The pendulum swings

The developing nations are now buying, and Europeans are selling off some of their gold.

Friends in London who have previewed the forthcoming annual report of Consolidated Gold Fields point to an extraordinary development in the world gold markets, which helps define the $50 rise in the gold price during the month of April as something more than mere whimsy. Consgold's *Gold 1982,* the yearly authoritative source for gold-market statistical data, reports that the pattern of net sales of gold by the developing sector, and net hoarding by European private investors, has reversed itself.

In the developing sector, whereas during 1980 and some of 1981 the political collapse in Iran and extreme financial pressure on the rest of the developing sector led to divestitute of more than 150 tons of gold, this has ceased. The huge sales (in particular by small savers there) of their gold jewelry and small bullion hoards has halted and jewelry purchases are rising.

In particular, although many developing-sector central banks continued to sell gold to raise cash during 1982, private-sector purchases of jewelry from the Middle East actually rose on net balance during last year. Dealers report that the demand for gold jewelry destined for shipment to the Middle East is now rising dramatically. According to one well-informed gold-market source in London, demand for jewelry is so intense that European refineries cannot keep up with the demand for the metal.

On the other side, however, small private holders of gold in Europe, who had been absorbing the previous dis-hoarding from the developing world, have now been forced to liquidate large amounts of gold. This is partially due to liquidity pressures, as rates continue high, and business bad, in Europe, and small investors become increasingly disillusioned with the long-term fall in the gold price.

The net effect of both shifts, it seems, is that the newly rising demand for jewelry in the Mideast is completely absorbing the sell-offs in Western Europe.

Not all European investors are dis-hoarding. Quite the contrary: the business manager of the largest surviving fortune among Europe's princely houses assured me recently that his *fondo* was continuing to invest in gold, with the view that $350 or so per ounce represented a very good price indeed. The chiefs of the gold departments at some of the largest commercial banks in Zürich and Frankfurt told me recently, in private discussions, that large private fortunes were continuing to buy gold while smaller investors leave the market.

In fact, the viewpoint that I have expressed frequently during the past years, namely, that gold may become the principal international medium of exchange by default, is now heard frequently on the continent, and even in London.

One of Mrs. Thatcher's most influential advisers expects a 1931-style breakdown of the international markets. Mr. Brian Griffiths, Dean of the London City University Business School, told my associates at the end of April that if the developing nations' debt crisis causes international bankruptcies, then there will be a "withdrawing of banking operations behind national boundaries," and a move to use gold to settle national accounts.

With this eventuality in mind, the oldest and most sophisticated investors are buying substantial, if not spectacular, amounts of gold.

This is, in a curious way, not necessarily in contradiction with the reports—undoubtedly accurate—that the chief demand for gold is now moving through the jewelry markets. Chief among the financiers of the European jewelry market, which has its principal seat in Florence, is the oldest bank in Europe, Monte dei Paschi of Siena, Italy. The banking house of Chigi in Siena, which founded the Monte dei Paschi, bounded into the ranks of the great during the 1509-11 War of the League of Cambrai, when the Chigi financed Swiss mercenaries for beleaguered Venice and enabled Venice to survive the war and emerge as Europe's decisive power. Their connections to the Mideast remain excellent.

Therefore, it is not to be assumed that merely because the principal form of gold demand is Italian-produced jewelry, only small-investor demand is rising. The circuit through which the rising gold demand must run belongs to the best-entrenched of the old families, and it may be assumed that the rising tide of gold dealings through this circuit reflects their own investment interest.