

Gold by Montresor

Gold goes to Tokyo

Japan is hedging against its surplus of overvalued dollars by unofficially accumulating gold.

The United States Treasury would be very upset if Japan were to accumulate official gold reserves. So instead we encourage Japanese citizens to buy gold. If the Japanese government ever needs it, we will tell private savers to turn in their gold and give them government bonds, and they will do it immediately. Then the Japanese government will have gold!"

A Japanese acquaintance, the chief of gold operations at one of Japan's big brokerage houses, made the above remark early in 1982, just as Japanese banks began to persuade their customers, the most diligent savers in the industrial world, to purchase gold as well as bank deposits, securities, and government bonds. The campaign was extraordinarily successful.

As of 1984, according to well-informed gold mining company estimates, Asia took off 40% of the 1,280 tons or so of gold sold during the year, of which the largest portion was Japan. Asian demand was so strong that gold analysts are impressed with how orderly the physical gold market was last year, despite the 25% or so decline in the gold price. Unlike other commodity markets, where low prices for industrial raw materials often reflected an absolute inability to unload what was available, the physical demand for the monetary metal was consistent and high—albeit at quite low prices.

The Soviets may or may not have sold less than 100 tons of gold, as most of the usual Swiss estimates have it, rather than the 200 or 250 tons they are accustomed to sell, although all

such estimates are tricky; the Soviets frequently employ covert gold exports to cover covert imports of goods the United States authorities do not wish them to have. The point remains that the volume of gold sold reached a record, and an increasing portion was sold to the recipients of the world's only balance-of-payments surplus.

Japan alone might have accounted for a little more than a fifth of total world gold supply last year, according to one often-quoted analyst, and the rest of Asia a little less than a second fifth of total supply. Not merely Japan, but other Asian countries, have quietly made it easier for their citizens to accumulate gold. For example, Malaysia lifted restrictions on gold imports for jewelry fabrication early in 1984.

There are two sides to this business. The uglier one is the political instability brought about by covert Soviet intervention in Asia, including the murder of Indira Gandhi and the Thailand-Cambodia border situation aggravated by Vietnam. This has persuaded the overseas Chinese, mainly ethnic Chao Chou, trading community to move funds into U.S. dollars and also gold, a traditional preference in times of trouble.

Gold flows related to political stability are mirrored, to some extent, in Hong Kong's special role as dirty-money handler for the continent. Perhaps a tenth of all gold supplied to the market last year went to Hong Kong.

More decisive for the total volume of gold purchases in Asia is the deci-

sion by the Japanese, whose \$50 billion payments surplus during 1984 is the counterpart of America's \$100 billion payments deficit, to hedge their huge accumulation of dollars by purchasing gold. The cautious Japanese do not believe that the dollar's untoward strength, which is wreaking hell upon the world economy and the developing-sector debtors in particular, will last forever, and are taking advantage of the availability of a cheap hedge.

The Japanese are becoming big net creditors of the United States for the first time; according to an estimate published by the Deutsche Bank in Frankfurt at the end of 1984, Japan's net foreign assets of \$37 billion at the end of 1983 will have tripled by the end of 1985.

Indeed, the much-heralded opening of Japan's relatively restricted securities market, which outgoing Treasury Secretary Regan supposedly intended as a means of boosting the yen against the dollar, has produced precisely the opposite of the intended effect. Rather than absorbing dollar investment funds on a net basis, thus lowering the dollar's parity against the yen through capital inflows into Japan, the opening of the market has permitted Japanese firms to invest their rapidly-growing dollar assets in American securities.

The European *fondi*, or oligarchical trust funds, have quietly taken note of Japan's growing financial power. Swiss investors are happily buying Japanese debt securities convertible into equity; 110 such convertible bonds were sold on the Swiss market in 1983 and 125 in 1984. The nasty Swiss are not merely selling European currencies to obtain dollars, but are also hedging their dollar purchases with an option to obtain Japanese corporate equity.