Behind the rush is a British plan to break up EMS

The spectacular run-up in the international gold price to an all-time high of $251.60, as of the London afternoon fixing on Feb. 7, was engineered by the five London bullion dealers and allied Anglo-American institutions. It is a big feature of their plan to break up the European Monetary System. Since that system is based on a pooling of European member countries' gold and dollar reserves, its success depends on the maintenance of a stable gold price and a strengthening of the U.S. dollar.

The signal for this latest of gold rushes came late last week when Robert Guy, a director of the influential British merchant bank N.M. Rothschild, told a New York audience that he expected gold to trade in the $260 to $290 an ounce range during 1979. Guy heads the committee representing the five London bullion dealers responsible for setting the twice-daily "fixings" of the London gold price, which becomes the "benchmark" for gold trading worldwide.

At the time of Guy's speech, gold had been trading in the narrow range of $230 to $240 for several days — precisely the range which European sources had indicated as "optimal" for the purpose of building the EMS. Guy's statement set the tone for the market. When the Iranian political crisis took a turn for the worse and word of a Saudi oil production cutback spread on Feb. 5, this was sufficient to trigger a major panicky surge of gold buying.

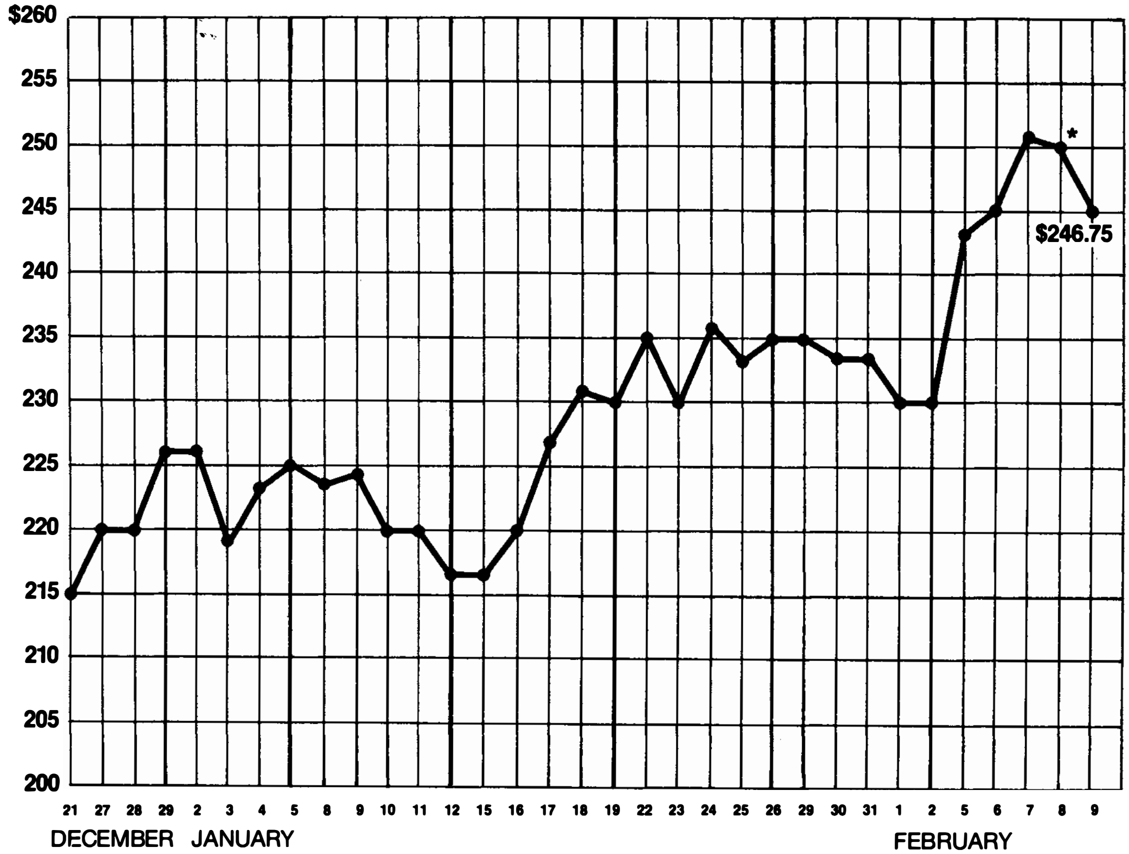
Christopher Glynn, leading gold expert with the British mining finance house Consolidated Goldfields, is advising American institutions that the leap in the gold price is part of a generalized run into metals and other tangible commodities. Glynn points out that the gold price rise on Feb. 5 was preceded by a sudden sharp surge in copper and silver prices in late trading on Feb. 2. According to Glynn, there has been a tremendous buildup of liquidity on the part of international investors who had hoped to buy cheaply into the American stock market in the event of a U.S. recession. With the international financial structure appearing increasingly fragile, these idle funds are being channeled into commodities to gain quick speculative bucks and to hedge against disaster.

Gold for development

The success of this British-rigged commodities boom rests on the ability of the British and U.S. "Eastern Establishment" media to convince investors that the EMS represents a decision by European governments to abandon the dollar in favor of a new European currency.

In reality, as the Executive Intelligence Review has documented before, the West German and French builders of the EMS intend to revive the U.S. dollar by giving it a gold backing.

London afternoon fixing



*** Feb. 8: record high of $254.40 reached during day's trading**

One way this would work is that the European Monetary Fund would issue gold-backed dollar bonds to mop up excess dollar liquidity and redirect these funds into long-term development projects in Third World and Comecon countries. EMS member governments recently decided to value their pooled gold reserves at a price determined by the three-month market average (rather than at the old official price of about $42 an ounce), thus enhancing the amount of credit which can be generated on this basis.

In a related development, reports are circulating that the government of South Africa has arranged to sell a large amount of gold directly to Saudi Arabia in exchange for oil. If true, this means that much of South Africa's gold output which would normally be sold on the open market is now unavailable, setting a floor under the gold price. The South African government has formally denied the report, which first appeared in the London Guardian.

But it is possible that a South African-Saudi barter deal may have been arranged as part of European plans to incorporate both Arab oil producers and South Africa into the EMS. Two weeks ago, South African Finance Minister Owen Horwood announced that South Africa was considering whether to link its currency to the EMS. South Africa might be successfully incorporated if European capital were employed to make South Africa the centerpiece of a continent-wide industrialization program — a plan associated with former Dresdner Bank head Jurgen Ponto.

—Alice Shepard