Gold by Montresor

A good investment at $300

Gold may fall still further, but those who have the time and money should buy rather than sell.

When gold reached the three-year low of $310 in Hong Kong March 17, many in the markets began to panic in anticipation of a repetition of the events of 1976, when the price fell sharply to the $100 level. I would not do so.

According to my colleagues in Frankfurt and Zürich, the price of gold is falling in the short term for the same sorts of reasons which will soon make it attractive again. In fact, as I have reported many times, most of the gold goes to those same old European families who are planning to corner the market when smaller investors around the world are totally shaken out.

And the small investors are certainly very close to being fully shaken out.

First, I would like to dispel once again the nonsensical rumor, begun by Consolidated Goldfields last fall, that "Soviet dumping" is behind the fall in the gold price.

During the week of March 15, one of our readers wrote to inform me that Consolidated Goldfields representatives are touring the United States repeating this falsehood. One American mining executive told us that a Cons Gold executive, after insisting that the "Russians are dumping gold on the world market," tried to frighten him with the "confidence" that the South African producers are so desperate that they plan to shut their mines at the $320 an ounce level.

In spite of the best efforts of Consolidated Goldfields, I have documented repeatedly over the last months the fact that the Soviets have sold no more than their usual volume during the past year, at least on the open market. They continue to sell at levels of some 200 to 250 metric tons per year.

No chimeras of the "internal disintegration of the Soviet Empire," so popular at the International Institute of Strategic Studies in London, should make people imagine that the Soviets are either in a terminal bankruptcy, which they are not, or desperate for cash due to the crisis in Poland, which they are not. In point of fact, West German, French, and other credits continue to flow eastward, and the partisans of stability in Poland and the U.S.S.R. have won a considerable victory.

What extra cash the Soviets need is indeed being raised through gold mobilization—but not open-market sales. The Soviets have been swapping large amounts of gold with the South African, Swiss, West German, and perhaps the Brazilian central banks, in large part keeping it off the market.

In fact, Mr. Timothy Green, the renowned gold analyst for Consolidated Goldfields, was forced on March 16 to admit, after our analysis grew current, that there is after all "no Soviet dumping." Without explanation, Mr. Green told H. J. Maidenberg of the *New York Times* that he now believes "Soviet gold sales were estimated at [only] 250 tons in 1981, about normal. Soviet sales are not the main reason for the price drop."

Mr. Green admitted what we have long reported, and what was confirmed to me March 17 by the head of one of Germany's largest gold trading rooms. The millions of small gold buyers in the less-developed nations are being "totally shaken out of the market," this banker said, by high U.S. interest rates and the world economic depression.

"Money is pouring out of gold in the Third World, where people can no longer hold their gold, the major form of savings," he continued. "In Iran, we are seeing desperation sales. The same situation holds in South Asia and throughout the Middle East." Especially hard hit by the fall is OPEC revenues are the "poorer OPEC countries," he said.

Indeed, Mr. Green himself noted in the *New York Times* that sales of gold are coming from "Egyptian shopkeepers and millions of other savers in the Middle East, India, Indonesia, and poorer countries worldwide;" a direct plagiarism of my earlier analyses.

Who benefits? The "oldest European money is snapping up most of the gold sales," my European banking source confided.

While I do not expect a sharp rise in the gold price, I would say that a downward spike from the current level, while possible, would be temporary, and that those in the know are counting on $300 as a strategic floor. If one has the capital and liquidity to hold gold for some months, in the face of perhaps further temporary setbacks, then $300 is a good price.