Going into gold to avoid the crash

by Joyce Fredman

Since the "Black Monday" crash of Oct. 19, 1987, panic has continued to creep through the back rooms of Wall Street and its international associates. "Investors worldwide are clearly concerned about the stability of present international monetary arrangements and the outlook for world stock markets," said one expert in the gold trade. Bankers, businessmen, governments, and investors have shown an increasing inclination toward precious metals. Such is the current explanation for the rise in prices of precious metals and, in particular, for the massive increase in purchases of gold by Japan and Taiwan. Including orders from Taiwan's central bank, the two countries have imported as much as 317 metric tons of gold so far this year.

The above quote by George Milling-Stanley, author of the annual gold review put out by Consolidated Gold Fields PLC (a London-based international mining business) was by way of explaining that purchase, which amounted to an unprecedented 63% of quarterly supplies of gold in the first three months of this year.

Concern over the looming collapse of the present financial system is not limited to Japan and Taiwan, however. Nor is it solely reflected in gold purchases. At the end of April, De Beers Consolidated Mines, Ltd. announced that it was raising the average price of rough uncut diamonds 13.5%, because the market for them "is so buoyant." Quotes of the D-Flawless investment diamond have started to approach $20,000 a carat, up from $14,000 a carat last fall.

Platinum has now become known as "the powerhouse" among investors, referring to its role in driving up the price of precious metals. Here again, the Japanese have chosen a safety cushion. Japanese imports last year surged by about 70% to 1.7 million ounces, or 50% of total demand. Estimates are that in the first four months of this year, the Japanese imported 835,000 ounces. The futures market in precious metals makes the point. As of May 10, platinum for July delivery advanced $12.90 an ounce (to $539.50); June delivery gold gained $3.50 an ounce (to $448.80); and July delivery silver rose 9¢ an ounce (to $6.5450).

Fears of inflation and the fragility of the monetary situation have motivated not only the large investor. Observers have noticed a growing variety of gold investment coins available to the average worker, who may be a bit doubtful about putting his savings in the local bank.

The irony in these gold-rushes, diamond-rushes, or what have you, is that precisely such activity, meant to buffer the purchaser from the impact of a depression, will serve to accelerate just such a disaster. This flight from paper only ensures a greater devaluation of currency.

The producers

There is another area of consideration in the economic nightmares plaguing the West. The production of these commodities, in particular gold, is of no small strategic consequence. The world's leading gold-producing nations, in descending order, are: the Republic of South Africa, the U.S.S.R., Canada, the United States, China, and Brazil. The first two dominate world production.

But recently, the gold industry of South Africa has taken a dive. In 1970, it produced 1,000 metric tons of gold. In 1987, it produced 605 metric tons—a 40% decline in 18 years. According to a report by two mining experts from South Africa, this is equivalent to having shut down their two greatest goldfields, the West Wits Line and the Orange Free State (whose combined production in 1987 was 395 tons).

Internationally, mine production grew 6% from 1986 to 1987, to 1,373 tons, the highest level ever recorded. South

Africa's production dropped 6% that same year. To look at it a different way, in 1970, non-Communist world production was 1,274 tons; by 1986 it was 1,280 tons, nearly the same. South Africa's share of the production over that period, however, dropped 29%!

As problematic as the government policies in that country are, economic decline only exacerbates the political situation. As one expert noted, "Every episode of unrest in South Africa has coincided with economic setbacks. This applied to the Sharpeville disturbances of 1960-61, the mass strikes of 1973, the 1976-77 Soweto disturbances, the 1980-81 school unrest in Natal, and, of course, to the most recent massive unrest."

This has not gotten through to the liberal congressmen of the United States who have continued to pressure for more stringent sanctions against South Africa, despite the consequences for the population whose cause they claim to espouse, let alone any security considerations for the United States.

If production in South Africa were to continue to decline, the country in the best position to corner the market in gold is the Soviet Union. And in that case, whether one has gold hoarded in the basement or not would be of little consequence; the Soviets could flood the market or not, as they choose.

Until a new gold reserve system were established for the dollar, generalized flight into any of these metals will only accelerate the crash in the short term, and be of no use to anyone in the long run.

EIR estimate of bank failures now at 230

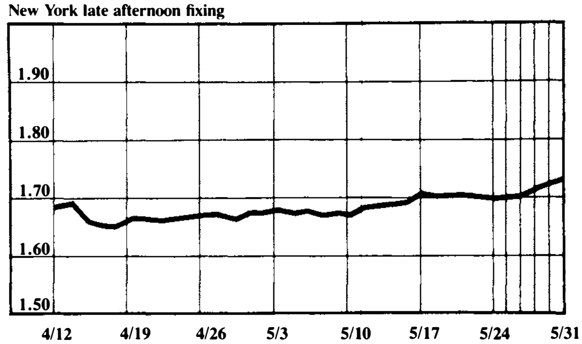
Banks known to *EIR* to have either failed, in the Federal Deposit Insurance Corporation's definition of "failure," or been the subject of an "assisted transaction," a failure by a different FDIC name, since our last report, are the following:

May 18: American State Bank, Yanton, South Dakota
May 19: National Bank of Texas, Houston, Texas
May 20: Federal Land Bank of Jackson, Jackson, Mississippi
May 26: Lone Star Bank, Bay Town, Texas
May 26: First National Bank of Kingwood, Houston, Texas
May 26: First State Bank of Rockwall, Rockwall, Texas
May 27: Sandy State Bank, Sandy, Utah

Currency Rates

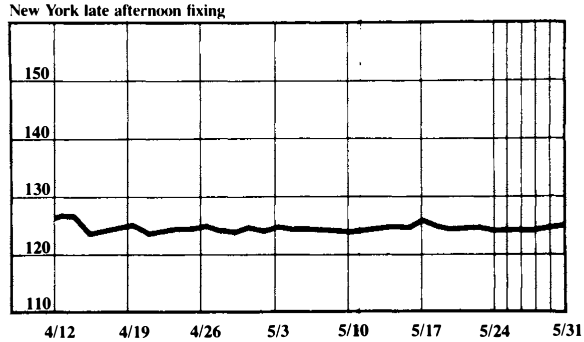
The dollar in deutschemarks

New York late afternoon fixing



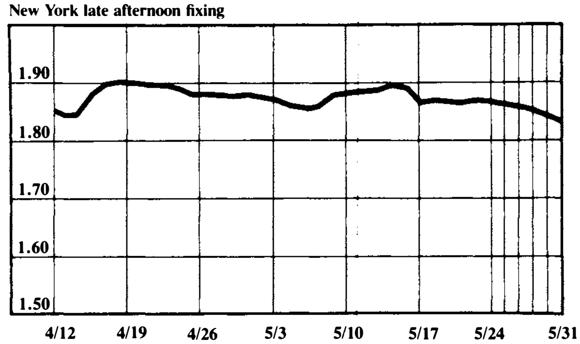
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing