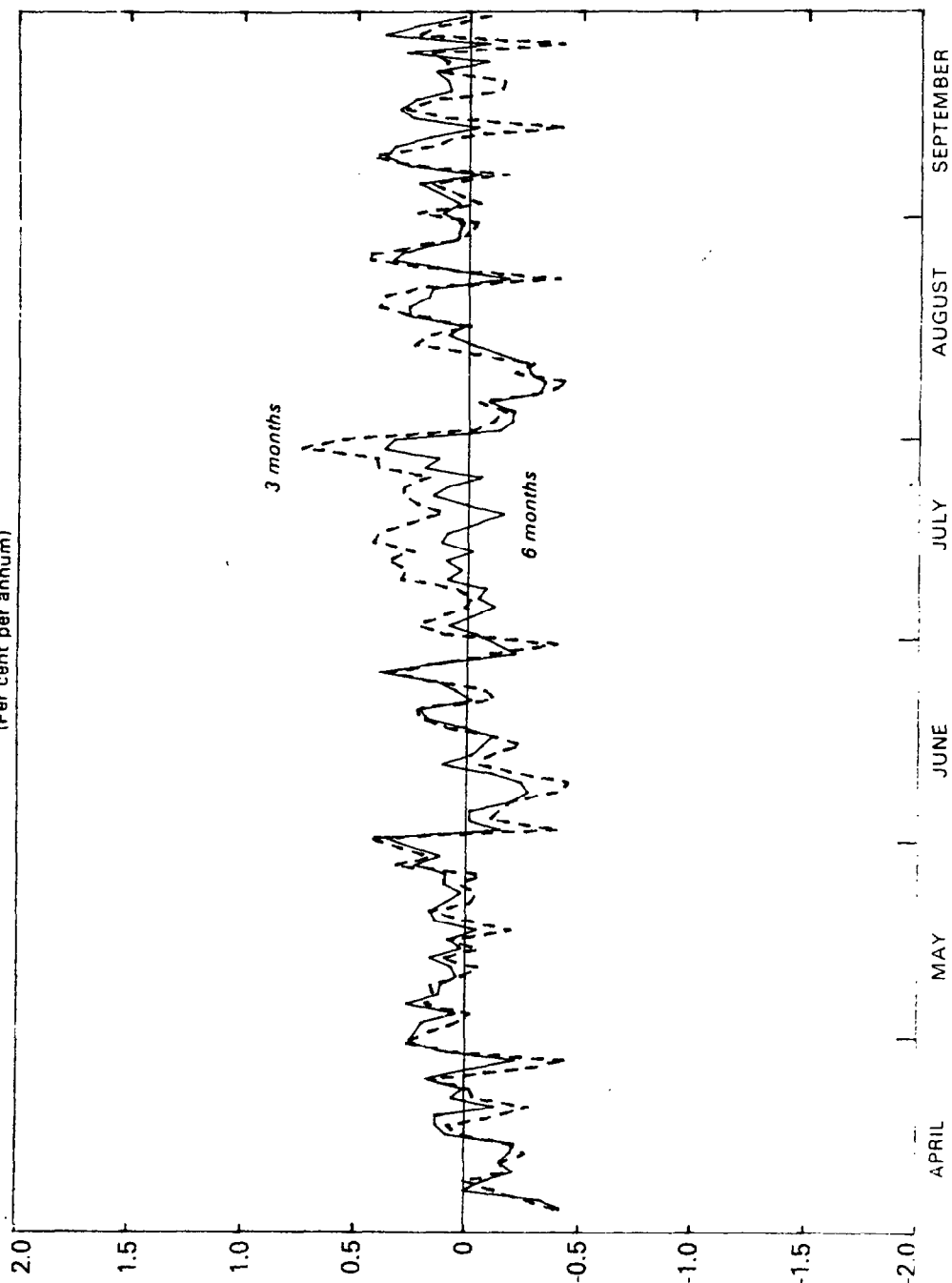
to Rs 1,830 per 10 grams (equivalent to \$557.33 an ounce) from Rs 1,820 per 10 grams (\$554.72 an ounce) in the previous month. The price expressed in U.S. dollars was at a premium over that in London of 37.61 percent in September, up from 33.91 percent in August.

IV. Futures Markets

Gold prices declined on futures markets by \$17.00-\$23.40 an ounce for maturities ranging from December 1983 to December 1984 (see Table 1). These declines were significantly higher than those on spot markets. The annualized premia of prices for contracts with maturities of three to six months over spot quotations declined on average by 0.44-0.45 percent from those in the preceding month. Interest costs for these maturities also dropped but by slightly larger margins (0.47-0.63 percent). Consequently, the cost-adjusted annualized premium for the three-month contract widened marginally from 0.03 percent to 0.06 percent in September, whereas the August discount for the six-month maturity (0.02 percent) turned into a modest premium (0.16 percent). Over the month, the price of the three-month contract was at a cost-adjusted discount of 0.09 percent at end-September, up marginally from 0.04 percent a month ago, while the premium of the six-month contract was unchanged from that at the end of the previous month (0.02 percent).

Trading volume rose moderately on the New York commodity exchange (COMEX) to a daily average of 3,305,400 ounces in September from 2,974,300 ounces in the preceding month, but dropped marginally on Chicago's International Monetary Market (IMM) to 314,500 ounces daily from 314,600 ounces, respectively. On the London Gold Futures Market, daily average turnover increased to 55,200 ounces from 50,200 ounces in August. Open interest rose on the COMEX to 11,628,900 ounces in September from 11,327,600 ounces in the previous month, and increased on the IMM to 357,300 ounces from 326,600 ounces. COMEX lowered the margin requirement for speculative contracts to \$1,200 from \$1,500, effective September 14.

CHART 2
THREE AND SIX MONTH FUTURES PRICES,
PREMIUM (+), OR DISCOUNT (-)
(Per cent per annum)



Source: Federal Reserve Bank of New York, "Futures Prices of the New York COMEX Over Spot Prices for Euro Dollar Interest Rates."

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

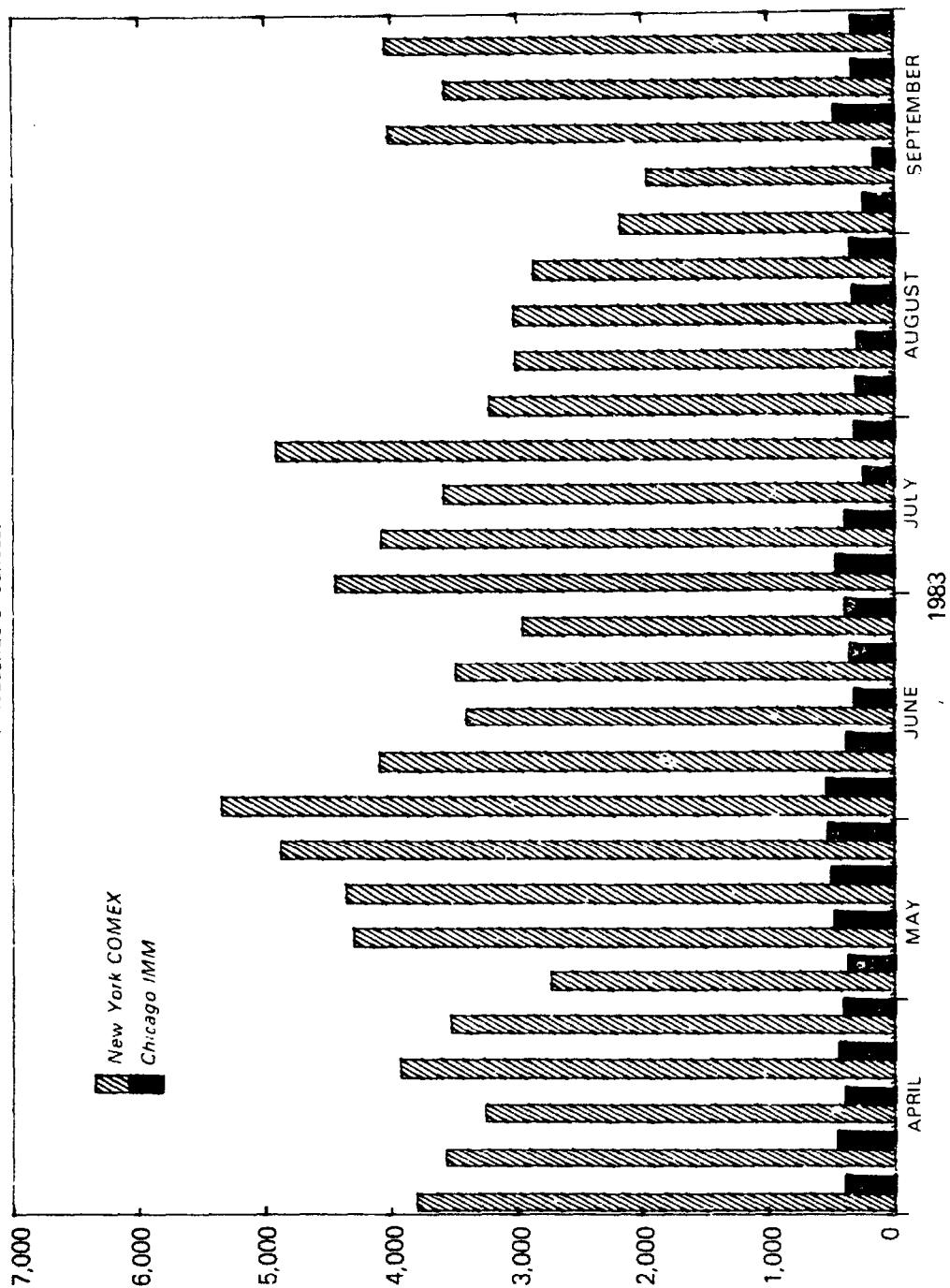


Table 1. Gold Prices, July-September 1983

(U.S. dollars per fine ounce)

	1983			Change from
	July	August	September	August to September
<u>London market</u>				
End of month	422.00	414.25	405.00	-9.25
High of month	430.50	426.40	420.00	-6.40
Low of month	410.75	408.00	401.75	-6.25
Average of month	422.84	416.22	412.02	-4.20
Krugerrand (end of month)	434.63	427.38	419.63	-7.75
% on London	+2.99	+3.17	+3.61	+0.44
New Sovereign (end of month)	423.18	415.22	408.31	-6.91
% on London	+0.28	+0.25	+0.82	+0.59
<u>Zurich market (middle quotations)</u>				
End of month	422.12	414.50	404.75	-9.75
High of month	430.50	428.00	420.75	-7.25
Low of month	410.75	407.75	404.00	-3.75
Average of month	422.95	416.59	412.44	-4.15
% on London	+0.03	+0.02	+0.10	+0.01
<u>Paris market</u>				
End of month	421.32	412.95	406.79	-6.16
High of month	431.04	425.83	420.69	-5.14
Low of month	414.64	408.67	405.55	-3.12
Average of month	423.29	416.75	413.62	-3.13
% on London	+0.11	+0.13	+0.33	+0.26
Napoleon (end of month)	475.18	461.55	453.74	-7.81
% on London	+12.20	+11.42	+12.03	+0.61
<u>Other markets (end of month)</u>				
New York	412.80	414.40	401.90	-12.50
% on London	-2.18	+0.04	-0.77	-0.81
Singapore	423.25	414.75	402.75	-12.00
% on London	+0.30	+0.12	-0.56	-0.68
Hong Kong	423.15	414.85	402.75	-12.10
% on London	+0.27	+0.14	-0.56	-0.70
Bombay	555.58	554.72	557.33	+2.61
% on London	+31.65	+33.21	+37.61	+3.70
<u>Futures Prices on the New York Commodity Exchange (End of Month)</u>				
Delivery: December 1983	427.40	424.80	407.80	-17.00
February 1984	435.30	432.40	414.40	-18.00
August 1984	460.00	456.70	435.40	-21.30
December 1984	477.20	473.60	450.20	-23.40

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>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	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	1.35	-0.12	1.97	0.11	5.6
September	1.87	+0.03	1.84	0.27	14.7

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)

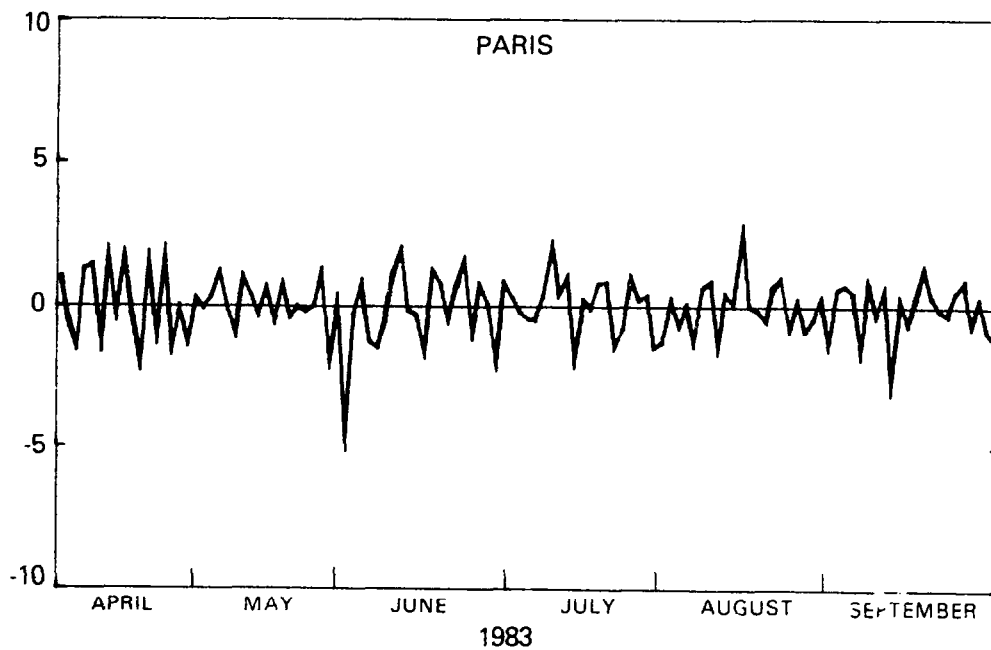
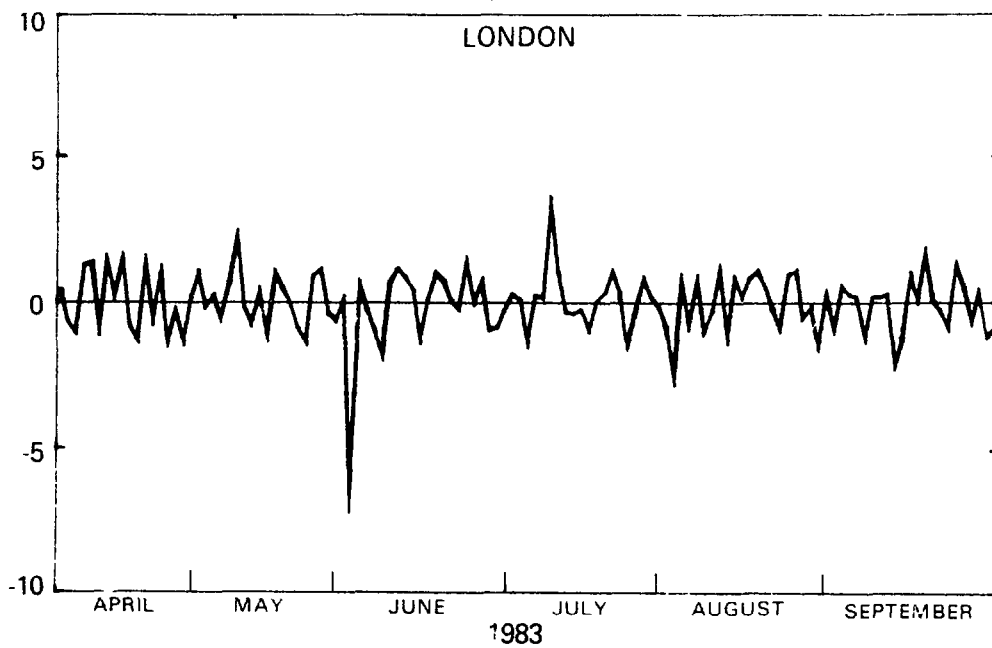
End-of-period	U.S. dollar	Deutsche mark	Pound sterling	Japanese yen	SDR
<u>1980:</u> September	+5.62	+6.86	+6.04	+1.65	+5.85
October	-5.66	-0.81	-7.60	-5.57	-4.02
November	-1.47	-0.38	+1.83	+1.11	-0.44
December	-4.88	-2.61	-6.15	-10.82	-4.78
<u>1981:</u> January	-14.08	-7.18	-13.23	-12.56	-11.92
February	-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
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
September 1983 to September 1982	+2.02	+6.18	+15.42	-10.45	+3.51

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>							
Sept. 1	415.80	416.60	415.75	416.75	414.83	415.52	415.40
2	418.30	417.50	418.25	417.75	418.02	418.66	416.90
5	420.00	419.10	420.75	420.25	419.97	419.66	n.a.
6	418.25	418.25	418.75	418.25	419.34	420.69	412.50
7	413.00	413.25	412.95	413.75	415.02	413.86	414.50
8	414.50	414.00	414.65	414.00	416.44	417.30	414.90
9	414.50	414.75	414.85	415.00	416.76	416.10	413.50
12	416.90	415.75	416.95	417.15	418.72	418.59	405.30
13	406.75	406.75	407.85	406.75	408.52	407.08	407.10
14	406.15	401.75	406.75	404.00	407.61	403.00	408.40
15	403.75	405.25	406.55	405.00	406.40	405.55	405.20
16	405.25	405.50	405.55	406.25	406.69	406.75	410.40
19	410.25	412.25	409.35	412.50	411.10	412.23	413.50
20	413.00	412.35	413.25	412.50	414.45	413.62	411.80
21	412.00	411.25	411.55	411.75	412.98	413.15	411.90
22	410.50	407.75	411.50	408.00	412.07	411.93	412.30
23	413.25	413.00	413.25	413.25	414.25	414.06	416.50
26	416.25	415.00	417.55	416.75	417.08	417.60	415.10
27	413.50	412.25	414.15	412.75	414.67	414.92	413.98
28	414.00	413.60	414.35	413.50	415.35	415.81	411.00
29	409.50	408.75	409.45	408.75	411.99	412.07	405.30
30	404.00	405.00	404.15	404.75	407.06	406.79	401.90

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

