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Recent Developments in Indian and Far Eastern Gold Markets

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Introduction

The purpose of this paper is to present a fairly concise survey of recent developments in certain Asian gold markets. The markets which have been selected, mainly on the basis of availability of pertinent and up-to-date information are as follows: Bangkok, Bombay, Hong Kong, Manila, and Rangoon.1/ Attention will be first directed in Part I to a general survey of the major developments in these markets, institutional and other factors affecting the demand for and supply of gold, fluctuations in the price of gold, and recent trends in gold production in non-Communist Asia. Part II of the paper will contain more detailed information on the organization and structure of the Bombay and other selected gold markets, the forms of gold traded, the means of payment, as well as recent price developments and other related matters.

1/ In the preparation of this paper, the writer has received valuable assistance from various members of the staff of the Fund, particularly Mr. Carl Fink and Mr. Ravi Amatayakul.

PART I

1. General Structure and Interdependence of Gold Markets

The restoration of an effective international gold market is a comparatively recent development. Less than ten years ago, there was a collection of quasi-independent national gold markets separated from one another by an intricate network of import, export and foreign exchange controls administered by the authorities of the countries concerned with varying degrees of strictness. Insofar as the restrictions were actually enforced, the market price of gold in each country was determined domestically by the demand and supply conditions operating within the country. But since complete isolation was seldom, if ever, possible, market prices thus set were linked, though imperfectly, with gold prices abroad, not only through the medium of international gold movements, authorized or unauthorized, but also through psychological repercussions generated by price quotations in foreign gold markets. Broadly speaking, the smaller the domestic supply of newly-mined gold, and the more effective the restrictions on the movement of gold into a given market, the higher its price in that market will tend to be, not only in terms of the national currency, but also in relation to the official and black market rates for the dollar and other international currencies. Such high prices are in part consequences of the cost of overcoming the restrictions, including those of other countries on the export of gold on private account.

On September 28, 1951, the Fund issued a statement on external transactions in gold at premium prices modifying an earlier gold policy statement of June 1947 (see Appendix). The practical effect of the 1951 declaration of policy was to leave to member countries the operating decisions involved in the implementation of gold policy. Thus the new and more liberal ruling of the Fund had the effect of a relaxation of restrictions, thereby opening premium gold markets to gold-producers and others in many countries. This was followed by a substantial decline in the market price of gold, so that once the price of bar gold had fallen to about $35 per ounce in the free markets, the basis was laid for the reopening of the London gold market in March 1954. The London market soon became an influence making for the maintenance of a highly stable dollar price of gold in the international free markets, particularly since the Bank of England has been prepared to adjust supplies in accordance with fluctuations in demand.

In addition to London, there are at the present time, a number of other international gold markets. These include Beirut, Brussels, Hong Kong, Tangier, and Zurich. However, only one of these, Hong Kong, may be classified as a Far Eastern international gold market falling within the scope of this paper. Although the Hong Kong price of gold has generally exceeded the London price by approximately $3.50 per ounce during the past three years, the differential may be explained mainly by the cost of transporting gold from the United Kingdom to Hong Kong and then diverting it to the nearby Portuguese colony of Macao and back again, so that it may be legally transshipped via Hong Kong to various premium gold markets in Asia. In the process, the Macao authorities are able to collect an import fee equivalent to approximately $2 per ounce (see pp. 17-18, below).

The other Eastern gold markets studied in this paper should be classified as quasi-independent national gold markets. Of these, the Bangkok market, which authorizes gold imports by an officially licensed syndicate on a quota basis, appears to have been linked more closely than the others with the network of international gold markets abroad, particularly with the Hong Kong market. Of the three remaining gold markets - Bombay, Manila, and Rangoon - it is difficult to determine which is the most isolated from external influences. All three prohibit the import and export of gold on private account. In India, the domestic supply of newly-mined gold is small in relation to the private hoarding demand for gold. In Burma it is negligible. In both countries, clandestine imports of gold supplement the domestic supply. In the case of India, such imports are believed to be substantial.

In this connection, it should be recalled that in such Asian countries as India, Burma, and Thailand, gold is employed as a means of holding accumulated savings from the past and effecting new savings out of current income. It is often used as a durable article of consumption in the form of ornaments and jewelry in accordance with social custom. Demand varies directly with real income and is also influenced by relative prices, present and prospective -- that is, by the relative profitability and risk of alternative investment opportunities. Special factors, including tax policy, fear of confiscation, revolution, war, etc., may be pertinent to an evaluation of profitability and risk insofar as they affect the speculative demand for gold.

During the period under review, the Bombay price of gold has been very high in relation to prices quoted in international gold markets, including Hong Kong. It has also been substantially higher than the price in the Bangkok market. But the dollar-equivalent price of gold was until the end of 1956 appreciably higher in Rangoon than in Bombay, not only at the official rate, but also at the free market rate. In the first quarter of 1957, however, the free market rate of exchange depreciated sharply, so that by the end of March the dollar-equivalent price of gold in Rangoon thus converted was substantially lower than the Bombay price converted at par value (see page 22). It should be noted in this connection that the available free market quotations for Burmese kyats presumably apply to only a small number of transactions and that, consequently, dollar prices converted at these rates may be of limited significance. Free market quotations for Indian rupees are quite close to par value.

Although the Manila market is primarily a domestic market, this has not prevented clandestine exports from taking place from time to time. Moreover, Philippine gold production is approximately double Indian gold production and many times higher in relation to domestic demand. At times the dollar-equivalent price of gold (converted at par value) has been higher in Manila than in Bombay. Yet it should be noted that such data on free market peso-dollar rates of exchange as are available show that the Manila price (thus converted) has been fairly close to $35 per ounce, at least during the latter part of the period under review.

Concerning the organization and structure of these gold markets, there is little readily available information pertaining to the Manila and Rangoon markets. On the other hand, there is a substantial amount of information concerning the Bombay market. This is discussed in some detail in Part II. It should be noted in this connection that, although the price quotations cited in this memorandum refer to spot transactions in gold bullion, transactions may be effected for either spot or forward delivery. A major feature of the Bombay gold trade is the forward contract in which dealers agree to deliver or take delivery at the next monthly settlement or the one subsequent thereto. Transactions in gold coin are also authorized in Bombay as in several other Asian markets, including Hong Kong and Rangoon, and price quotations for sovereigns are published regularly in Bombay. But such transactions are of only minor importance compared with dealings in bar gold. Normally the demand for gold in India is greater during the so-called "busy season" (October to May) as new crops are moved to market, particularly with the approach of the Hindu marriage season which reaches a peak in May. Illegal imports of gold into India are generally large during this period, and then tend to decline in summer owing to the inconvenience and difficulty of maritime smuggling operations during the monsoon.

2. Price Developments

The general direction of U.S. dollar-equivalent gold prices in nearly all major premium markets was downward from the second half of 1949 until the outbreak of the Korean war in June 1950. This was due mainly to the shift in China's position from a large-scale importer of gold for private hoarding purposes to that of a net exporter of gold in anticipation of and following the Communist victory on the mainland, and to the currency adjustments of September 1949. At the same time, improved economic conditions in Western Europe operated to increase confidence in local currencies, and to reduce the incentive for gold hoarding. Moreover, increased exports of semi-processed gold and fabricated gold articles from South Africa were directed to the premium markets, and tended to depress gold prices.

The outbreak of the Korean war caused a sharp upward spurt in gold prices during the second half of 1950 and the first quarter of 1951, but the price of bar gold throughout this period remained substantially below the peak level of early 1949. As the military position of the United Nations forces in Korea improved, and accordingly prospects brightened for an early armistice, the downward trend in gold prices was resumed. As stated above, the practical effect of the Fund's statement of September 28, 1951, on external transactions in gold at premium prices, was to increase the supply of newly-mined and other gold in the premium markets, and further depress dollar-equivalent gold prices. By early 1954, the price at which bar gold was traded directly for U.S. dollars had fallen to about $35 per ounce, and has remained close to that level in the international gold markets during the past three years.

In regard to price developments in the Indian and Far Eastern gold markets, it should be noted that there was also a parallel downward trend in dollar-equivalent prices during 1951 and 1952, but the general level of gold prices in these markets was, as one might expect, higher than the level prevailing in the Western European gold markets. During this period, the decline in gold prices in Bombay was particularly sharp. After 1952, the price of gold in Rangoon began to rise; here the upward movement was particularly sharp in the second half of 1955 and in 1956. In the other Asian gold markets, an upward trend in prices was subsequently observed: (a) in Bombay, from the end of 1954; (b) in Bangkok, from the end of 1953 to the end of 1955, followed by a moderate decline; (c) in Hong Kong, from the end of 1953 to early 1955, after which prices appear to have stabilized; and (d) in Manila, from the end of 1953 to the end of 1954, and again, after a decline in the first half of 1955, from June 1955. Except in the case of Rangoon, where the latest available data indicate dollar-equivalent gold prices at par value in 1956 and early 1957 far above the level of 1950 and the first half of 1951, gold prices in Bombay and the other Asian markets are still substantially below that level.

These price developments are summarized in Table A. More detailed information on prices is given in Part II and in the Appendix tables.

Table A: Price of Gold in Selected Asian Markets

(US Dollars per Ounce)

End of:	Bombay	Rangoon	Manila 1/	Hong Kong	Bangkok
	(at par value)			(at free market rate)	
June 1951	63.77	...	57.52	42.88	43.80
December 1951	59.36	80.80	57.62	42.76	45.37
June 1952	50.36	...	52.20	40.24	42.75
December 1952	47.42	76.81	53.73	40.90	41.36
June 1953	49.80	88.80	49.67	39.45	41.94
December 1953	46.30	85.12	51.61	37.41	39.04
June 1954	47.88	94.41	54.69	38.33	40.36
December 1954	49.46	88.58	54.79	38.31	41.04
June 1955	52.54	87.93	48.58	38.23	40.94
December 1955	52.82	103.49	51.58	38.29	45.45
June 1956	56.39	111.70	52.96	38.28	43.00
December 1956	58.21	131.36	60.33	38.24	43.63 2/
May 1957	60.97	...	...	38.88	...

1/ Average monthly price
2/ End of September

In regard to the causal factors influencing the free market price of gold in Asian markets, the available information is of a fragmentary nature. In the case of Bangkok and Hong Kong, the downward trend in the price of gold in 1952-53 was largely in sympathy with developments in international gold markets. In this connection, however, the authorization of gold imports into Thailand in 1952 by an officially licensed syndicate on a fairly liberal quota basis should also be noted. In the case of the Bombay gold market, the sharp decline in price was caused, not only by developments in international gold markets, but also by domestic factors operating within the Indian economy. The fall in gold and silver prices which followed the Fund's statement of September 28, 1951, and which continued throughout 1952 and 1953, was in sympathy with the sharp decline in domestic commodity prices, particularly those of agricultural products. The disinflationary policies of the Reserve Bank of India, including an increase in Bank Rate in November 1951 - the first such increase in seventeen years - as well as improved prospects for a truce in the Korean War were contributory factors. In this period, commodity prices also declined in Burma and the Philippines, while Philippine gold production increased substantially.

Of perhaps greater interest to the reader is the subsequent upward trend in prices in the Bombay, Manila, and Rangoon gold markets. As stated above, these three markets may be described as quasi-independent national gold markets, and are linked less closely than Bangkok and <u>a fortiori</u> Hong Kong with the network of international gold markets. The rise in the Bombay price of gold since the end of 1954 appears to have been caused partly by a decrease in illegal gold imports resulting from vigorous anti-smuggling measures taken by the Indian authorities, and partly by rising incomes and commodity prices, including agricultural prices, as a consequence of the rising tempo of the Indian economic development program. Moreover, the tax increases in recent years and expectations of further increases, especially in direct taxation, may have induced some increase in tax evasion, which would be reflected partly in increased hoarding demand for gold. It is, however, difficult to be precise in regard to this. In 1956 and earl 1957, political tension in the Middle East, as well as increased tension between India and Pakistan, contributed to the upward trend in gold prices. In recent months, however, there have been reports of increased gold smuggling, owing mainly to the high level of Indian gold prices. As noted above, the upward trend in the Rangoon gold market, was particularly sharp. This may be explained mainly by increased speculative demand in the face of limited domestic supplies in a period of rising commodity prices and political uncertainty. In regard to the Manila gold market, it should be noted that Philippine gold production has declined substantially from the 1953 level, while the gold-mining assistance program introduced in June 1954 has operated in such a way as to divert a substantial proportion of newly-mined domestic gold output from the Manila gold market to the Central Bank. As in the case of the other Asian gold market, political tension in the Middle East and Far East in 1955 and 1956 has probably tended to increase the speculative demand for gold in the Manila market.

3. Gold Production

In this section, it is proposed to discuss recent data pertaining to gold production in five Asian countries: i.e., India, Japan, the Philippines, South Korea, and Taiwan. Except for Saudi Arabia, which lies outside the geographical area under consideration, these five countries account for nearly the entire gold output of non-Communist Asia. In 1950, they produced approximately $25 million worth of gold (at $35 per ounce), but by 1952 their total output had risen to $35 million, and has remained at about that level in subsequent years (see Table B). Compared with the rest of the non-Communist world, the amount of gold produced in Asia is small. In 1952, it amounted to slightly more than 4 per cent of the estimated non-Communist world total, but by 1956 it was only about 3½ per cent thereof. This low level of gold output forms an important part of the background for the high prices prevailing in Indian and other Asian gold markets in recent years.

The three largest gold-producing countries in free Asia are the Philippines, Japan, and India. In 1956, they produced gold valued at $14 millio $10 million, and $7 million, respectively. The aggregate gold output of South Korea and Taiwan was only approximately $3 million. A comparison of gold production with total merchandise exports in 1956 indicates that for the group as a whole gold output was less than 1 per cent of exports, although in the case of the Philippines and South Korea it was 3.2 per cent and 7 per cent of exports, respectively.

Data for 1955 and 1956 show that gold output has increased in Japan and South Korea since 1952, but has decreased in India and the Philippines. In the case of Japan, the increased output was due mainly to the establishment of a legal free market for gold in Japan in 1953, with authorization for domestic producers to sell two-thirds of their current output, mainly to industrial users, at a premium price equivalent to approximately $49.25 per ounce, instead of being required to sell their entire output to the Government at the official price as hitherto.

In regard to India, the decline in output was due in large measure to the sharp decline in the free market price of gold in Bombay in early 1952. Meanwhile working costs have risen, and the industry has recently been taken over by the state after a period of prolonged negotiations over terms of compensation.1/

Philippine gold production was also adversely affected after 1953. Premium prices in the Manila market had fallen far below the peak level of 1951, and working costs, including taxes, had risen substantially. To help solve this problem, a gold subsidy program was initiated by the Philippine Government and approved by the Fund in June 1954. Accordingly, subsidies were granted to those mining companies which produced gold as their principal product and which elected to sell to the Government through the Central Bank at the official price rather than sell on the domestic free market at premium prices. Producers were not required to sell a prescribed portion of their

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1/ The Kolar gold mines were taken over by the Mysore State Government in October 1956. It was then agreed that compensation paid in cash would be £ 1.23 million.

output to the Government. The amount of the subsidy was related to the presumed economic need of each category of mine (i.e., above-marginal, margin[al] and sub-marginal). In September 1955, this program was modified for a period of three and one-half months ended December 31, 1955 (it was subsequently extended as modified until June 17, 1956). Under this temporary arrangement, gold producers were required to sell to the Central Bank a minimum of 50 per cent of their output at the official price plus rates of assistance which were slightly lower than hitherto for above-marginal and marginal mines, with the option of selling their entire output at the same prices. This in effect reduced the rate of subsidy payments, but increased the proportion of output eligible for such assistance. The program adopted in June 1954 (and later amended) was for a period of two years ending June 17, 1956. On June 16, 1956 however, the Philippine Congress approved legislation extending that program until July 18, 1957, subject to two important modifications. The new scheme applies equally to mines producing gold as principal product and to mines producing gold as a by-product of other metals. It also provides that at least 75 per cent of their current gold output must be sold to the Government through the Central Bank at the official price plus subsidy. The remaining 25 per cent may be sold either to the Government on these terms or in the domestic free market without benefit of assistance. It should be noted that during the second half of 1956 the free market price of gold in Manila increa[sed] substantially to a level well in excess of the official price plus the rate of assistance payable to above-marginal and marginal producers.

As an incentive for increasing gold production in South Korea, the Monetary Board of the Bank of Korea authorized, on November 15, 1956, the purchase of newly-mined domestic gold with Government-owned dollar exchange. The new regulations established the Bank's buying price at $35 per ounce. Th[e] dollar proceeds from such gold sales are credited to an import account in the name of the seller, and may be used to import foreign goods under the same conditions as are granted to exporters of domestic products.

Table B. Gold Production
(in million of US dollars at $35 per ounce)

	1950	1951	1952	1953	1954	1955	1956 Gold Production	1956 Total Exports (million dollars)	1956 Gold Production as per cent of Total
India	6.89	7.92	8.85	7.80	8.42	7.40	7.37	1,256	0.6
Japan	5.44	6.62	7.98	9.04	10.51	10.10	10.34	2,448	0.4
Philippines	11.69	13.77	16.43	16.80	14.56	14.56	14.22	443	3.2
South Korea	.09	.27	.65	.56	1.83	1.67	1.76 2/	25	7.0
Taiwan	1.15	1.07	1.18	.95	.88	.99	1.16	118	1.0
Area Total	25.26	29.65	35.09	35.15	36.20	34.72	34.85	4,290	0.8
World Total 1/	846.00	827.00	852.00	849.00	897.00	944.00	985.00	93,250	1.1
Area Total as a per cent of World Total	3.0	3.6	4.1	4.1	4.0	3.7	3.5	---	---

1/ Estimated world total excluding USSR, Mainland China, Bulgaria, Czechoslovakia, Hungary, Rumania, North Korea.
2/ Estimate based on January-September data.
Source: International Financial Statistics, June 1957.

PART II

1. The Bombay Gold Market

The Bombay gold market is to a large extent, but not wholly, isolated from the world market because of rigid restrictions on imports and exports. While speculation and illegal imports of gold are important factors, and the international situation has some effects, the price of gold in Bombay depends mainly on trends in real income and in the Indian commodity and securities markets.

The gold market in India is in some ways distinct, owing to the special characteristics of the demand for and supply of gold in the country. Except for a short period in 1946, imports and exports of gold on private account have been prohibited since September 1939; that is, they are legally prohibited, except under license from the Reserve Bank of India, and as a matter of policy the Reserve Bank does not grant such licenses. As a consequence, the Indian gold market is fed by three sources of supply: newly-mined domestic output, private stocks, and illegal imports. In 1955, for example, India produced approximately 210,000 ounces of gold, all of which was presumably sold internally. In regard to clandestine imports, there are no precise figures. Unofficial trade estimates (in early 1956) range from Rs. 300 million to Rs. 400 million per annum at market prices, or 4 per cent of total current account payments in 1955. At the average spot price of gold prevailing in the Bombay market in the fiscal year 1955-56,[1] this would amount to 1.2 million to 1.6 million ounces. These estimates, however, are rough, and it is possible that the inflow of gold into India may have been less than Rs 300 million per annum since 1952 (see p. 12, below).

The demand for gold in India has certain special features. In India, gold is employed as a means of holding accumulated savings from the past, and effecting new savings out of current income. It is often used as a durable article of consumption. Thus, a large part of the gold held is in the form of ornaments and jewelry, the use of which has been largely customary in accordance with Indian traditions.

Broadly speaking, the hoarding demand for gold varies directly with real income. It is also determined by relative prices, present and prospective that is, by a comparison of the profitability and risk of alternative investment opportunities. Moreover, there may be important "accidental" factors, such as public policy and administrative procedure in regard to tax evasion, changes in the international political situation, etc. It should be noted, however, that in practice, it is difficult to identify demand which is

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1/ Approximately Rs. 96 per tola ($53.75 per ounce). During this period the rupee equivalent of the sterling price of gold in London was approximately Rs. 62/8 per tola ($35 per ounce). Freight charges, insurance, etc. from London to Bombay have been estimated at Rs. 2 per tola; and import duty, if paid, would come to Rs 13/2 per tola. However, it can be seen that the difference between the London and the Bombay price was substantially greater than Rs 15/2 per tola ($8.40 per ounce). Even between Bombay and Muscat (Oman), the difference in price is very large: In October 1956, it was approximately Rs 33 per tola ($18.50 per ounce).

part of the normal pattern of saving (sometimes called the savings demand for gold) and demand due to speculative and other causes.

The demand for gold for consumption purposes depends, not only on changes in real income, but also on the price of gold in relation to the prices of other consumer goods, as well as social and religious customs. In regard to income, it should be observed that an increase in population and real national income, even without any increase in average per capita income, will be associated with an increase in demand. Shifts in the distribution of income may also affect the demand for gold. The agricultural classes are mainly responsible for the demand for gold in India, and in periods of severe depression there are large-scale distress sales of gold. As is well known, it is customary in India to provide brides with gold and silver ornaments according to the ability of the bridegroom's family to make such provision. These dowries are known as <u>stridhana</u>, and are the sole property of the bride. Moreover, it is customary for Indian girls to wear gold and silver ornaments. These are the two major factors which lie behind the conversion of bullion into jewelry. In the case of ceremonial expenditure on dowries, there is some scope for substitution: for example, at a marriage, expenditure on clothes or on social feasting may be substituted for expenditure on gold. But the requirements for gold, clothes, and foodstuffs on such festive occasions are generally in accordance with conventional standards, and cannot be varied beyond certain limits. Nevertheless, it is possible to accumulate gold required for dowries over a considerable period of time, and this in itself provides ample scope for varying the demand of the individual buyer over time on the basis of fluctuations in the price of gold.

Bombay is India's premier gold market, and handles the bulk of the trade. In 1951, there were from 15 to 20 merchants holding in the aggregate approximately 30,000 to 60,000 ounces of ready gold, with a view to meeting the requirements of local and up-country jewelers, goldsmiths, and other consumers. Normally the demand for gold is greater during the "busy season" from October to May, owing to the movement of new crops to market, and the approach of the Hindu marriage season which reaches a peak in May. Average floating stocks of gold in the Bombay market (mainly with dealers) were estimated at approximately 30,000 ounces in the fiscal year 1950-51, but by 1955-56 they had fallen to only about 8,500 ounces. The average monthly offtake in 1955 has been estimated at 39,000 ounces.

In Bombay, the organized market in gold and silver functions under the auspices of The Bombay Bullion Association. The Reserve Bank of India is represented on the Board of the Association. Business may be transacted either for spot delivery or for forward delivery with monthly settlements. Spot transactions take place over the counter, usually against cash payment, either in connection with covering operations or to effect the distribution of newly-arrived supplies from the hands of wholesalers to those of retailers. However, a major feature of the market is the forward contract in which dealers agree to deliver or take delivery of bullion at the next monthly settlement or at the second settlement.

Transactions in gold bars are for 250 tolas (93-3/4 ounces; 1 tola = 3/8 ounce) or a multiple thereof, on the basis of 100 per cent, "touch" (i.e., fineness). Transactions in sovereigns are also authorized. In regard to bar gold, deliveries may be effected in bars varying from .900 to .990 fine, subject to suitable price adjustments. When gold is delivered which is less than .940 fine, but .900 fine or higher, a small charge of three naye paise per tola is deducted from the price quoted in the delivery order. Gold which is less than .900 fine is not good delivery in settlement and is subject to a penalty charge of six naye paise (1-5/16 U.S. cents) per tola per unit of ten below .900 fine.

The monthly settlements are fixed on the basis of the Hindu calendar months. Forward transactions in gold are deemed to have been effected for each month, so that at the end of the month deliveries may be completed or, alternatively, they may be carried over to the next monthly settlement by executing a badla: i.e., a carry-over of a selling contract which is effected by buying spot to meet delivery at the first settlement, and simultaneously selling forward to the second settlement (badla may be executed even without a carry-over of sales contract, since any trader when rates are favorable, or are expected to be favorable in future, may buy spot and sell forward for either first or second settlement). The quotation for the new settlement is usually slightly higher than that for the one which is ending, owing to interest, storage, and insurance charges for holding gold for a period of one month. Similarly, the forward price of gold is usually slightly higher than the spot price. However, occasions have arisen when the market has been disorganized by the demands of one or more bull operators for delivery of outstanding purchases which sellers were unable to meet, owing to an acute shortage of spot gold. In these circumstances, the price in the new settlement has fallen below the price in the current settlement, thereby reflecting the so-called backwardation charge paid by the bears.

The Bombay Bullion Association has established certain margin requirements in regard to forward transactions, with a view to checking excessive speculation, and members are required to file daily reports of outstanding transactions. They are also required to effect an interim clearance for the purpose of settling differences in regard to outstanding transactions whenever the official closing rate for gold is not less than Rs. 4 per tola higher or lower than the official opening rate. In the case of a severe crisis, there is also a provision for clearing all outstanding transactions at an arbitrarily fixed rate.

There is a legal prohibition in respect to teji mandi (call-put, or option) business in the Bombay bullion market. However, the ban is not adequately enforced, so that a part of the activity of the forward market is associated with this type of transactions which may be described as an arrangement whereby the party who accepts the option charge is obligated within a specified period of time to buy (or sell) gold at the market price prevailing when the agreement was made in accordance with the instructions of the party who had paid the option charge for the right to exercise the option. This is, of course, a form of gambling in which the party who pays the charge may subsequently exercise his option by instructing the other party to buy (or sell) gold at the agreed price.

There is very little reliable information concerning the means of payment for gold imported into India. A large percentage of this gold is believed to come from the Middle East (and to some extent from West Pakistan), and is paid for in Indian rupee currency which also circulates as a medium of exchange in the Persian Gulf area and certain parts of the Indian Ocean area. Indian rupees thus received may be utilized to purchase commodities in India or abroad to be exported against sterling or dollar payments (or against Pakistan rupees) without prior declaration to the customs authorities, or they may be exchanged for dollars at black market rates. Moreover, to the extent that legal exports of merchandise from India are under-invoiced, the exporter is able to earn more foreign exchange than he is required to surrender to the monetary authorities, and he may then utilize these excess earnings to finance gold imports into India. A portion of the rupee proceeds from unauthorized gold imports will be deposited in banks in the Persian Gulf area, to be returned to India subsequently. Indian exchange records indicate that the following amounts were repatriated (in millions of rupees): 1950, 126; 1951, 193; 1952, 288; 1953, 158; 1954, 51; 1955, 100; 1956, 144. It is presumed that these amounts reflect a substantial portion of India's unrecorded imports of gold on private account.

In this connection, however, certain observations concerning the movement of rupee notes into and out of India may be pertinent. Although Indian notes flow from India to the Persian Gulf area mainly as a consequence of uncontrolled exports of currency for the purpose of financing illegal and unrecorded imports of gold into India, they also leave India, partly as a result of sales by Indian banks to banks in Persian Gulf territories, for the purpose of supplying the latter with currency for local use, and partly as a result of the use of rupee currency by Indian travellers, including Muslim pilgrims to Mecca, in the Middle East. The reverse movement from the Persian Gulf area to India is partly the result of direct imports by travellers and others wishing to effect payments in rupee notes in India, but mainly a result of sales to Indian banks by banks in the territories of notes withdrawn from circulation against credits to foreign-held rupee accounts.

The data available to the Indian monetary authorities cover only those flows of notes which pass through Indian banks plus those notes which are exported directly by Indian travellers: that is, they are believed by the authorities to cover the bulk of the inflow of notes but only a small part of the outflow. There have been reports, as yet unverified, that in recent years the total amount of Indian notes circulating in the Persian Gulf area has been fairly stable. If this were true, the data on Indian notes repatriated from that area during the period 1950-56 would broadly indicate the amount exported as a means of financing illegal gold imports. They would likewise seem to indicate, not only a sharp decline in illegal gold imports into India from 1952 to 1954, which may be accounted for, at least in part, by increasingly vigorous anti-smuggling measures taken by the Indian authorities, but also an inflow of gold smaller than the unofficial trade estimates cited above of Rs 300 to 400 million per annum, as of early 1956. This smaller inflow of gold may be considered provisionally as a minimum figure, as it does not allow for the possibility of clandestine imports being effected without a corresponding outflow of Indian rupees to the Persian Gulf area.

During the first eight months of 1951, (see Table 1, Appendix), the price of gold in Bombay generally was firm, fluctuating around the level of about Rs 114-5 per tola ($64 per fine ounce). A downward movement began in September; and after a drastic price decline in early 1952, the market was closed from March 4 to 18, 1952. There was subsequently a slight recovery in April and May, but the price continued its downward trend throughout 1952. The spot price of gold in Bombay declined from a high of Rs 118-10 per tola (equivalent to $66.43 per ounce at the official rate of exchange) on April 13, 1951 to Rs 98-10 ($55.23) on February 29, 1952, and to Rs 80 ($44.80) on March 15. It rose to Rs 95 per tola ($53.20 per ounce) on May 5, but gradually declined to a low of Rs 72-12 ($40.74) on December 19, 1952. Although there was a spread of nearly $26 per fine ounce between the high and the low prices during 1951-52, the general level of gold prices in Bombay during 1952 was about $12 per ounce lower than it had been during 1951.

Various reasons have been given for this sharp decline in the price level of gold in Bombay, and it would be difficult to single out any one factor as the primary cause. Market reports indicate that the downward movement that started in early September 1951 was due to nervous liquidation of gold by bullion dealers induced partly by increased arrivals of smuggled gold and partly by rumors that the International Monetary Fund was going to relax its gold policy statement of June 1947, thereby giving gold-producing countries a free hand in marketing newly-mined gold. Within a few days after the Fund issued its modified gold policy statement on September 28, 1951, there was a considerable decline in gold prices on international gold markets; and in the months that followed the decline was more marked in Bombay than in other centers. The seasonal increase in the price of gold failed to develop in India; and the sharp break in gold and silver prices was in sympathy with the sharp decline in commodity prices, especially those of agricultural products. For the first time in seventeen years, the Reserve Bank of India, on November 15, 1951, increased its bank rate from 3 per cent to $3\frac{1}{2}$ per cent. It also withdrew partial support of Government bonds, thereby inducing a rise in long-term interest-rates. These factors, together with improved prospects for a truce in the Korean war, tended to exert considerable dis-inflationary pressure inside India, and to cause a decrease in the demand for gold in 1952.

Broadly speaking, the price of gold in the Bombay market remained generally at a level well below Rs 92 per tola ($51.50 per ounce) during the three-year period from April 1952 to March 1955. There were, of course, some fluctuations. After December 1954, however, the price of gold began to rise appreciably. In December 1955, the average (spot) price was Rs 94-2 per tola ($52.70), or $7\frac{1}{2}$ per cent above the December 1954 level. In 1956, there was a further rise of $11\frac{1}{2}$ per cent; and by the end of May 1957, the price was approximately Rs 109 ($61), or about 4 per cent above the December 1956 level. Thus, in less than two and one-half years, the price of gold had increased by approximately 24 per cent.1/ But even an increase of this order was

1/ These calculations are based on data pertaining to the average price of gold for a given month (December); in the case of May 1957, however, the data refer to the price at the end of the month.

insufficient to restore the peak level of prices (in rupees) which prevailed throughout the period 1948-51.

It would appear that the upward trend in the Bombay price of gold since December 1954 was due both to an increase in demand and a decrease in supply. In regard to the demand for gold, rising incomes as a result of the increased tempo of India's economic development program were probably the primary factor. The upward trend in agricultural and other commodity prices since May 1955, the prospects of large-scale deficit financing, and increased direct taxation further strengthened the demand for gold. In 1956 and the early part of 1957, international political tension in the Middle East and increased tension between India and Pakistan over the Kashmir question were factors contributing to the bullish trend in gold prices. In regard to the supply of gold, there are indications that anti-smuggling measures taken by the Indian authorities have been increasingly vigorous and effective, while political developments in Goa have probably discouraged smuggling activity. In this connection, it should be noted that one consequence of the passage of the Sea Customs Amendment Act, in April 1955, was to shift the burden of proof, that goods seized by the authorities are not smug led, to the persons from whom the goods are seized. The amount of smuggled gold seized by the Indian authorities was 31,700 ounces in 1955-56, and 34,600 ounces in 1956-57. Recently there have been reports of increased smuggling of gold overland from West Pakistan into India, owing mainly to the high level of Indian gold prices.

It may be of interest to compare the recent increase in the Bombay price of gold with certain other Indian price data. As against a 24 per cent increase in the average price of gold during the period from December 1954 to the end of May 1957, the index of wholesale prices of food articles increased by as much as $35\frac{1}{2}$ per cent. On the other hand, the average price of silver increased by 20 per cent, the general index of wholesale prices increased by 19 per cent, and the index of variable-dividend industrial securities prices fell by 9 per cent. If we take a shorter period, (i.e., from December 1956 to May 1957), we find that the increase in the price of gold (4 per cent) was less than the increase in the price of silver (6 per cent), but equal to the increase in wholesale food prices (4 per cent), and greater than the increase in the general index of wholesale prices (2 per cent). During the same period, however, the index of industrial share prices fell by as much as 12 per cent.

The trends in agricultural prices in the last two years or so would indicate a certain increase in the purchasing power of the agricultural classes, which in turn is likely to have increased the demand for gold from these classes. Moreover, the recent fall in industrial security prices may have prompted a greater interest in gold on the part of certain other classes. The continuous rise in gold prices in India would itself provide a greater incentive for gold smuggling operations in recent months.

2. The Bangkok Gold Market

In the latter part of 1952, the Thai authorities established a system of legalized gold imports, with a view to discouraging the traffic in smuggled gold.1/ At that time it was estimated that the average quantity of gold bullion imported illegally into Thailand was approximately 50,000 ounces per month, although in some months the amount exceeded 70,000 ounces. Most of this gold came from Hong Kong. As Thailand's consumption of gold (mainly by industrial users for conversion into jewelry) was estimated at 50,000 ounces per month, any excess supplies over this amount would be available for re-export to Burma or other nearby countries. Accordingly, it was decided that an officially licensed syndicate of gold dealers (organized by a group of Thai banks and a leading export-import firm) be given a monopoly of gold imports, and authorized to distribute such gold internally to goldsmiths and shops, with a monthly allocation of 60,000 to 100,000 ounces. With the introduction of this program, import duties were levied on gold imported by the syndicate. The syndicate was also made responsible for checking the fineness of gold ornaments offered for sale to the public, with a view to protecting customers against fraudulent misrepresentation. Although imports of gold by private merchants continued to be prohibited, the discovery and confiscation of gold bars from time to time showed that gold was still being smuggled into the country for sale in the gold shops.

Pursuant to regulations issued in December 1952 by the Thai Ministry of Finance, authorized importers of gold bullion were required to apply to the Ministry through the Bank of Thailand; gold import licenses would be valid for a period of three months from the date of issue; persons or firms obtaining such licenses were required to submit to the Bank an application each time that the gold to be imported was brought through customs; and importers were required to pay a fee for gold imports upon submitting their applications to the Bank.

In June 1955, however, the Ministry of Finance, with a view to conserving foreign exchange for the import of commodities deemed to be essential, placed a temporary ban on the importation of gold. This action was followed by a sharp increase in the volume of clandestine imports - mainly from Hong Kong - both the aircraft and by ship. Accordingly, the embargo was lifted in January 1956, when the gold trading syndicate was authorized to import 90,000 ounces per quarter, the size of this quota being fixed in accordance with the availability of foreign exchange. There has been a marked decline in recorded gold imports into Thailand in recent years. The value of such imports was approximately $11 million in 1955, as against $38 million in 1951.

1/ Imports of gold into Thailand were prohibited on July 27, 1951. Prior to that date, they were permitted, but importers were required to sell such gold to the Bank of Thailand at the official price within a period of seven days, unless exemption had been granted by the Ministry of Finance.

It was the view of the Thai authorities that the permissible amount of gold imports in 1956 would be substantially less than the amount imported in 1955. It has been estimated that approximately 500,000 ounces of gold were imported into Thailand in 1956.

Exports of gold on private account are prohibited, except for gold jewelry classified as "personal effects". It is probable, however, that a certain amount of gold bullion is exported clandestinely to nearby countries.

Data are available for gold prices in Bangkok for the period February 1951 to September 1956 (end of month). Prices are quoted in local currency for bar gold and gold jewelry (fabricated gold), the Thai unit of measurement - the baht - being equal to 15 grams.1/ Normally the price of gold jewelry is slightly higher than that of bar gold, but the spread is variable, and there have been times when bar gold commanded a premium over gold jewelry. In the discussion which follows, however, price quotations are for bar gold only (see Table 2, Appendix). They are in U.S. dollars per ounce (at the free market rate of exchange).

During the period from February 1951 to December 1953, there was a downward trend in the Bangkok price of gold. The decline was particularly sharp in 1951, when the price fell from approximately $51.25 per ounce in February (end of month) to $45.35 per ounce in December. By the end of December 1952 it had fallen further to $41.35 per ounce, and in December 1953 it stood at $39.05 per ounce. The price of gold in Thai currency also declined in 1951 and 1952, particularly in the latter year, but rose in 1953, while the value of the baht in the free market depreciated in terms of dollars in 1951, appreciated in 1952, and then fell again in 1953.

In 1954, the Bangkok price of gold increased slightly, so that by the end of December it stood at $41.05 per ounce, as against $39.05 a year earlier. In this period there was a slight parallel rise in the local currency price of gold, as well as a slight appreciation in the value of the baht in terms of dollars at the end of 1954, as compared with the end of 1953. There was a further rise in the price of gold in 1955, particularly in the second half of the year following the imposition of the temporary ban on gold imports, so that by the end of the year it was $45.45 per ounce. The local currency price also increased, but there was very little change in the free market exchange rate for the year as a whole. After the lifting of the gold embargo in January 1956, the price declined moderately. It was $43.65 per ounce at the end of September 1956, compared with $45.45 nine months earlier. The price in local currency also declined, while the exchange rate was relatively stable.

1/ The baht is also the name of the Thai currency unit.

3. The Hong Kong Gold Market

A large part of Asia's gold trade is effected in Hong Kong and Macao, where the market is reportedly dominated by a small group of operators well placed to appreciate and utilize local facilities. Prior to the Communist victory in mainland China, in 1949, Hong Kong was primarily an entrepot market supplying the demand of private gold hoarders in China. But with the advent of the Communist regime in Peking, and the virtual disappearance of the wealthy merchant classes, the hoarding demand of such persons has been all but suppressed, while food scarcity has induced a substantial amount of dishoarding. A large proportion of the trade and financial transactions effected in Hong Kong can be attributed to the scope and efficiency of the market. There is certainly a connection between the free exchange market and the free gold market in Hong Kong. Under existing regulations, the Hong Kong dollar is freely convertible into any foreign currency or into bullion. There are indications, however, that the principal foreign currency traded is still the United States dollar in which there is a wide and active market.

Entrepot trading in gold in Hong Kong is sustained by the demand of Far Eastern and even Indian customers. Exports to Burma, Indonesia, Singapore, and South Viet Nam are frequent and, taken together, substantial. Exports to India and South Korea have also been reported. The market is currently supplied mainly by gold imported from the United Kingdom, and by newly-mined gold imported from Australia. According to official data, gold imports into Hong Kong amounted to 2.21 million ounces in 1956 - a considerable increase over the figure for 1955. The bulk of this gold was imported from the United Kingdom and Australia. The data also show that total exports of gold from Hong Kong amounted to 2.29 million ounces in 1956, and were all to Macao. Trade publications, however, show that large amounts of gold have been transshipped from Macao through Hong Kong to the various premium markets cited above.

It should be noted that, since October 1953, the Government of Hong Kong has authorized (a) the transshipment of gold (i.e., bars, coins, and processed gold) not owned by residents thereof to any destination, and (b) the importation of gold for re-export within a limited period, provided that the re-export transaction complies with the import licensing requirements of the country of destination (e.g., Macao). As indicated above, there is a close a close connection between the Hong Kong gold market and that of the neighboring Portuguese colony Macao. The financing of gold transactions is usually effected in Hong Kong, whereas Macao with its excellent facilities for converting imported bullion into bars acceptable to local traders, as well as its ample storage and marketing facilities, has played the major role in regard to the physical handling of the gold for extended periods. However, Macao lacks a deep sea harbor and an airfield. As it must rely on flying boats, river steamers, river craft, andmotor vehicles for transportation to and from the rest of the world, rerouting of cargo via Hong Kong is often necessary. Accordingly, gold may be, and frequently is, imported into Hong Kong for re-export to Macao (gold imported into Macao is subject to an import fee equivalent to approximately $2 per ounce), while at the same time or subsequently gold is transshipped from Macao through

Hong Kong to premium markets in Southeast Asia. It is the cost of transporting gold from the United Kingdom to Hong Kong and then diverting it to Macao and back again which accounts mainly for the differential between the London price and the Hong Kong price of gold.

In addition to this entrepot trade, which is of primary importance, Hong Kong has absorbed a sizable amount of gold for internal consumption. In time of crisis, holders of large idle balances and others, including holders of so-called "hot-money", have withdrawn their balances from the banks, and invested them in gold. Moreover, Chinese refugees from the mainland, arriving with substantial United States dollar assets, have liquidated a portion of these assets, and invested the proceeds in gold. There is also continual saving by small shopkeepers and others in the form of gold rather than in local currency, owing to the relatively low interest-rate paid on time deposits.

The Hong Kong Gold and Silver Exchange Society, with nearly 200 members, principally Chinese, has controlled the Hong Kong gold market for more than thirty-five years. Bullion brokers from all over the world are represented there. Although since July 1949 prices have been quoted on the basis of bars of .945 fineness in accordance with regulations permitting legal transactions only in bars less than .950 fine, the trading is mainly in five-tael and ten-tael bars (about 6 and 12 troy ounces, respectively; 1 tael = 37.43 grams =1.' troy ounce) of .990 fineness. Transactions are effected for either spot or forward delivery. However, only a small percentage of forward business is for actual future delivery, as almost all such transactions are fictitious in the sense that they resemble a gambling operation involving contract notes which are cleared by one party paying the other interest and eventually the difference in price at the start and the close of the position.

When gold is shipped to the Hong Kong area, including Macao, exporters are generally paid in United States dollars prior to shipment. The main sources of these dollars available to importers in the area are remittances from the United States by resident Chinese to relatives, remittances by American business firms to their branches, and dollar export earnings. Local transactions in gold are usually effected in Hong Kong dollars.

In 1951, the Hong Kong price of bar gold declined sharply from \$47.25 per ounce in January (end of month) to \$42.75 in December (see Table 3, Appendix). The decline in the price of gold in local currency was, however, very slight - from HK \$325 per tael to HK \$320 - but the Hong Kong dollar depreciated by about 9 per cent in terms of US dollars. This downward trend in gold prices continued in 1952 and 1953 in sympathy with prices in other international gold markets, and owing mainly to increased supplies of newly-mined gold becoming available for sale at premium prices following the Fund's modified gold policy statement of September 28, 1951. Thus, at the end of December 1952 the price was \$40.90 per ounce; and by the end of December 1953 it had fallen further to \$37.40. At the same time, the price of gold in local currency declined, while the Hong Kong dollar appreciated in terms of the U.S. dollar.

In 1954, the Hong Kong price of gold increased moderately, so that by the end of the year it stood at \$38.30 per ounce. Throughout 1955 and 1956 month-end prices fluctuated between a low of \$37.95 in February 1955 and a high of \$38.90 in October 1956. At the end of May 1957 it stood at \$38.90 per ounce, compared with \$38.40 a year earlier. During this twelve-month period, the dollar-equivalent price of gold increased by 1 per cent, while the local currency price of gold increased by 8 per cent, and the Hong Kong dollar, which had been remarkably stable for more than two years, depreciated in terms of U.S. dollars by 7 per cent.

4. The Manila Gold Market

In the early postwar period, Philippine gold-bearing ores were shipped to the United Kingdom and the United States for refining, and then sold in the form of bullion to overseas buyers, usually through London or New York. Following the Fund's statement on gold transactions at premium prices, dated June 18, 1947, sales were arranged in Manila before the ores were sent abroad for refining, with local Chinese merchants as the principal buyers for shipment to China and other Asian countries at high premium prices.

In March 1949, the Philippine authorities established a system of import and export licensing for gold and gold-bearing ores, and accordingly refused to license exports to countries in which there were premium gold markets. Domestic sales of imported gold were authorized only to actual users for industrial and artistic purposes, and at a price not in excess of the peso equivalent of \$35 per ounce. As a consequence of the Fund's statement of 1947, and the imposition of import and export restrictions, the Manila gold market lost much of its international character, and became primarily a domestic market in which Philippine producers (and others) disposed of their current output (and accumulated stocks).

In January 1950, the Philippine authorities issued a circular directing gold mining companies to sell 25 per cent of their output each month to the Central Bank at the official price, but permitting them to sell the remaining 75 per cent in the local free market. During 1950 and 1951, producers were issued blanket licenses to export their current output for refining abroad and subsequent reimportation. The 25 per cent requirement was suspended in October 1952, with effect from August 4 of that year. The Philippine authorities have varied the minimum percentage of current gold output which producers were required to sell to the Government (see pp.7 - 8). At the present time, producers are required to sell at least 75 per cent of their gold output to the Government through the Central Bank at the official price plus the prescribed subsidy, while the remaining 25 per cent may be disposed of in the same manner or in the domestic free market at prevailing prices.

On February 19, 1957, the monetary authorities granted non-resident holders of blocked peso deposits permission to utilize such funds for direct purchases of gold bullion in the domestic free market in an amount up to

25 per cent of total newly-mined domestic gold output. Such purchases of gold bullion must be sold to the Central Bank at $35 per ounce, payable in U.S. dollars, and the proceeds may be remitted abroad.

The Manila market is probably not as well organized as the Bombay and Hong Kong markets. Buyers and sellers are generally brought together through brokers, and transactions are effected at premium prices which may fluctuate from day to day. Recently, however, domestic buyers have united to form a syndicate which reportedly includes a large majority of such buyers. In spite of official vigilance it has not been possible to prevent clandestine exports of gold. It is this which distinguishes the Manila market from such markets as Bombay and Rangoon which receive clandestine imports of gold. A t times clandestine exports to Hong Kong, Macao, and other Asian markets have been substantial. The amount of Philippine gold smuggled abroad depends upon several factors, including the cost of smuggling operations and the level of prices in both the Manila and foreign gold markets. The decline in premium prices after 1951, together with increased costs, reduced the profitability of gold production and of transactions in gold, and was a major factor influencing the demand for a gold-mining subsidy.

During the past seven years, gold transactions have been effected in the Manila Market at substantial premiums (see Table 4, Appendix). Thus, during the Korean War, the average price of gold in pesos increased from the equivalent of $48 per ounce (at the par value) in June 1950 to $78.25 per ounce in April 1951 -- an increase of 63 per cent in ten months. In June 1951, however, the price fell sharply to the equivalent of $57.50 per ounce, owing to increased domestic gold production, and larger supplies becoming available to the market, in conjunction with the improved political outlook following the stronger allied position in Korea. This downward trend in prifes continued throughout 1952, following the Fund's statement on premium gold transactions, dated September 28, 1951, and in sympathy with the decline in premium prices throughout the world. The average price of gold in Manila was equivalent to approximately $53.30 per ounce in 1952, and $52 in 1953. In mid-1953, however, the price of gold was slightly less than $50 per ounce.

With the introduction of the gold subsidy program in June 1954, a large proportion of newly-mined domestic gold output was diverted from the Manila Market and sold to the Central Bank commencing in January 1955. In spite of this assistance, gold production declined appreciably and as a consequence the price of gold advanced to the equivalent of $55.65 per ounce in October 1954.

In the first half of 1955, this upward trend was temporarily reversed, and the price of gold fell to a five-year low equivalent to $47.75 per ounce in May. This was due to a number of factors, including uncertainty in regard to the classification of gold mines for purposes of determining the rate of subsidy payable, uncertainty in regard the adequacy of the

Emergency Gold Assistance Trust Fund to meet all claims for subsidy payments (the Trust Fund was limited to the amount of taxes generated by the gold mining companies themselves), as well as fear on the part of buyers following a series of recent official acts of confiscation of private gold holdings and prosecution for alleged irregularities.

In the second half of 1955, the gold subsidy program was modified, and producers were required to sell a minimum of 50 per cent of their output to the Central Bank. Later, in June 1956, this minimum requirement was increased to 75 per cent. The Manila price of gold has been rising since mid-1955, and by November 1956 (i.e., November 9), it had reached a high equivalent to $64.10 per ounce, compared with $51.25 a year earlier. Subsequently, in December 1956, it declined to $59.00 per ounce. The upward trend was particularly pronounced in the second half of 1956, owing to the decline in domestic gold production at a time when base metals output was increasing, diversion of supplies from the Manila Market to the Central Bank, as well as general political unrest throughout the Far East and international tension following the nationalization of the Suez Canal.

There are indications that the price of gold in pesos has been influenced by fluctuations in the dollar-peso rate of exchange in the black market. As such rates of exchange are not published and readily available for the full period under review, it was necessary to quote dollar-equivalent prices converted at the par value. It should be noted, however, that such data on free market rates in New York as are available show that in 1956 the dollar-equivalent price of gold in Manila (thus converted) remained fairly close to $35 per ounce.1/

5. <u>The Rangoon Gold Market</u>

The Rangoon gold market is small and unimportant, compared with Bombay and Hong Kong. Although private gold holdings in Burma, which are mainly in the form of jewelry and ornaments, are believed to be substantial, estimates of the volume of gold transactions in the Rangoon market vary from approximately 4,000 to 10,000 ticals (2,140 to 5,350 ounces) per month, depending mainly upon seasonal influences. It is believed that, except perhaps in the busy season from December to May, the actual amount of gold traded is generally close to the lower limit of this range. Since the introduction of a more restrictive policy in regard to import licensing and exchange control, in 1955, and owing to the rise in the domestic price-level and political uncertainty, the demand for gold has probably increased.

Domestic gold production is negligible, and private imports and exports of gold are prohibited. It is, however, not possible for the Burmese authorities to prevent all clandestine shipments. Thus gold is smuggled into

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1/ See <u>Statistical Market Letter</u>, published by International Reports, Inc., 200 Fourth Avenue, New York, N.Y.

Burma, mainly from Thailand, Hong Kong, and Mainland China. As a result of this illegal trade, the price of gold is slightly lower in Moulmein, close to the Thai frontier, than in Rangoon. In addition to gold bullion, gold coin prices are also quoted in Rangoon. There is a black market for Indian rupees in Rangoon, in which Burmese currency is sold at a heavy discount, but no direct quotations are presently available.

Available data pertaining to the spot price of gold in the Rangoon market are limited to year-end prices for the period 1950-54, and to month-end prices from January 1955 through September 1956 (see Table 5, Appendix). Price quotations are in Burmese Kyats per tical (1 tical = 0.486 troy ounce), but have been converted into U.S. dollars per ounce at par value. Throughout most of the period under review, the price of gold in Rangoon was substantially higher than in other gold markets, including the Bombay market. This is probably because of political insecurity and uncertainty in Burma and the limited supplies available for sale in Rangoon. It also reflects, though not entirely, a substantial depreciation in the external value of the kyat in the free market for foreign exchange, as compared with the par value, particularly in 1957.

The data indicate an upward trend in the Rangoon price of gold since the end of 1952. The price was K 197 per tical ($85.10 per ounce) at the end of 1953, compared with K 177.75 ($76.80) a year earlier. There was a further rise in price in 1954, but it was not until 1955 that, owing to a tightening of import restrictions and a consequent rise in the domestic price-level, the price of gold shot up to K 239.50 ($103.50) at the end of December, as against K 205 ($88.60) at the end of December 1954. This upward trend gathered further momentum in 1956 as political tension with Mainland China mounted. By the end of September 1956, the Rangoon price of gold stood at K 320.50 ($138.50), but in the fourth quarter there was a decline in price, so that at the end of December 1956 it was K 304 ($131.35), as against K 239.50 ($103.50) a year earlier. At the free market rate for the kyat in New York, the Rangoon price was equivalent to $80.90 per ounce at the end of September 1956, and $75.70 per ounce at the end of December 1956.1/ More recent data indicate that at the end of March 1957 the price was K 292 ($126.15). Due to a sharp depreciation in the free market rate, however, the dollar-equivalent price at this time was only $45.05 per ounce, as compared with $59.15 in Bombay. As noted earlier (page 3), due to the narrow character of the free market in kyats, prices converted at these rates may be of only limited significance.

1/ See Statistical Market Letter, published by International Reports, Inc., 200 Fourth Avenue, New York, N.Y.

APPENDIX

Transactions in Gold at Premium Prices.

The following statement was communicated by the Fund to all members in a letter of June 18, 1947:

"The International Monetary Fund has given consideration to the international gold transactions at prices substantially above monetary parity which have been taking place in various areas of the world. Because of the importance of this matter the Fund has prepared this statement of its views.

"A primary purpose of the Fund is world exchange stability and it is the considered opinion of the Fund that exchange stability may be undermined by continued and increasing external purchases and sales of gold at prices which directly or indirectly produce exchange transactions at depreciated rates. From information at its disposal, the Fund believes that unless discouraged this practice is likely to become extensive, which would fundamentally disturb the exchange relationships among the members of the Fund. Moreover, these transactions involve a loss to monetary reserves, since much of the gold goes into private hoards rather than into central holdings. For these reasons, the Fund strongly deprecates international transactions in gold at premium prices and recommends that all of its members take effective action to prevent such transactions in gold with other countries or with the nationals of other countries.

"It is realized that some of these transactions are being conducted by or through non-member countries or their nationals. The Fund recommends that members make any representations which, in their judgment, are warranted by the circumstances to the governments of non-member countries to join with them in eliminating this source of exchange instability.

"The Fund has not overlooked the problems arising in connection with domestic transactions in gold at prices above parity. The conclusion was reached that the Fund would not object at this time to such transactions unless they have the effect of establishing new rates of exchange or undermining existing rates of other members, or unless they result in a significant weakening of the international financial position of a member which might affect its utilization of the Fund's resources.

"The Fund has requested its members to take action as promptly as possible to put into effect the recommendations contained in this statement."

* * *

The following statement was communicated by the Fund to all members in a letter of September 28, 1951:

"In June 1947, the Fund issued a statement recommending to its members that they take effective action to prevent external transactions in gold at premium prices, because such transactions tend to undermine exchange stability and to impair monetary reserves. From time to time the Fund has reviewed its recommendations, and the effectiveness of the action taken by its members.

"Despite the improvement in the payments position of many members, sound gold and exchange policy of members continues to require that to the maximum extent practicable, gold should be held in official reserves rather than go into private hoards. It is only as gold is held in official reserves that it can be used by the monetary authorities to maintain exchange rates and meet balance of payments needs.

"However, the Fund's continuous study of the situation in gold-producing and -consuming countries shows that their positions vary so widely as to make it impracticable to expect all members to take uniform measures in order to achieve the objectives of the premium gold statement. Accordingly, while the Fund reaffirms its belief in the economic principles involved and urges the members to support them, the Fund leaves to its members the practical operating decisions involved in their implementation, subject to the provisions of Article IV, Section 2 and other relevant articles of the Articles of Agreement of the International Monetary Fund.

"The Fund will continue to collect full information about gold transactions, will watch carefully developments in this field and will be prepared in consultation with members to consider problems relating to exchange stability and any other problems which may arise."

Table 1. BOMBAY: Spot Price of Gold

End of:	Rupees per Tola 1/	Equivalent in U.S. Dollars per Ounce (at Par Value)	End of:	Rupees per Tola 1/	Equivalent in U.S. Dollars per Ounce (at Par Value)
1951			**1954**		
January	113-0	$ 63.59	January	85-0	47.60
February	113-8	63.56	February	88-13	49.74
March	115-0	64.40	March	91-0	50.96
April	116-7	65.20	April	93-13	52.54
May	115-11	64.78	May	88-0	49.28
June	113-14	63.77	June	85-8	47.88
July	114-0	63.84	July	86-11	48.55
August	113-11	63.66	August	87-10	49.07
September	109-9	61.35	September	86-11	48.55
October	106-15	59.88	October	88-5	49.46
November	106-11	59.74	November	86-12	48.58
December	106-0	59.36	December	88-5	49.46
1952			**1955**		
January	105-5	58.97	January	92-2	51.59
February	98-10	55.23	February	93-7	52.33
March 2/	89-8	49.91	March	93-9	52.40
April	94-12	53.06	April	98-12	55.30
May	90-14	50.88	May	93-7	52.33
June	89-15	50.36	June	93-13	52.54
July	89-4	49.98	July	95-0	53.20
August	91-12	51.38	August	94-10	52.99
September	89-15	50.36	September	95-8	53.48
October	84-4	47.18	October	95-15	53.73
November	80-13	45.25	November	96-6	53.97
December	84-11	47.42	December	94-5	52.82
1953			**1956**		
January	88-6	49.49	January	95-6	53.41
February	89-15	50.37	February	101-5	56.74
March	85-3	47.70	March	105-13	59.26
April	86-11	48.54	April	105-14	59.29
May	88-6	49.49	May	102-4	57.26
June	88-15	49.80	June	100-11	56.39
July	86-3	48.26	July	102-13	57.58
August	89-9	49.60	August	103-7	57.93
September	85-3	47.70	September	103-3	57.79
October	79-14	44.73	October	105-14	59.29
November	82-4	46.06	November	104-14	58.73
December	82-11	46.30	December	103-15	58.21
1957					
January	107-8	60.20			
February	105-1	58.84			
March	105-10	59.15			
April	105-9	59.11			
May	108-14	60.97			

1/ 1 tola = 0.375 troy ounce.
2/ Market closed from March 4-18, 1952.
Source: Office of the Treasurer, International Monetary Fund.

Table 2. BANGKOK: Spot Price of Gold

End of:	Baht per 15 grams	Equivalent in U.S. Dollars per ounce (at free market rate)
1951		
January	...	...
February	513	51.24 1/
March	485	49.05 1/
April	506	50.02 1/
May	479	46.73 1/
June	458	43.80
July	467.5	44.68
August	469.5	43.91
September	492	43.97
October	495	44.92
November	506	46.39
December	490	45.37
1952		
January	469	44.19
February	455	46.97
March	420	42.38
April	417	43.36
May	382	41.52
June	390	42.75
July	379	42.62
August	374	42.79
September	378	44.19
October	346.5	42.04
November	347	41.84
December	333	41.36 1/
1953		
January	358	42.91
February	358	43.42
March	352.5	43.29
April	357.5	41.92
May	377.5	43.00
June	362	41.94
July	362	41.76
August	364	41.05
September	372	41.20
October	410	40.26
November	402	39.81
December	412.5	39.04

End of:	Baht per 15 grams	Equivalent in U.S. Dollars per ounce
1954		
January	409.5	39.92
February	406.5	39.76
March	405.5	39.49
April	424.5	39.98
May	422.5	39.80
June	413.5	40.36
July	417.5	39.68
August	422.5	39.89
September	435.5	40.05
October	427.5	40.45
November	416.5	40.02
December	417.5	41.04
1955		
January	.....	.....
February	413.5	41.08
March	419.5	41.44
April	423.5	40.09
May	433.5	39.43
June	446.5	40.94
July	461	42.34
August2/	478.5	43.92
September2/	471.5	44.29
October2/	479.5	45.73
November2/	449.5	43.67
December2/	463.5	45.45
1956		
January	449.5	44.26
February	444.5	44.29
March	.....	.....
April	.....	.....
May	.....	.....
June	437.5	43.00
July	450.5	44.29
August	443.5	43.81
September	445.5	43.63

1/ Calculated from Bank of Thailand data by IMF Staff.
2/ Average of last week of month.

Source: Bank of Thailand, Economic and Financial News Survey (in Thai)

Table 3. HONG KONG: Spot Price of Gold

End of:	Hong Kong $ Per Tael[1/]	Equivalent in US $ Per Ounce (at free market rate)
1951		
January	325.00	47.24
February	323.125	46.54
March	312.50	45.27
April	319.50	45.65
May	315.25	44.07
June	304.75	42.88
July	311.75	43.21
August	323.50	43.24
September	341.25	43.68
October	326.125	41.99
November	327.625	41.79
December	320.00	42.76
1952		
January	324.25	42.75
February	325.50	42.00
March	312.50	41.39
April	298.75	40.08
May	304.00	40.87
June	300.00	40.24
July	303.25	40.99
August	301.25	41.10
September	290.00	40.22
October	278.75	40.24
November	279.875	40.38
December	279.875	40.90
1953		
January	282.375	41.01
February	278.50	40.39
March	265.50	39.31
April	270.625	39.94
May	274.25	39.80
June	271.375	39.45
July	265.125	38.79
August	261.50	38.52
September	261.375	38.57
October	258.75	38.12
November	250.50	37.08
December	250.375	37.41

End of	Hong Kong $ Per Tael[1/]	Equivalent in US $ Per Ounce (at free market rate)
1954		
January	248.50	37.43
February	250.125	37.58
March	245.875	37.41
April	246.125	37.67
May	253.625	38.56
June	252.00	38.33
July	250.625	38.17
August	251.625	38.24
September	255.25	38.19
October	254.25	38.07
November	256.00	38.09
December	256.75	38.31
1955		
January	260.00	38.59
February	253.75	37.93
March	250.875	38.08
April	251.50	38.11
May	251.125	38.05
June	251.125	38.23
July	252.375	38.21
August	252.00	38.20
September	252.50	38.28
October	254.25	38.47
November	253.50	38.25
December	254.00	38.29
1956		
January	254.875	38.21
February	257.325	38.33
March	254.75	38.58
April	255.125	38.48
May	255.25	38.38
June	256.50	38.28
July	263.875	38.53
August	265.375	38.23
September	266.875	38.20
October	274.75	38.90
November	275.25	38.21
December	266.125	38.24
1957		
January	268.00	38.82
February	267.875	38.58
March	268.875	38.58
April	271.25	38.41
May	275.875	38.88

1/ 1 tael = 1.203 troy ounce.

Source: Office of the Treasurer. International Monetary Fund.

Table 4. MANILA: Spot Price of Gold[1/]

	Pesos Per Ounce	U.S. $ Per Ounce (at par value)
1951		
January	133.34	66.67
February	139.30	69.65
March	144.94	72.47
April	156.50	78.25
May	150.00	75.00
June	115.04	57.52
July	112.52	56.26
August	115.62	57.81
September	121.02	60.01
October	114.33	57.17
November	112.79	56.40
December	115.23	57.62
1952		
January	114.43	57.22
February	110.46	55.23
March	110.00	55.00
April	106.55	53.28
May	104.50	52.25
June	104.40	52.20
July	101.77	50.39
August	100.50	50.25
September	101.00	50.50
October	104.69	52.35
November	104.40	52.20
December	107.45	53.73
1953		
January	112.44	56.22
February	107.78	53.89
March	105.56	52.78
April	193.65	51.83
May	103.06	51.53
June	99.34	49.67
July	99.66	49.83
August	99.77	49.89
September	101.98	50.49
October	106.89	53.45
November	105.18	52.59
December	103.22	51.61

	Pesos Per Ounce	U.S. $ Per Ounce (at par value)
1954		
January	102.41	51.20
February	103.28	51.64
March	105.03	52.52
April	103.89	51.95
May	107.90	53.95
June	109.38	54.69
July	109.63	54.82
August	110.11	55.00
September	110.39	55.20
October	111.30	55.65
November	109.75	54.88
December	109.57	54.79
1955		
January	109.20	54.60
February	108.56	54.28
March	105.81	52.90
April	103.29	51.65
May	98.53	49.27
June	97.16	48.58
July	97.93	48.97
August	98.16	49.08
September	100.63	50.32
October	102.04	51.02
November	102.53	51.27
December	103.16	51.58
1956		
January	105.34	52.67
February	105.83	52.92
March	106.38	53.19
April	104.78	52.39
May	105.40	52.70
June	105.85	52.93
July	108.70	54.35
August	111.71	55.86
September	114.96	57.48
October	108.04	54.02
November	122.08	61.04
December	117.99	59.00

1/ Average monthly price.

Source: The American Chamber of Commerce Journal, Manila, March 1957 (and earlier issues).

Table 5. RANGOON: Spot Price of Gold

End of:		Kyats per tical 1/	U.S. $ per ounce (at par value)
1950		184.88	79.89
1951		187.00	80.80
1952		177.75	76.81
1953		197.00	85.12
1954		205.00	88.58
1955		239.50	103.49
1956		304.00	131.36
1955	January	202.50	87.50
	February	207.00	89.44
	March	209.50	90.52
	April	204.75	88.47
	May	204.00	88.15
	June	203.50	87.93
	July	213.00	92.04
	August	222.00	95.93
	September	225.00	97.22
	October	231.00	99.81
	November	234.00	101.11
	December	239.50	103.49
1956	January	255.50	110.40
	February	262.50	113.43
	March	290.00	125.31
	April	281.50	121.63
	May	263.00	113.64
	June	258.50	111.70
	July	278.50	120.34
	August	290.50	125.52
	September	320.50	138.49
	October	307.00	132.65
	November	301.50	130.28
	December	304.00	131.36

1/ 1 tical = 0.486 troy ounce

Source: Union Bank of Burma Bulletin, fourth quarter 1956 (and earlier issues)