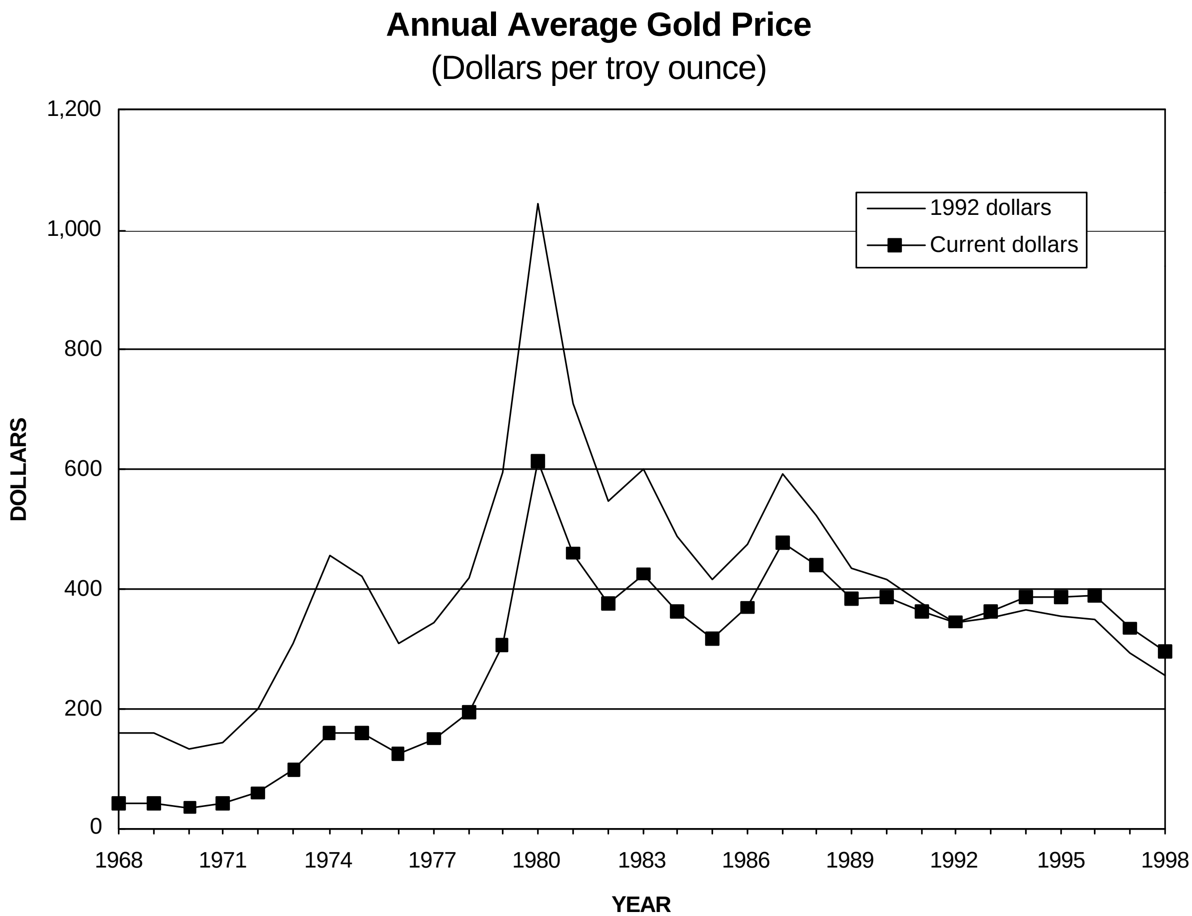
Au

Gold

by Earle B. Amey



Significant events affecting U.S. gold prices since 1958

1961	The London gold pool was established in which U.S. central banks and seven other nations agreed to buy and sell gold to support the $35 per troy ounce price that had been established on January 31, 1934
1968	The London gold pool sustained enormous losses and was discontinued; the two-tier gold price was established, one tier was for official monetary transactions, the other for open-market transactions
1969-70	Mild U.S. recession
1971	President suspends convertibility of dollar into gold, dollar devalued by 7.9%
1972	Official U.S. gold price increased to $38 per ounce
1973	Official U.S. gold price increased to $42.22, dollar devalued, two-tier gold price terminated, Organization of Petroleum Exporting Countries (OPEC) oil embargo begins
1974	U.S. citizens allowed to hold gold bullion and coins for the first time in 40 years
1975	U.S. Treasury begins public sales of gold stocks
1976	International Monetary Fund (IMF) begins 5-year gold sales program, IMF auctions and lower inflation outlook drive gold prices down
1977	Hiatus in U.S. Treasury gold sales
1978	U.S. Treasury resumes selling gold, Middle Eastern investors increase gold purchases
1979	Soviet Union invades Afghanistan; political upheaval in Iran, taking of U.S. hostages

1980	Gold price peaks at an historic daily high of $850 per ounce on January 21, IMF completes 5-year gold sales program
1982-88	Fluctuating world currency exchange rates, increasing concern about U.S. trade and budget deficits and banking problems, and Third World debt
1989-91	Conflict in the Persian Gulf and the breaking up of the Soviet Union, erosion of gold's role as a safe haven for investors, generally weak economic growth worldwide
1992-96	Gold price remains relatively stable
1997-98	Central banks of several countries sell large shares of gold holdings to meet common-currency criteria for European Union or to demonetize; bank failures or insolvencies in East and Southeast Asian countries

The price of a fine suit of men's clothes can be used to show anyone who is not familiar with the price history of gold just how very cheap gold is today. With an ounce of gold, a man could buy a fine suit of clothes in the time of Shakespeare, in that of Beethoven and Jefferson, and in the Depression of the 1930's. In fact, this statement was still true in the 1980's, but not in the late 1990's. The suit standard now implies a gold price of perhaps $1,000 per troy ounce. Today, a really good man's suit can easily cost 4 ounces of gold, and that is without a vest, which once was standard (Forbes, 1998).

Increases in gold price have had a good basis of precedent in history. During the period from 1344 to 1717, the price for gold almost quadrupled, reaching the equivalent of $20.67 per ounce. That price was maintained for more than 200 years until the enactment of the Gold Reserve Act, which increased it to $35 per ounce, on January 30, 1934. Pressure for still another increase in price gathered momentum less than 15 years later. Prices as high as $105 per ounce had been proposed, and world trade brought prices up to $70 per ounce. (Colorado School of Mines, 1959).

In November 1961, the London gold pool, in which central banks of the United States and seven other nations agreed to buy and sell gold to support the $35-per-ounce price, was established (Ryan and McBreen, 1963, p. 607). On March 17, 1968, the governors of the member central banks announced that they would no longer buy and sell gold in the private market, but would sell gold to each other for $35 per ounce. Thus, a two-tier market was established—an official market and a private market—in which the price was determined by supply and demand (Ryan, 1970, p. 535).

Following the establishment of the two-tier price system, a fixed price of $35 per ounce for official monetary transactions and a floating market price for private transactions, the U.S. Government asked Engelhard Minerals and Chemicals Corp. (known today as Engelhard Corp.), to quote a daily price. Engelhard initiated a buying quotation—the lowest price at which it could obtain sufficient gold of 99.95% purity to meet its requirements. A selling quotation $0.60 above the buying price, later reduced to $0.40, was also established (Ryan, 1970, p. 535). Thus, the basis for the average domestic market price for gold shown in the table was established.

On August 15, 1971, the President announced the suspension of convertibility of dollars into gold (West, 1973, p. 540). Following provisions of Public Law 92-268, the Par Value Modification Act, enacted March 31, 1972, the official price of gold was increased to $38 per ounce on May 8, 1972 (West, 1975, p. 557).

Following amendments to the Par Value Modification Act contained in Public Law 93-110, enacted on September 21, 1973, the dollar's par value was devalued by 10%, to 0.829848 Special Drawing Rights (a unit of account in the IMF). This fixed the official price of gold at $42.22 per ounce effective at 12:01 a.m., October 18, 1973. That price remains unchanged. The two-tier pricing system was terminated on November 13, 1973 (West, 1975, p.560).

Following provisions of Public Law 93-373, enacted August 14, 1974, the President was given the authority to repeal the prohibition on the holding of gold by private citizens, and effective December 31, 1974, the prohibition was repealed (West, 1976, p. 603).

Gold occupies a unique position among the world's commodities; it is an internationally traded commodity and a long-established, universally acceptable storehouse of value, considered by many people worldwide to be superior to fiat paper currencies with fleeting longevity or fluctuating unpredictable value. It has been said many times that gold is "forever"; its high intrinsic and monetary value usually dictates that, in time, most of it will be recycled to serve again. Because of its historically high value, much of the gold mined throughout history is still in circulation in one form or another (Lucas, 1993, p. 505).

As a consequence of the dual roles played by gold, as commodity and as money, its price cannot be viewed as one would view the price of other goods or services in a free market. Gold also cannot be viewed strictly from the standpoint of the U.S. market alone because international political and economic events that may influence the market for gold as a commodity may be outweighed by developments perceived to favor gold as a medium of exchange.

During 1969 and 1970 the United States experienced a mild recession, while the Republic of South Africa was permitted to sell gold to the IMF at $35 per ounce or less to meet its foreign exchange needs (Hoyt, 1970, p. 521).

By December 1971, the U.S. dollar had been devalued by 7.9% per exchange agreements reached during the Smithsonian Accords in Washington, DC (West, 1973, p. 539-540). Affected by previous year's devaluation, the official U.S. gold price was raised to $38 per ounce on May 8, 1972; speculative buying was encouraged by monetary policy changes made by the European Economic Community and by restricted supplies of newly mined gold (West, 1974, p. 567).

In 1973, the gold market was influenced by a weakening and devaluation of the U.S. dollar, lowered confidence in currency values, higher inflation rates, unsettled world trade, and, for the third consecutive year, lower mine production. The official U.S. gold price was increased to $42.22 per ounce on September 21. An embargo was begun on petroleum shipments to the United States by OPEC in mid-October. The two-tier gold price system, begun in 1968, was terminated (West, 1975, p. 557).

The OPEC embargo contributed to rising oil prices, worldwide inflation, and general economic uncertainty in 1974. Gold prices rose on speculation near yearend, pending the yearend removal of restrictions on U.S. citizens holding gold. The gold price trend was reversed in December by the U.S. Treasury's announcement that it would offer 2 million ounces of Treasury gold for public sale beginning on January 6, 1975 (West, 1976, p. 603). Investor and speculator interest was diminished by the announcement by the IMF that it would sell 25 million ounces of gold on the open market beginning in 1976. The Treasury, however, was able to sell 1.25 million ounces from its gold stock during 1975 (West, 1977, p. 669).

Monthly IMF auctions were begun in midyear 1976 to provide capital for low-interest loans to developing countries. The IMF planned to sell a total of one-sixth of its gold stocks, or 25 million ounces, over a 5-year period, and planned to restore an equal portion to member countries. In addition, a reduced inflation outlook drove prices down until October when the low gold price and renewed anxiety about the economy served to reverse price trends. The Treasury gold stock was down at yearend owing to its use in Bicentennial medals, which were made by the Bureau of the Mint and sold by the American Revolution Bicentennial Administration (West and Butterman, 1978, p. 591).

The world economy was stagnant in 1977. Limited success in controlling inflation led to higher gold prices, which benefitted the IMF auctions that continued throughout the year. There was a hiatus in Treasury sales (Butterman, 1980, p. 428).

IMF auctions continued during 1978, and the Treasury resumed gold stock selling (Butterman, 1980, p. 428). Middle-East oil-producing countries and investors began purchasing gold with their eroding dollar assets.

Economic conditions worsened during the next 3 years. Negative political events in Iran, Afghanistan, and elsewhere propelled the price of gold to an historic high of $850 per ounce by January 21, 1980. The IMF completed its 5-year auction program in May 1980. The Treasury sold no more gold in 1980 or 1981 (Lucas, 1981, p. 347). After the U.S. hostages were released by Iran on January 20, 1981, political tension was lessened, which led to less hoarding and reduced gold prices. The Japanese began to invest in the gold market.

Although the United States' strict monetary policy contributed to a recession and high interest rates in 1982, the advent of computer trading contributed to short-term volatility in the gold price (Lucas, 1983, p. 370). Lingering effects of the world economic recession on the mineral industry led to profit taking during the first part of 1983. Speculative gold trading to midyear strengthened price but was followed by profit taking (Lucas, 1984, p. 385). Oil prices weakened, while gold supplies from mines and official sources increased.

In 1984, the price declined, owing to increasing strength of the U.S. dollar and investor selling. Weakened price and a favorable market outlook contributed to increases in demand for gold-bearing fabricated products (Lucas, 1985, p. 423). The U.S. dollar weakened in the first quarter of 1985 against major European currencies and the Japanese yen. It continued weakening in 1986, which encouraged gold investment (Lucas, 1988, p. 441) as oil prices declined sharply.

By 1987, there was a sharp reversal in world stock markets with a continued weakness of the U.S. dollar combined with growing concern regarding U.S. budget and trade deficits and increasing U.S. private and Third World debt. Stability of the international monetary arrangements was questioned. Volatile investment markets generated increased gold-trading activity (Lucas, 1988, p. 441). During 1988, gold prices declined in response to a variety of factors, such as the withdrawal of the U.S.S.R. from Afghanistan, which gave investors the perception that political stability was at hand; weakening oil prices combined with an increase in interest rates by the U.S. Federal Reserve led to reduced inflationary expectations, increasing U.S. dollar strength, as well as improved U.S. trade results (Lucas, 1989, p. 64-65).

Official sector gold sales increased in 1989 as central banks adopted a more aggressive policy of gold management (Lucas, 1991, p. 468). In addition, a change of attitude developed toward gold, aided by concerns about the security of bonds and other financial assets and a setback in the U.S. stock markets in mid-October (Gold Fields Mineral Services Limited, 1990, p. 8).

The rise in Japanese interest rates in 1990 provided alternate investment havens. The U.S.S.R. was reported to have sold significant amounts of gold for hard currency. The Chinese sold out of equity swap agreements that were negotiated in mid-1989. The gold price drifted down as a result of the Persian Gulf War and the recession (Gold Fields Mineral Services Limited, 1991, p. 8-9).

The brief multination conflict that started in 1991 in the Persian Gulf did little to affect the perception of moderating political stability generally or to influence the price of gold for any sustained period of time. The collapse and restructuring of the U.S.S.R., however, did much to reduce investor interest in gold (Gold Fields Mineral Services Limited, 1992, p. 5).

The end of the 1992 bear market encouraged a return of European and U.S. investor confidence. In 1993, the high gold price, which particularly affected the local currencies of the Middle East and Asia, resulted in reduced hoarding of coins and large amounts of gold scrap being off-loaded into the market (Roskill Information Services Ltd., 1995, p. i).

During 1994, the gold market held onto the gains achieved during the previous year, but the U.S. dollar price lacked direction and volatility. Hoarding of gold continued to be reduced, as investors deserted the market (Roskill Information Services Ltd., 1995, p. i).

The average dollar price of gold remained almost unchanged between 1994 and 1996. Late in the fourth quarter of 1996, the Dutch Government provided a key catalyst by selling one-third of its reserves (Gold Fields Mineral Services Limited, 1997, p. 5). Fears that other central banks might sell their gold reserves followed (CRU International Ltd., 1996, p. 19).

During 1997 and 1998, central banks of several countries sold large shares of gold holdings to meet common-currency criteria for the European Union or to demonetize. Bank failures or insolvencies in East and Southeast Asian countries created uncertainty in investment circles. The price of gold returned to the low levels of 1979 (Gold Fields Mineral Services Limited, 1998, p. 5).

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Annual Average Gold Price[1]
(Dollars per troy ounce[2])

Year	Price	Year	Price	Year	Price	Year	Price
1968	40.06	1976	125.32	1984	360.66	1992	344.97
1969	41.51	1977	148.31	1985	317.66	1993	360.91
1970	36.41	1978	193.55	1986	368.24	1994	385.41
1971	41.25	1979	307.50	1987	477.95	1995	385.50
1972	58.60	1980	612.56	1988	438.31	1996	389.08
1973	97.81	1981	459.64	1989	382.58	1997	332.38
1974	159.74	1982	375.91	1990	384.93	1998	295.14
1975	161.49	1983	424.00	1991	363.29		

[1] Domestic market price, 99.95%-pure gold.
[2] To convert to dollars per kilogram, multiply by 32.1507.

Source: Engelhard Corp., published in Metals Week [through June 14, 1993] and Platt's Metal Week.