

## Gold by Alice Roth

### Europe sets a floor under the price

*Gold didn't suffer too much from the new collapse in silver—after rumors of a new Fed attack on the Hunt brothers.*

**W**estern European central banks may have an informal agreement to support the gold price whenever it falls below \$500 an ounce, according to New York market sources. The existence of this secret agreement could explain the recent unusual stability in the gold market in the face of deflationary pressures in the U.S. economy and continued fallout from the Hunt silver collapse last month.

It could also be a prelude to a major monetary initiative by French President Valéry Giscard d'Estaing at the late June economic summit of leading Western heads of state. Giscard is expected to propose a far-reaching reform of the international monetary system, possibly including gold re-monetization and the harnessing of gold-backed liquidity for Third World industrialization.

"There's been a tug of war in the gold market during the last few weeks," one trader observed. "One group, which includes Middle Eastern interests, private European banks, and some European central banks, buys whenever the price dips under \$500. The other group sells as soon as it reaches \$530."

The battle in the gold market—and the superior strength of the "bullish" European forces—became highly evident on May 22, when a rumor was floated that the

loan negotiations between a group of banks and the Hunts had fallen through. The rumor—apparently wholly fallacious—began with the seemingly casual remark of Federal Reserve chairman Paul Volcker on May 21 that the negotiations had not yet been completed. Some traders speculated that the Hunts might be forced to liquidate their silver holdings more quickly as a result of a delay in or complete absence of bank financing. By the morning of May 22, the spot silver price had plummeted to \$10.80 an ounce, down from \$11.70 at the close on May 20. The bearish atmosphere in the silver market also pulled down gold, which at one point fell to \$494.

This downward pressure on gold was immediately countered by what one source described as "very aggressive demand" on the part of West German and other large private European banks, with much of the purchases believed to be on behalf of Middle Eastern customers. The gold price immediately rebounded to \$515, dragging silver back up in its wake.

"It's obvious that the European banks have a substantial stake in gold at \$500, commented a trader at a leading New York commodity firm. "It could very well be that the central banks are also committed to supporting gold at this level," he added.

Even without the central banks' support, the West German banks have plenty of financial muscle with which to sustain a high gold price. During 1979, West Germany's number two bank, the Dresdner Bank, emerged as the world's leading gold trader, overshadowing even the Swiss banks.

The Bundesbank recently published some figures on the West German banks' gold business which served to underscore the growing hegemony of German banking in the world market. The Bundesbank reported that the banks' total involvement in the world gold trade, including gold bought abroad for foreign customers, jumped from 15 billion DM to a whopping 24 billion DM (about \$13.3 billion) in 1979.

Arab sheiks are not the only ones who have come knocking on the doors of the Dresdner and Deutsche banks in search of a "hard" currency. Private citizens in West Germany have accumulated a substantial hoard. The Bundesbank estimates that private holdings of gold coins in the country amount to 1,000 tons with a market worth of 28 billion DM. This represents about 2 percent of the total financial assets of private individuals in the Federal Republic.

The value of gold imports into West Germany has quadrupled since 1973 from 900 million DM to 3.5 billion DM (\$6.3 billion), accounting in part for the sharp decline in the country's trade surplus. Should Chancellor Schmidt decide to join Giscard in a call for a return to some form of gold standard, he would certainly not lack a constituency for this step within his own country.