

# Gold by Alice Roth

## Dresdner's role in the shakeout

*One of the market's biggest bulls decided to take some profits. It's a favorable interlude for small investors to buy.*

In one of its sharpest setbacks in recent months, the world gold price tumbled by nearly \$60 an ounce within a three-day period last week. Analysts offered many explanations for the metal's decline, including the negative effect of Treasury Secretary Miller's interview with Reuters on July 11, in which he stated that the Treasury might at some time resume its gold sales.

A much more interesting—and, in my view, more plausible—hypothesis about the gold market shakeout has been advanced by James Sinclair, a partner in the New York-based metals trading firm Sinclair and Co.

Sinclair believes that Dresdner Bank, led the selling.

According to Sinclair, Dresdner Bank realized that the gold market was likely to weaken in the coming period because of the onset of the Moslem holy month of Ramadan, when many Arab buyers are out of the market. Dresdner's strategists therefore decided to take their profits, while positioning themselves to buy more gold "cheap" once the price was knocked down.

Significantly, Sinclair reports that Dresdner also led a wave of selling at the start of the Ramadan holiday one year ago. Then, in late July, the bank caught everyone by surprise by plunging back into the market, pushing the price past \$300 for the first time in history.

The West German bank's aggressive bidding at the August IMF auction then sparked off the spec-

tacular run that culminated in an \$875 gold price in January 1980.

The Sinclair hypothesis makes sense in light of the fact that Dresdner Bank's largest customers are conservative Arab investors—including quasi-official agencies who hope for a formal restoration of gold's monetary role.

Barring that, they have decided to accumulate gold—not for trading purposes but as a long-term investment—as a form of insurance against the further deterioration of the U.S. dollar.

Such investors are unlikely to be deterred by Miller's threats to resume Treasury auctions—indeed, they would be overjoyed at the opportunity to obtain more gold without unduly disturbing the market. Nor are they likely to be impressed by the Fed's recent backtracking, when it is clear that the Fed has failed to reduce the underlying rate of U.S. inflation.

In short, Dresdner's customers are likely to come back into the market within a few weeks. This could be a perfect time for the small investor to buy some gold, assuming he or she is patient enough to ride out the current vicissitudes of the market.

Meanwhile, the July 7 *Financial Times* contains an interesting footnote concerning the growing clout of the big West German banks in the international gold market. According to the *Times*, German banks have been able to purchase increasingly large amounts of gold directly from the South African central bank, which in the early 1970s conducted business almost exclusively with Swiss banks.

The German banks "enjoy strong financial links with Pretoria" because they are willing to put in higher bids for the gold, thereby accepting a narrower spread. It is estimated that only about 60 percent of South Africa's sales now go to the Swiss, with 20 percent going to British dealers, and another 20 percent split between West Germans (primarily Deutsche and Dresdner Banks) and a few American dealers.

