## Gold by Alice Roth

# Who benefits in the shake-out?

*Gold plunged even more rapidly than it rose. But the action of certain European 'bulls' could send the metal soaring*

Gold prices plunged by nearly $200 an ounce on Jan. 22—declining from a record high of $875 on the previous day to only $682 at the New York close. Although the gold sell-off reached panic proportions, the threat of a U.S.-Soviet military confrontation—which was responsible for bidding gold into the stratosphere in the first place—has not been muted. Indeed, there is some evidence that a major gold investor or investors sold large amounts of the metal on Jan. 22 with the intention of driving down the price, scoring new supplies out into the market, and then buying up more gold cheap. The price of the yellow metal could easily be on its way back to $800 by the time this publication reaches our readers' desks.

The break in the gold price began on Jan. 21 when the New York Commodity Exchange suspended all trading in silver futures on its exchange, except for the liquidation of contracts, and sharply increased margin requirements on both silver and gold futures. The COMEX board took these actions to discourage large speculators, such as the Hunt family, from cornering silver supplies by taking massive deliveries.

The gold price decline, however, accelerated when news leaked out on the morning of Jan. 22 that large West German banks, and particularly Dresdner Bank, the well-known gold "bull," were major gold sellers. Could Dresdner and other West German banks have sought to take advantage of the gold price collapse to obtain cheaper supplies, perhaps as part of a longer-term strategy of building a gold-based monetary system?

Asked whether someone might have deliberately rigged the panic in order to buy into gold at lower prices, one West German gold market source responded: "Could be. Those people who sold gold on the kind of rumors circulating today were crazy. Reuters, for example, reported a rumor that a major government was planning to sell large amounts of gold. But if a government were doing that, why would they let anyone find out about it in advance? I believe gold could fall back to about $650 and then jump right back to $800. Inflation psychology brought the gold price to the $600-$700 level, and politics took it beyond that ... the political situation has not improved."

Our source also dismissed as "complete nonsense" reports that the West German banks had been forced to sell gold because of the recent institution of new Bundesbank regulations. The Bundesbank is requiring the banks to report their gold holdings as part of their open foreign exchange positions, against which they must hold reserves. According to the West German source, the three largest banks, Deutsche Bank, Dresdner Bank, and Commerzbank, knew well in advance that this Bundesbank rule would go into effect and have been observing it since at least June 1979.

Federal Reserve Chairman Paul Volcker, meanwhile, in a renewed effort to discourage speculation in gold, remarked to reporters that he thought further U.S. gold sales might be appropriate as an "anti-inflationary" measure. Last week Treasury Secretary Miller had stated that market conditions are too "unsettled" to permit U.S. government auctions at this time. Should the Treasury decide to hold an auction now, it could place more downward pressure on the gold price—but only temporarily. West German banks might even welcome the move as an opportunity to gain access to new supplies.