Gold by Alice Roth

A good time to buy

The price is down for several reasons; but for political reasons, it will soon go back up.

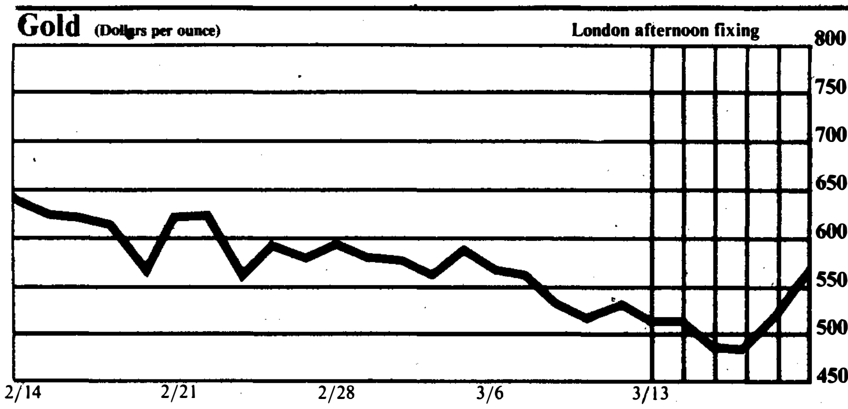
After peaking in early January at $875 an ounce, world gold prices have been drifting steadily downward. In the immediate aftermath of Carter's latest "anti-inflation" package, gold really fell out of bed, plunging as low as $470 in New York trading on March 17. Two days later, after investors had a chance to scrutinize the Carter package more closely, it rebounded to $551.

The recent softness in the gold market is due to the sharp rise in U.S. interest rates which has 1) increased the cost of carrying gold futures contracts to prohibitive levels and 2) diverted funds which would have otherwise gone into precious metals speculation into high-yielding, short-term dollar securities. Although the gold market slump has badly frightened some American "gold bugs," Swiss bankers—who keep close tabs on how the oil-rich Middle East nations are investing their petrodollars—say this could be the last opportunity to buy gold "cheap." According to one Swiss source, those wealthy Arab investors who spearheaded last year's gold boom, have not been shaken in the least by the recent spate of price weakness and are holding on to their hoards.

Their reasons are not too difficult to discover. Leading U.S. bank economists already concede that U.S. consumer prices will continue rising at a 15-20 percent annual rate for the next six months, even with a severe recession. This build-in inflationary tendency will be heightened immeasurably should the Carter administration use its newly-adopted credit control powers to prop up selected major corporations through Schachtian industrial "restructuring." With the U.S. heading towards a hyperinflationary/depression fiasco, the dollar should make the Argentine peso look like a stable currency.

Meanwhile, European governments, with France and West Germany in the lead, are offering OPEC nations enlarged opportunities to invest their burgeoning surpluses in European national currencies—or even the European Currency Unit (ECU)—with the proviso that the funds will be used to finance expanded European exports to the Third World. The Franco-German negotiators could sweeten their offer by throwing in gold guarantees to protect the OPEC investors against any new upsurge in European inflation and to secure funds at lower-than-prevailing interest rates. Thus, both OPEC and European governments will have a vested interest in maintaining a relative high valuation of gold in the coming months. What would be a reasonable price under such a scenario? *EIR* researchers have shown that a price of $400 an ounce would be sufficient to cover South African production costs in all but the most marginal mines, even if miners' wages were substantially increased and more capital-intensive mining technologies were employed. However, as the last year's events show, gold tends to prediscount new inflation as well as political crises well in advance. Dresdner Bank's Hans-Joachim Schreiber, believes OPEC seeks a gold price about 15 to 17 times the price of a barrel of oil.

With world oil prices currently running at about $30 a barrel, this places a floor under the gold price of somewhere between $450 to $510 an ounce. If OPEC continues to be paid in depreciating dollars, it's a pretty safe bet that gold will be pushed up to compensate for that loss.



© 1980 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.