Gold by Alice Roth

Saudi rumors spur run

Investors are seeking safe haven in case OPEC indexation drives up oil prices.

Gold had broken through the $650 an ounce level for the first time in over a month as of my deadline, reaching as high as $689 at one point on Sept. 10. The new gold-rush began early on the morning of Sept. 8, when some unidentified "big players," possibly Middle East investors, began making purchases in the London market in advance of the morning fixing. When other traders saw that gold had sailed past $650, they jumped into the market to avoid being left out.

Fueling gold's upward momentum is a generalized fear that the Saudi Arabian government's making some accommodation with "radical Islamic" currents will result in new oil price hikes. Various sources have reported that at the mid-month OPEC meeting the Saudis will agree to cut back their oil production one million barrels a day, raise their prices to $32 a barrel, and accept a scheme for automatic indexation of OPEC prices to inflation rates in the industrialized sector. The Saudis are also refusing to lend to the International Monetary Fund, on the grounds that that institution will not admit the PLO to its annual meeting.

According to Howard Levine, a metals trader at ACLI International Commodity Services, gold is rising because international investors expect major "discord" at the end-of-September IMF annual meeting. "The Arab central banks want to chart an independent course," stated Levine. "It's more than just the PLO. They feel they should control the politics of the IMF. Some people think the Saudis and Kuwaitis may be pulling out of the IMF." "The Saudis are unhappy with the entire monetary system," added the New York foreign exchange chief at a leading West German bank.

This is a step one might welcome, but for the fact that the Saudis' other moves seem to fit in more with the World Bank-Brandt Commission's plans to "decouple" North and South rather than with any constructive plan to replace the IMF with an institution more attuned to industrialization needs.

The run into gold also spilled over into demand for stocks of leading North American and South African gold mining companies. On Sept. 8, South African gold shares, as measured by the *Financial Times* Gold Mines Index, soared to a record high of 447.5, compared with 428.0 on Sept. 5.

In my view, the concern about a Saudi policy shift is justified, and investors should prepare for another advance in the gold price above $700 in the near future.

Meanwhile, Consolidated Gold Fields, the London-based mining finance company and the second largest producer of South African gold, sent a team of gold specialists to the Soviet Union last week on invitation from the Soviet government. British financial circles wonder what the invitation could mean. Last year, Cons Gold sent a group to China to discuss technical aid in developing that country's gold reserves and perhaps the Soviets are interested in finding out what Cons Gold learned about China's mineral resources.

At the same time, gold market sources report that the Soviets have sharply curtailed their sales to the Zurich market, possibly bypassing the Swiss to make direct deals with Middle East investors. Flustered Swiss banks have put out the rumor that the Soviets will dump large amounts of gold onto the market later this year.