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Gold Boom Stems From Euromarket Crisis

GOLD

This week's spectacular gold boom — with the price of an ounce of gold jumping to a 16-month high of $145 in London March 2 just before an International Monetary Fund (IMF) auction — represents merely the beginning of a panicky mass flight from U.S. dollar-denominated paper. The flight is caused by higher U.S. inflation rates, Jimmy Carter's $68 billion budget deficit, and heavy Third World and European roll-over requirements which are swamping the international credit markets. Only a few months ago IMF sales and U.S. manipulations of the market had driven gold prices down to nearly $100 an ounce. This week, a beleagured IMF received bids for 1.6 million ounces — with only 524,000 ounces available for auction — and the winning bids were in the $145.55 to $148 range!

A headline in the March 2 *Journal of Commerce*, "Eurobond Investors Now Disenchanted; Gold Seen Next Major Bull Market," tells the story.

According to the *Financial Times*, Arab investors lead the way late last week with substantial sales of their holdings of dollar-denominated Eurobonds (that is, the "safer" long-term sector of the Eurocurrency markets) in favor of gold. "There must be not a few investors," the *Financial Times* commented, "who see gold at U.S. $140 an ounce as a better hedge against inflation and currency depreciation than dollar-denominated paper. The Eurobond market has, in the past, attracted investment funds from precisely this kind of investor and therefore we ought not to be too surprised to discover that some of this money is reverting to what might be termed its traditional home."

The fact that the dollar sector of the Eurobond market is no longer considered a secure enough haven in which to squirrel away one's money is an important watershed, symptomatic of the general "crisis of the confidence" breaking in the Eurocurrency markets as a whole. The basic issue is the bankrupt condition of the leading New York commercial banks, a subject which the U.S. press has only begun to broach — eg., *The New York Times* March 3 exposé of the Bahamas offshore banking practices — so as to keep the crisis under control.

The flight into gold intersects with the ongoing British-Soviet and Italian-Soviet negotiations concerning expanded international use of the gold-backed Comecon transfer ruble, and a growing European consensus that a return to gold-backed parities is immediately necessary to avoid a breakdown of world trade. The vice-president of the Hungarian National Bank, Janos Fekete, this week reiterated his call for a gold-backed monetary system as a precondition for closer integration of the Western European and Comecon economies.

Reflecting the key role which some City of London banks have played in the transfer ruble negotiations, the British press has featured some of the most bullish gold price projections, including the conservative *Daily Telegraph*'s forecast of $170 an ounce by year's end. Samuel Montagu, one of the five major London bullion dealers, expects heavy European central bank buying of gold in 1977, according to the firm's annual report, despite International Monetary Fund efforts to end gold's role as a reserve holding in the international monetary system.

The French financial press is also following the gold boom with undisguised gratification. The daily *Les Echos*, which on Feb. 25 announced that "the franc is about to regain its old ally, gold," published an extensive front-page rundown of the markets March 3, headlined "41 Percent in Five Months," a reference to the price climb since August. Stressing that the Swiss franc, much less the dollar, is no longer the investor's "refuge par excellence," *Les Echos* projects a price increase nearing $160 — at which point, it adds, the U.S. Treasury would doubtless try to sell gold to pre-empt further increases. The newspaper describes the Chicago gold market as far outstripping London and Zurich, where trading is more oriented to industrial use and central bank exchanges, as in contrast to the commodity-speculation character Chicago shares with New York. As much as thirty-three tons a day are traded in Chicago.

Les Echos confirms that since September, Arab investors are turning in "the dollar surplus they are unable to invest in their own economies" for gold; they bought 400 tons in 1976, a quarter of world demand including industrial purchases, and the pace is apparently quickening this year. In 1975, Arab purchases were 100 tons.

The fear of a U.S. Treasury intervention was characterized as somewhat overdrawn by other specialists, in view of the IMF's inability to dampen gold bullishness by sales, and more importantly in view of the European Economic Community's increasing discussions of using gold as a payments settlements device among the members.

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