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INTERNATIONAL MONETARY FUND

Treasurer's Department

Gold Prices in World Markets in October 1983

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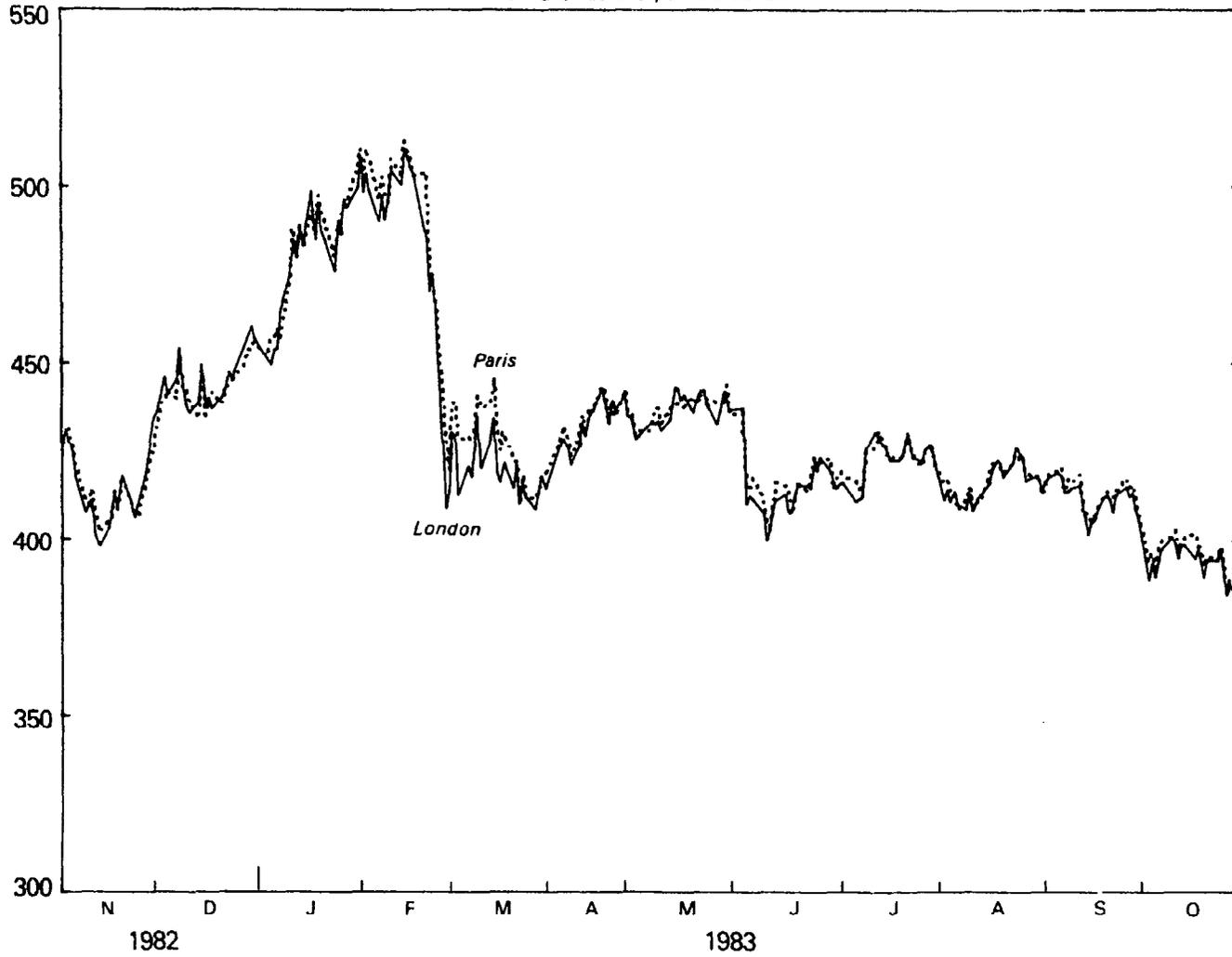
November 22, 1983

Gold prices declined significantly on leading bullion markets in October reflecting market perception of a diminished prospect for sustained price gains in the foreseeable future. The lack of favorable response by bullion prices to international political crises, sluggish fabrication offtake despite strong signs of economic recovery in the industrial world, reports of gold sales from official holdings by a number of countries with large debts to repay their obligations, and sharp declines in silver prices resulting from a large supply and the high cost of holding stocks were the main factors influencing the market sentiment.

Bullion prices opened the month sharply lower on nervous speculative liquidation of long positions followed by heavy margin calls and panicked stop-loss selling. This was set off earlier in New York and Hong Kong by a sharp drop in silver prices and rumored gold sales by some central banks. By the end of the day, the price in London dropped by \$16.00 to \$389.00 an ounce, with the volume of trading said to be the heaviest for any single day this year; on other major markets, prices declined by \$11.00-\$13.25 per ounce. The low price level induced some spot buying and short-covering which helped raise the price to the high of the month in London of \$401.00 an ounce on October 10. The modest gain dissipated, however, by October 20 in profit-taking amid speculation about continued high U.S. interest rates. The price rose slightly over the next few days to \$398.00 per ounce. Its failure to respond more vigorously to the events in Lebanon involving the attack on the U.S. and French military headquarters and the U.S. intervention in Grenada led to large scale sales which drove the price down to \$382.00 per ounce by the end of October, the lowest price level in 14 months. Over the month, gold lost \$23.00 an ounce in London, \$25.70 an ounce in New York, and \$17.52-\$22.25 an ounce on other spot markets.

Trading conditions in October were generally quiet and the range of price fluctuations continued to remain small; the spread between high and low daily fixings in London rose slightly to \$19.00 an ounce from

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



\$18.25 in the preceding month, and the standard deviation of daily fixings increased marginally to \$4.92 from \$4.71 per ounce in September.

In terms of major currencies, the decline in gold prices in October was equivalent to 5.68 percent in U.S. dollars and the Deutsche mark, and 5.51-6.32 percent in other major currencies and the SDR. Compared with the price level a year ago, the price at end-October was lower by 9.75 percent in U.S. dollars, 7.22 percent in Deutsche mark, 9.48 percent in SDRs, and 23.76 percent in Japanese yen, but higher by 1.22 percent in pounds sterling (see Table 3).

Price declines on futures markets in October continued to be in excess of those on spot markets. The annualized premia of futures prices over spot quotations became negative in most trading days of the month when adjusted for interest costs, despite a slight fall in these costs.

South Africa's gold output dropped from 1.87 million ounces in September to 1.85 million ounces in October of which 0.07 million ounces were added to official reserves. Newly mined gold marketed in October was estimated at 1.78 million ounces, down from 1.84 million ounces sold in the preceding month. Preliminary data on official gold holdings in October indicate that the gold reserves of Malta and Hungary rose by 150,000 ounces and 530,000 ounces, respectively. Hungary's holdings have increased by 910,000 ounces since June, apparently as a result of repurchases of gold sold earlier under swap arrangements. The Philippines, however, is believed to have continued to make gold sales in October.

Krugerrand sales rose sharply by 104,177 ounces to 378,693 ounces in October with most increases concentrated in the one-ounce and one-quarter ounce coins whose sales rose by 74,726 ounces and 21,154 ounces, respectively, to 320,734 ounces and 30,334 ounces. Sales of other mini-Krugerrands increased by 8,297 ounces to 27,625 ounces. Krugerrand sales in the first 10 months of this year (2.92 million ounces) have exceeded total coin sales in 1982 (2.56 million ounces).

Following the discovery that tax on gold coins was being evaded to an unacceptable degree through illegal importations into the United Kingdom, certain members of the London gold market temporarily suspended their coin operations in August. They resumed, however, after a special voluntary accounting scheme was introduced from November 1 by the taxation authorities, under which the tax can be paid directly to the government for account of the seller rather than directly to the seller for subsequent accounting to the government.

I. London and Zurich Markets

The price of gold declined sharply by \$16.00 to \$389.00 an ounce on the first trading day of October following large speculative liquidations earlier in the Far East and New York. It firmed to \$401.00 an ounce over

the next week, before dropping to \$389.75 per ounce by October 20, mainly on profit-taking. The moderate price increase that followed the bombing of the U.S. and the French military headquarters in Lebanon and the U.S. military intervention in Grenada in October 24-25 (\$3.75 an ounce) confirmed market fears about the inability of the bullion price to make sustained gains and triggered a new wave of selling which brought the price down to \$382.00 per ounce by the end of October. This represented a decline of \$23.00 an ounce from its level at the end of September. In Zurich, gold prices continued to follow those in London. The end of month and daily average prices held marginal premia over corresponding prices in London of 0.13 percent and 0.08 percent, respectively.

Prices of gold coins also declined in London. The Krugerrand lost \$24.38 an ounce over the month and was traded at \$395.25 per ounce at end-October; its premium over the spot price in London narrowed to 3.47 percent from 3.61 percent in the preceding month. The premia of mini-Krugerrands over the spot price in London also dropped to 6.74-11.58 percent in October from 6.98-12.04 percent in September. The price of the New Sovereign declined by the equivalent of \$23.36 to \$384.95 an ounce in October, and its premium over the bullion price in London was 0.77 percent, down from 0.82 percent a month earlier. The price of the one-half New Sovereign stood at the equivalent of \$461.94 per ounce in October compared with \$489.55 an ounce a month ago, and its premium over the London price rose marginally to 20.93 percent from 20.88 percent in September.

II. Paris Market

The price of the standard 12 1/2 kilo gold bar dropped to F 100,000 a kilo on October 5 from the September closing of F 104,750 per kilo but rose to F 103,500 a kilo by October 14. The price reversed the course over the following week to reach F 100,050 per kilo, then moved in a narrow range (F 99,000-F 101,700 a kilo) before ending the month at F 99,800 per kilo, F 4,950 a kilo below its level in September. In U.S. dollar terms, the price declined by the equivalent of \$14.35 to \$392.44 an ounce by October 5, rose to \$402.24 per ounce by October 17, then dropped to \$392.81 an ounce by October 20. It rose moderately to reach \$398.21 per ounce by October 25 but fell to \$389.27 per ounce at end-October. This closing price was \$17.22 an ounce lower than that in the preceding month. The daily average price (\$396.79 per ounce) also declined by a comparable margin of \$16.83 an ounce. Its premium over the corresponding price in London widened to 0.73 percent in October from 0.39 percent a month earlier. The high-low spread of daily fixings rose slightly to the equivalent of \$17.55 from \$15.14 an ounce in the previous month. The daily volume of trading averaged 3,730 ounces (valued at F 11.76 million) in October, up from 3,189 ounces (valued at F 10.63 million) a month ago.

The price of the Napoleon declined by the equivalent of \$13.78 to \$439.96 an ounce in October, and its premium over the bullion price in London was 15.17 percent, compared with 12.03 percent in the previous month. Daily average turnover in the coin dropped slightly to 1,553 coins from 1,648 coins in the preceding month.

III. Other Spot Markets

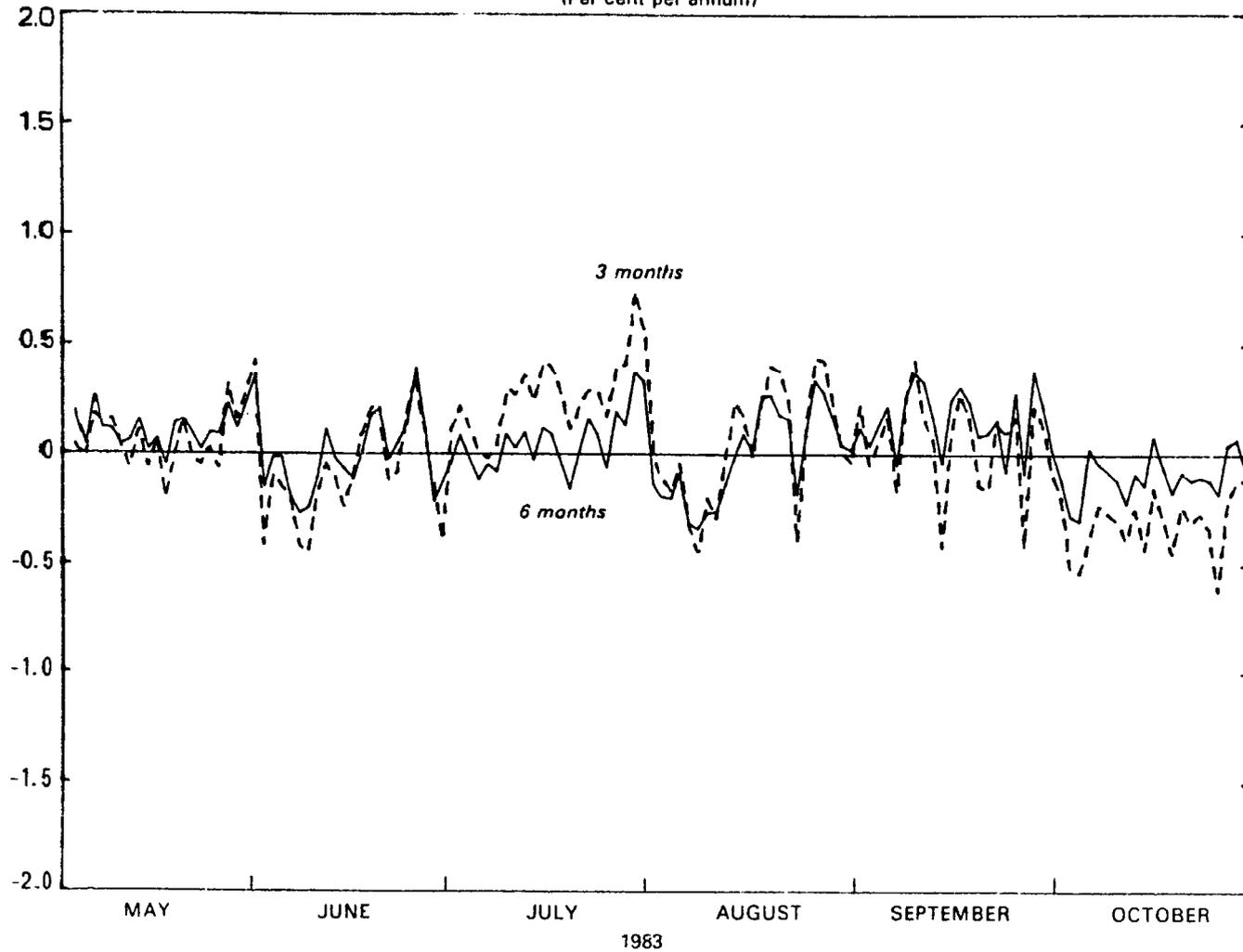
The price of gold dropped on the New York Commodity Exchange by \$25.70 to \$376.20 an ounce, the lowest price on any spot market at end-October, attributed to the sharp decline of \$10.80 per ounce on the last day of the month. Its discount from the price in London widened significantly to 1.52 percent from 0.77 percent in September. The price in Singapore fell by \$18.75 to \$384.00 per ounce which was at a premium over that in London of 0.52 percent compared with a discount of 0.56 percent a month earlier. The international gold price in Hong Kong also declined by \$18.80 to \$383.95 per ounce in October, and its September discount from the London price of 0.56 percent turned into a premium of 0.51 percent. The price in Bombay rose to Rs 1,890 per 10 grams (equivalent to \$572.71 an ounce) from Rs 1,830 per 10 grams (\$557.33 an ounce). The premium of the Bombay price over that in London widened sharply to 49.92 percent in October from 37.61 percent in the previous month.

IV. Futures Markets

Gold prices declined by \$29.00-\$32.20 an ounce over the month for maturities up to April 1985 (see Table 1). The annualized premia of the prices for contracts maturing in three to six months over spot quotations declined on average by 0.63-0.66 percentage points in October from those in the preceding month while interest costs for corresponding maturities dropped 0.27-0.40 percentage points. As a result, the annualized premia for these contracts became negative, when adjusted for interest costs, in almost all trading days of the month and averaged 0.30 percent for the three-month contract and 0.10 percent for the six-month maturity (compared with the premia of 0.06 percent and 0.16 percent, respectively, in September). At the end of the month, prices of both the contracts were at cost-adjusted discounts of 0.12 percent and 0.07 percent, compared with a discount of 0.09 percent for the three-month maturity and a premium of 0.02 percent for the six-month contract at end-September.

Trading volume rose on the New York Commodity Exchange (COMEX) to a daily average of 3,965,200 ounces in October from 3,305,400 ounces in the previous month but dropped on Chicago's International Monetary Market (IMM) to 267,700 ounces from 314,500 ounces. On the London Gold Futures Market, the volume rose to 65,900 ounces daily from 55,200 ounces in September. The number of outstanding contracts increased on the COMEX to 133,997 contracts of 100 ounces each from 116,289 a month earlier but declined on the IMM to 2,787 from 3,573 contracts in September.

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

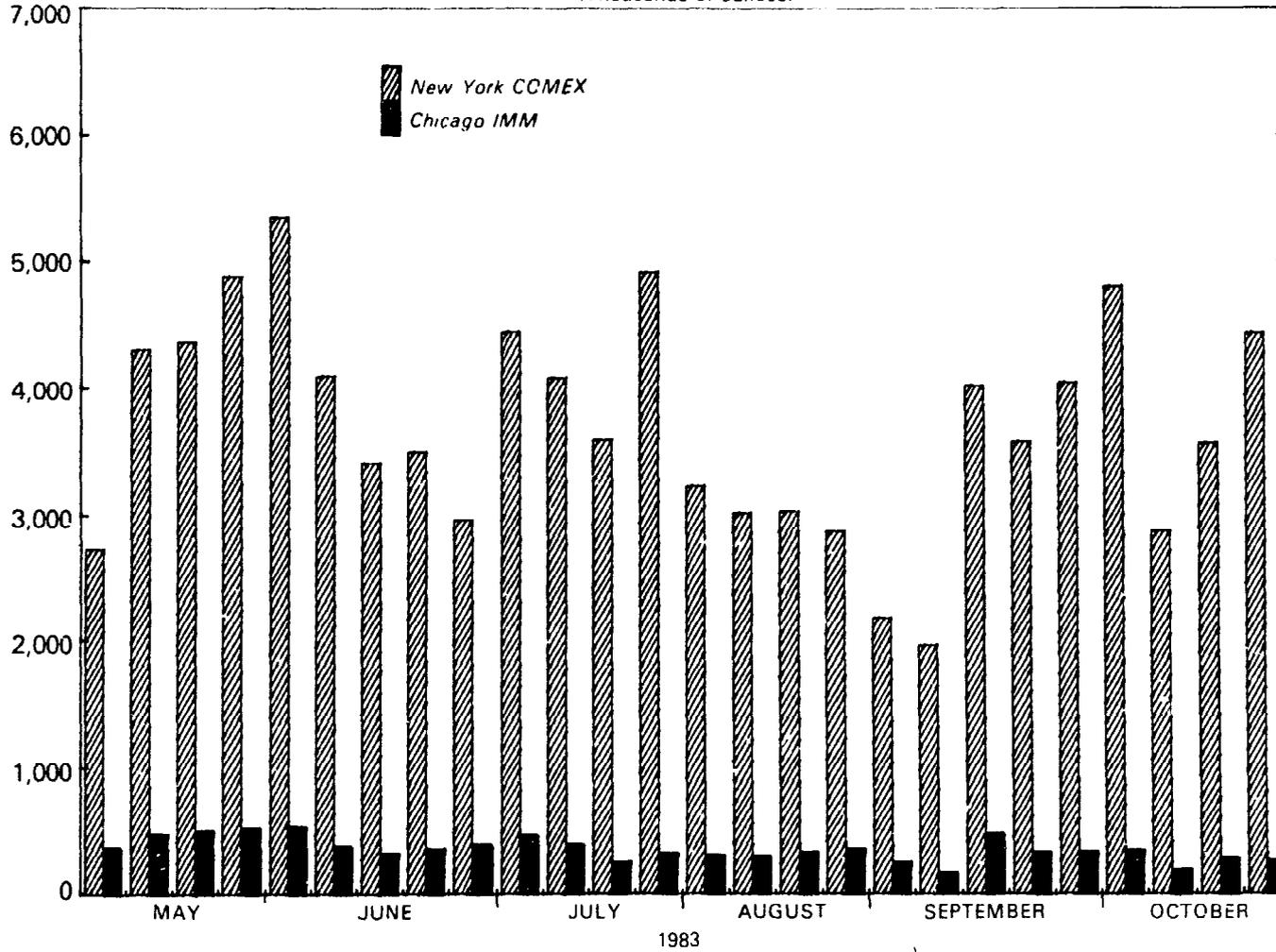


Table 1. Gold Prices, August-October 1983

(U.S. dollars per fine ounce)

	1983			Change from September to October
	August	September	October	
<u>London market</u>				
End of month	414.25	405.00	382.00	-23.00
High of month	426.40	420.00	401.00	-19.00
Low of month	408.00	401.75	382.00	-19.75
Average of month	416.22	412.02	393.90	-18.12
Krugerrand (end of month)	427.38	419.63	395.25	-24.38
% on London	+3.17	+3.61	+3.47	-0.14
New Sovereign (end of month)	415.22	408.31	384.95	-23.36
% on London	+0.23	+0.82	+0.77	-0.05
<u>Zurich market (middle quotations)</u>				
End of month	414.50	404.75	382.50	-22.25
High of month	428.00	420.75	401.75	-19.00
Low of month	407.75	404.00	382.50	-21.50
Average of month	416.59	412.44	394.21	-18.23
% on London	+0.09	+0.10	+0.08	-0.02
<u>Paris market</u>				
End of month	412.95	406.79	389.27	-17.52
High of month	425.83	420.69	402.90	-17.79
Low of month	408.67	405.55	385.35	-20.20
Average of month	416.75	413.62	396.79	-16.83
% on London	+0.13	+0.39	+0.73	+0.34
Napoleon (end of month)	461.55	453.74	439.96	-13.78
% on London	+11.42	+12.03	+15.17	+3.14
<u>Other markets (end of month)</u>				
New York	414.40	401.90	376.20	-25.70
% on London	+0.04	-0.77	-1.52	-0.75
Singapore	414.75	402.75	384.00	-18.75
% on London	+0.12	-0.56	+0.52	+1.08
Hong Kong	414.85	402.75	383.95	-18.80
% on London	+0.14	-0.56	+0.51	+1.07
Bombay	554.72	557.33	572.71	+15.38
% on London	+33.91	+37.61	+49.92	+12.31
<u>Futures Prices on the New York Commodity Exchange (End of Month)</u>				
Delivery: December 1983	424.80	407.80	378.80	-29.00
April 1984	440.30	421.20	391.40	-29.80
October 1984	465.10	442.70	411.40	-31.30
April 1985	491.00	465.50	433.30	-32.20

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	1.85	-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

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> 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
October	-5.68	-5.68	-5.51	-6.32	-5.90
October 1983 to October 1982	-9.75	-7.22	+1.22	-23.76	-9.48

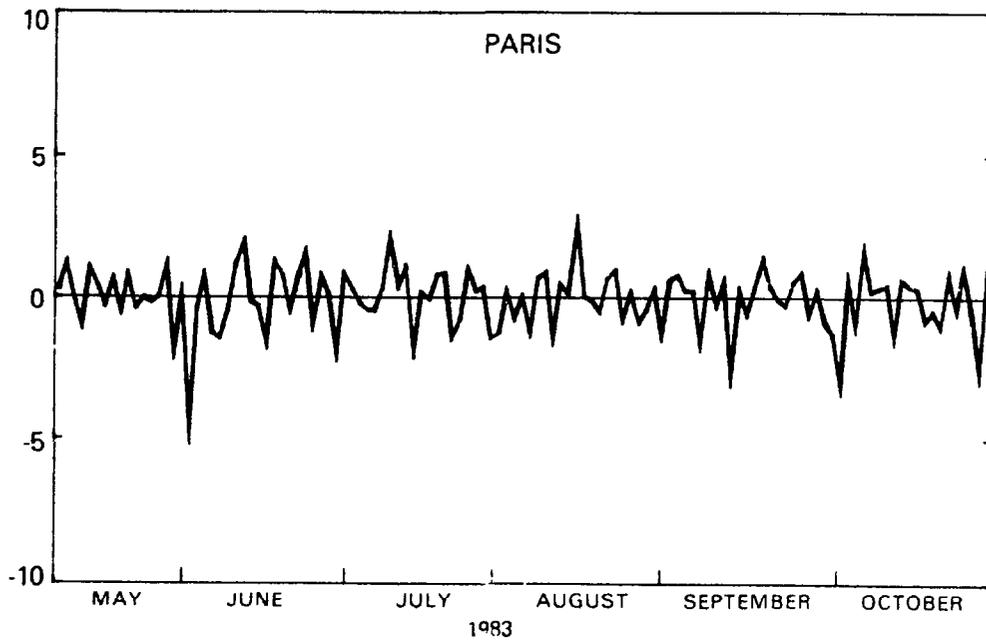
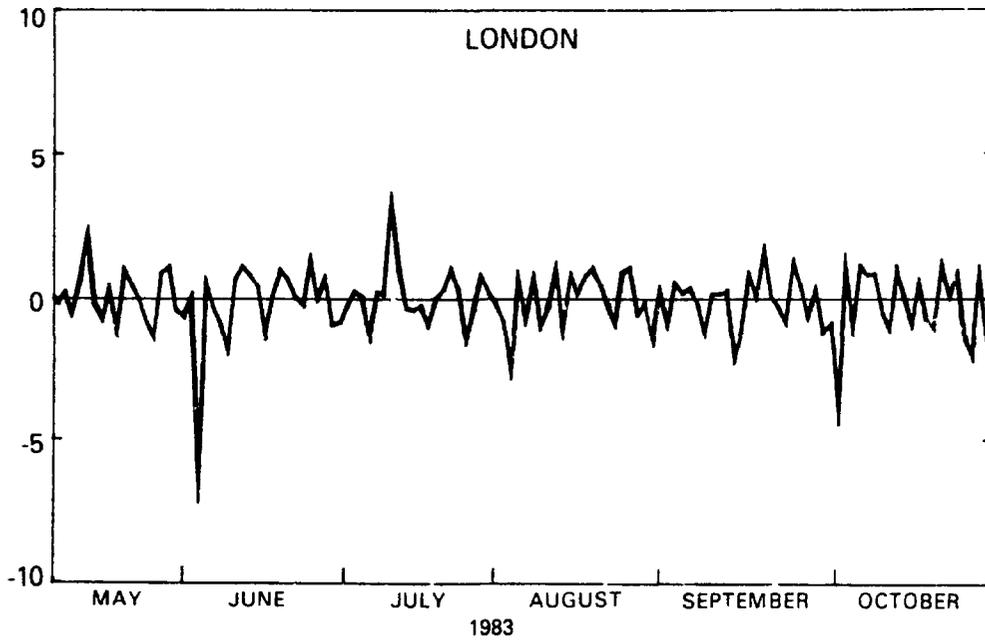
Table 4. Daily Prices in the Major Gold Markets

(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>							
Oct. 3	393.50	389.00	398.38	391.50	394.93	394.20	390.90
4	392.75	393.50	392.12	394.50	396.23	396.55	393.60
5	388.75	389.50	388.62	388.88	392.67	392.44	397.20
6	397.25	394.00	397.45	395.50	397.91	399.00	395.30
7	395.20	397.40	395.75	398.50	399.96	399.81	400.30
10	399.25	401.00	401.25	400.25	402.22	401.16	403.20
11	400.50	399.00	401.55	399.00	402.01	402.88	398.20
12	395.75	394.75	396.75	395.00	397.37	397.11	397.10
13	397.50	398.65	397.12	398.55	398.96	399.58	399.20
14	400.75	398.75	400.05	399.25	402.90	401.14	399.40
17	400.50	395.00	401.75	394.38	401.78	402.24	397.40
18	396.75	397.25	398.00	397.05	399.53	398.90	396.30
19	393.60	394.00	394.25	395.00	396.64	396.88	391.10
20	390.00	389.75	388.85	390.50	392.85	392.81	393.80
21	393.60	394.25	394.15	393.75	396.24	395.85	393.40
24	396.25	394.50	396.05	394.75	397.61	394.14	398.30
25	396.25	398.00	397.05	397.85	396.69	398.21	397.50
26	395.25	392.60	396.75	393.65	396.72	396.10	386.50
27	384.50	384.50	385.75	384.25	385.35	385.45	386.20
28	387.25	387.75	386.75	387.50	389.28	389.27	387.00
31	383.50	382.00	383.55	382.50	n.a.	n.a.	376.20



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.

