Gold by Montresor

No near-term price rise

Short of a major upheaval in the Middle East, gold is very unlikely to rise sharply in price in the next weeks.

Were the Saudi monarchy to perceive its power ebbing, on that day the gold price would bottom. Short of dramatic developments in the Persian Gulf, however, the present world credit environment and the slow progress on the issue of gold remonetization argue against any spectacular near-term gold price movement.

Nonetheless, we hold strongly to our stated view that gold stands to increase substantially in price over the next 12 months. Those in the know, if they possess the liquidity position that permits them to hold a non-earning asset, are accumulating.

One of Europe's most respected gold refining firms, Degussa, reports in their most recent German-language gold-market report a list of reasons to expect little upward movement between now and year-end:

"American dollar interest rates have indeed fallen back, but the Reagan administration is sticking to a tight-money policy . . . and the market does not see the clear beginning of a further interest rate fall.

"Industrial demand will continue to fall through year's end.

"The oil-producing countries' investment funds for gold will scarcely rise in the foreseeable future, since the sales of OPEC countries have fallen sharply. The Saudi oil minister is predicting sinking oil revenues.

"These considerations make clear that little points to a rising gold price at the moment, even if the sharp decline of the gold price of the last few months has, indeed, come to a stop."

Degussa also notes that the President's Gold Commission will have nothing to say until next March, and might have added also, that the White House has agreed to keep the issue on ice until the report is on the President's desk.

The argument concerning the Saudis is well taken; in the heat of the battle over AWACS deliveries, the monarchy is more than anxious to avoid offense to the United States.

As a result Saudi (as well as Kuwaiti) purchases of dollar instruments, particularly U.S. Treasury securities, have risen.

For example, the French central bank liquidated $4 billion in U.S. Treasury securities in the weeks prior to the early-October realignment of parities inside the European Monetary System. The French intervened with dollars, to the detriment of the dollar's parity, because the West German central bank was tired of lending marks for the French to fritter away in foreign exchange intervention. As such, the French had no choice but to dump dollars on the market in order to maintain the franc's parity.

The support operation for the franc might have been a disaster for sensitive U.S. credit markets as well, had not the Saudis and Kuwaitis discreetly bought most of the securities the French sold off.

According to Federal Reserve sources, that is why the Fed's holdings of U.S. Treasury securities for foreign governments fell by less than $1 billion, against the $4 billion the French sold; the Arabs bought the balance.

The one extremely active force in the market now is Japan, which bought considerably more than the already large figure of 97 tons reported for the first 7 months of the year. According to a Japanese friend who buys gold for Japanese investors, "There are many loopholes in Japanese Treasury regulations."