

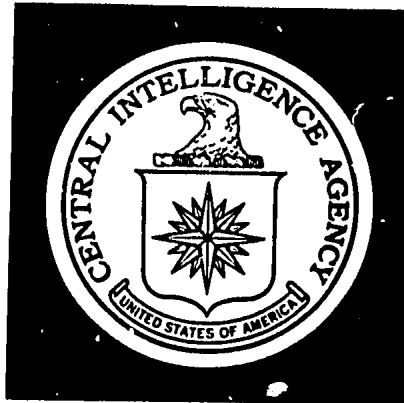
Approved For Release .25X1
2009/10/06 :
CIA-RDP85T00875R00160001

Approved For Release
2009/10/06 :
CIA-RDP85T00875R00160001

CIA/DER/IM 68-161

Doc/25X1E R

Secret



**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

International Finance Series No. 10

The World Gold Market

Secret

ER IM 68-161
December 1968

Copy No. 97

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

**GROUP 1
EXCLUDED FROM AUTOMATIC
DOWNGRADING AND
DECLASSIFICATION**

SECRET

25X1

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
December 1968

INTELLIGENCE MEMORANDUM

International Finance Series, No. 10

The World Gold MarketSummary

From the beginning of October through the first week in December, the United States increased its net gold reserves by \$150 million, the free market price of gold edged upward to nearly \$41.00 an ounce, and South Africa sold \$78 million in gold on the free market. The increase in US gold reserves was due largely to \$140 million of French sales. The United Kingdom, Turkey, and the Philippines also made gold sales to the United States of \$15 million, \$10 million, and \$5 million, respectively. While purchasers were numerous, the amounts bought from the United States were generally small. Greece, Argentina, and Jordan accounted for more than three-quarters of the \$22.6 million purchased by 23 countries.

As part of an International Monetary Fund drawing in late November, Peru received \$10 million in South African Rand. The South Africans, unable to supply the amount of key currencies desired by the Peruvians, exchanged the Rand for an equal amount of gold.

The most significant free market development during the fourth quarter was another South African sale to the Swiss consortium. The 62.2-ton sale was divided into two equal deliveries of one million

Note: This memorandum was produced solely by CIA.
It was prepared by the Office of Economic Research.

SECRET

25X1

SECRET

fine ounces each on 25 November and 2 December. Although the South Africans were able to take advantage of the higher market prices, the primary reason for the sale was to obtain badly needed foreign exchange.

25X1

25X1

Since mid-July the Rhodesian Chamber of Mines has been selling small amounts of newly mined gold to the Union Bank of Switzerland approximately every two weeks. The gold, totaling about six tons through the end of November, has been refined in South Africa and shipped to Switzerland through the Netherlands Bank of South Africa. Apart from these sales, the Rhodesian Reserve Bank in late October sold 4.5 tons of gold to the Union Bank of Switzerland. Keeping the Rhodesian Chamber of Mines and the Netherlands Bank of South Africa uninformed about the nature of the transaction, the Rhodesian Reserve Bank had the proceeds credited to the South African Reserve Bank.

SECRETThe Official Market for Gold

1. Thus far in the fourth quarter (through 6 December), the United States has added \$150 million to its gold reserves. France again provided the major share of the new acquisitions (see Table 1), particularly during the monetary crisis in November when the flight from the franc reached panic proportions. After a \$30 million sale in October, France sold another \$110 million to the United States in November. This brings to \$600 million the amount of French gold sales to the United States since the May-June disorders. Other major sellers during the fourth quarter included the Philippines, \$5 million in October; the United Kingdom, \$15 million in November; and Turkey, \$10 million in December. Between 31 September and 6 December, about two dozen countries purchased a total of \$22.6 million in gold from the United States. The chief buyers were Greece (\$10 million), Argentina (\$5 million), and Jordan (\$2.8 million). As of 6 December, the only anticipated transaction was a \$200,000 purchase by Pakistan.

2. The only other significant official gold transaction occurred during the third week in November when the South Africans exchanged \$10 million in gold for an equal amount of South African Rand obtained by Peru in a recent International Monetary Fund (IMF) drawing. As Peru would have encountered difficulty in exchanging Rands for a vehicle currency (dollars or sterling) the South Africans willingly supplied the Peruvians with gold.

The Free Market for Gold

3. Although the monetary crisis in late November and early December pushed free market gold prices to their highest level in five months, a major speculative boom in gold did not occur. Gold prices in the major European markets remained comfortably below their record levels of late May and early June. Unlike the crises early this year, which reflected a weakening of confidence in the US dollar and expectations of an increase in the official price of gold, the latest monetary crisis was mainly confined to pressure on European

SECRET

SECRET

currencies. There was a widespread belief that the West German mark would be revalued upward and the French franc devalued, but, partly because of a marked improvement in the US balance of payments, the dollar remained strong. Gold prices were held down by South African sales in Zurich (see paragraph 4) but were pushed up by the worsening situation in the Middle East and monetary difficulties in Western Europe. Strict control of movements of gold into and out of France forced the price of gold in Paris to \$43.91 on 3 December, about \$3 above the price in London and Zurich (see Table 2). The following day the price of the 20-franc Napoleon coin -- the form the small French hoarder prefers -- rose to \$13.67, the highest level in 20 years.

South Africa Again Sells Gold

4. During November, South Africa contracted to sell another 62.2 tons of gold to the consortium headed by the "Big Three" Swiss banks, the Union Bank of Switzerland, the Swiss Bank Corporation, and the Swiss Credit Bank.* Delivery occurred on 25 November and 2 December, ostensibly from South African gold stocks held in London and/or Switzerland.

5. While the recent South African sales came at a time when free market gold prices were up (South Africa received \$39.40 per troy ounce for the first delivery and \$38.50 for the second), the timing of these sales was influenced less by market prices than by South Africa's need for foreign exchange. Available fourth-quarter data show a reversal of the favorable balance of payments trends which previously enabled South Africa to withhold much of its gold from the free market. Trade figures (excluding gold) for October reveal the largest monthly deficit in years with imports at a record \$242 million. By the end of November, foreign exchange reserves had fallen to \$113

* As previously reported, the Swiss consortium purchased 48.3 tons from South Africa during the third quarter of 1968.

25X1

25X1

SECRET

SECRET

million -- the lowest in more than three years and adequate for only two weeks' imports at the October level.

6. South African officials have been increasingly active in seeking outlets for their gold since conclusion of the annual meeting of the IMF in early October, when no agreement was reached regarding South African sales. The groundwork for the recent sales may have been laid during the European travels of Finance Minister Diederichs and South African Reserve Bank Governor DeJongh following the IMF meeting.

25X1

Interestingly enough, once an agreement had been tentatively reached, it was the Swiss representative of the Union Bank of Switzerland in Johannesburg, Walter Zehnder, who exerted pressure on Wilmot to agree to the sale as early as 20 November. Had the South Africans acted immediately instead of waiting until 25 November for the first sale, they probably would have realized a higher price.

7. The sale to the Swiss and the transfer to Peru appear to be the only gold transactions undertaken by the South Africans during October and November. South African gold reserves on 31 September were \$1,069 million. Production for October is reported at \$92.5 million while output for 1-29 November is calculated at \$83.5 million,**

25X1

** Production in November is estimated to have been about 9 percent below normal. This estimate takes into account the probable reduction in output resulting from the flooding of West Driefontein mine and the subsequent threat to the neighboring Blyvooruitsicht mine. West Driefontein, South Africa's richest mine, accounts for 8 percent of the country's gold [footnote continued on p. 6]

SECRET

bringing estimated reserves before sales on 29 November to \$1,245 million. Reported reserves on the latter date, however, were only \$1,198 million, leaving a difference of \$47 million (see Table 4). The two known transactions -- the 31.1-ton sale to the Swiss on 25 November (equal to \$35 million at the official rate for reserves of \$35 per ounce), and the \$10 million transaction with Peru -- total \$45 million, or approximately the amount of the difference.

8. Although official South African gold reserve statistics imply substantial gold sales, they do not reveal the timing of the sales to the free market. As shown in Table 4, the weekly increase in the reported reserves of the South African Reserve Bank is almost constant (about \$14 million to \$18 million) during October and November. The only significant exception is for the week of 16-22 November, when the reserves show an increase of only \$3 million. This was also the week of the \$10 million transfer of gold to Peru,



25X1

9. In a related development, the South Africans transferred an additional 10 tons (approximately \$11 million), for their account, to the Union Bank of Switzerland on 17 December. The gold had been held by the Bank for International Settlements (BIS) on account for South Africa since 21 May, when South Africa swapped 10 tons of its gold held in the Bank of England for an equal amount of BIS gold stored

output the Blyvooruitsicht mine adds another 2 percent to the total. While around-the-clock emergency action saved the West Driefontein mine, it was only 25 percent operational on 1 December.

SECRET

in the vaults of the Swiss National Bank at Berne.

25X1

The Outlook for South African Gold Sales

10. South Africa's normal annual gold output is about \$1.1 billion. Prior to 1968, South African policy was to sell virtually all of its output through the London market. Output for 1968 probably will be slightly below normal -- perhaps \$1 billion -- because of the recent mine disasters. Hence, total sales for 1968 will be about 40 percent of normal. The free market has been able to absorb all of the South African sales to non-monetary customers this year (about \$237 million) and probably can absorb at least three times this amount in 1969 without any significant drop in the free market gold price. With the price between \$35 and \$40 per ounce, industrial and artistic demand for gold is at least \$700 million annually, and to this must be added a lump of private hoarding demand of uncertain amount. World private demand for gold probably is well in excess of \$1 billion annually. Only one-third to one-half of the \$2 billion to \$3 billion "overhang" generated by the heavy private gold buying in the early months of 1968 remains outstanding. Much of this may in fact have found its way into permanent hoards, and, in any case, the remaining "overhang" no longer appears to be a very important "oversupply" factor in the private gold market. Thus the South Africans are likely to have a buoyant market in which to sell most of their output at prices somewhat above \$35 per ounce.

11. The roughly \$78 million received from the recent sales will finance South Africa's payments deficit for only a short time. Renewal of expansionary economic policies in South Africa, following a year of stabilization, is likely to keep trade deficits large. Available 1968 estimates already show signs of substantial expansion over 1966/67 levels in such indicators as fixed investment, government outlays, and consumer expenditures. These developments, coupled with the South African preference for selling gold rather than borrowing, greatly enhance the likelihood of South African gold sales in the coming months.

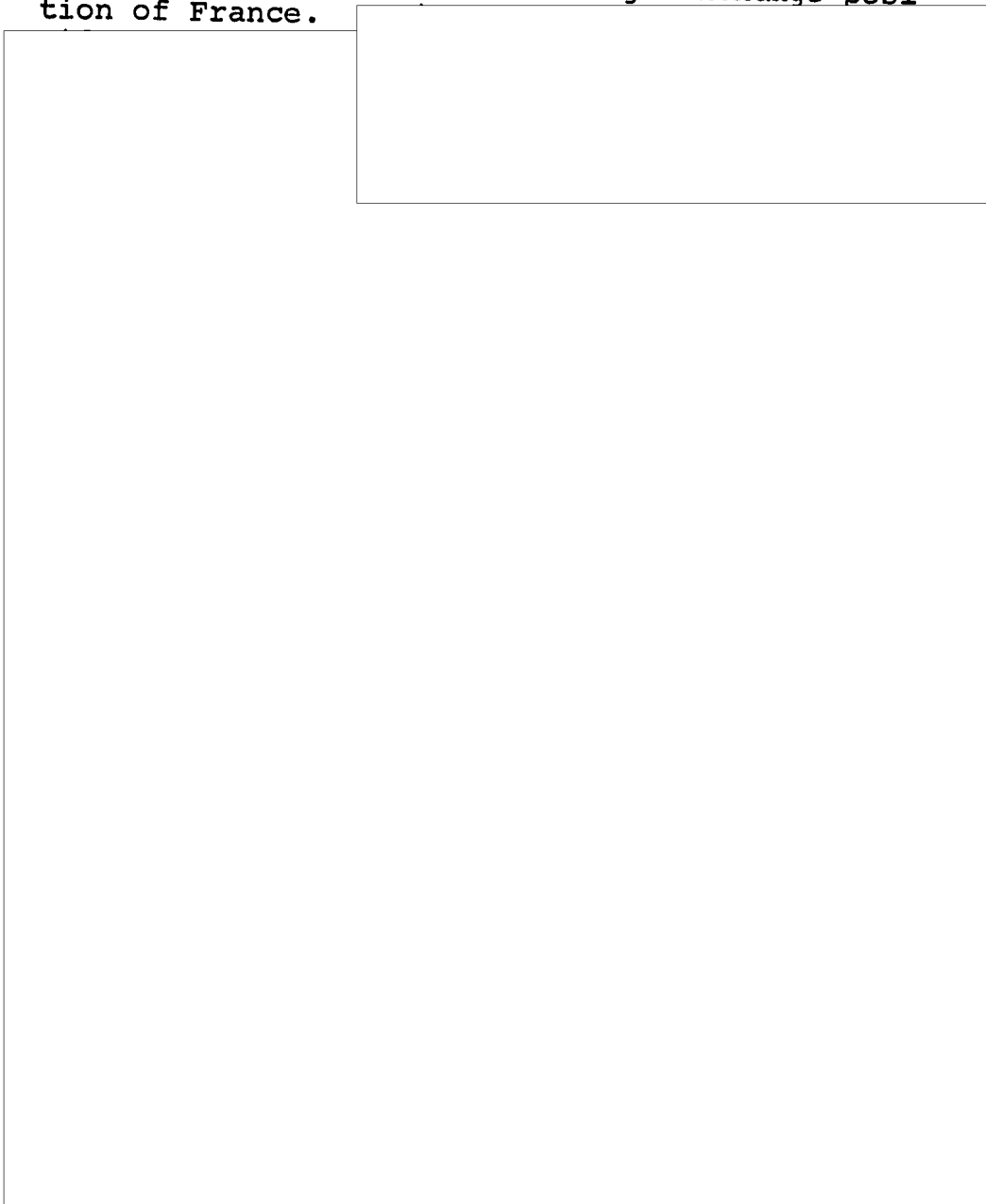
- 7 -

SECRET

SECRET

12. So far, virtually all of South Africa's sales of gold to the private market have been channeled through the Swiss bankers' consortium. Although the Swiss "Big Three" may be involved in future South African gold sales, there are several other intermediaries who would be willing to handle the metal. Figuring prominently among these is the Banque de Paris et des Pays-bas (BPPB), whose recent reorganization of foreign branches, particularly in Switzerland and the Netherlands, permits independent operation that will have no detrimental effect on the foreign exchange position of France.

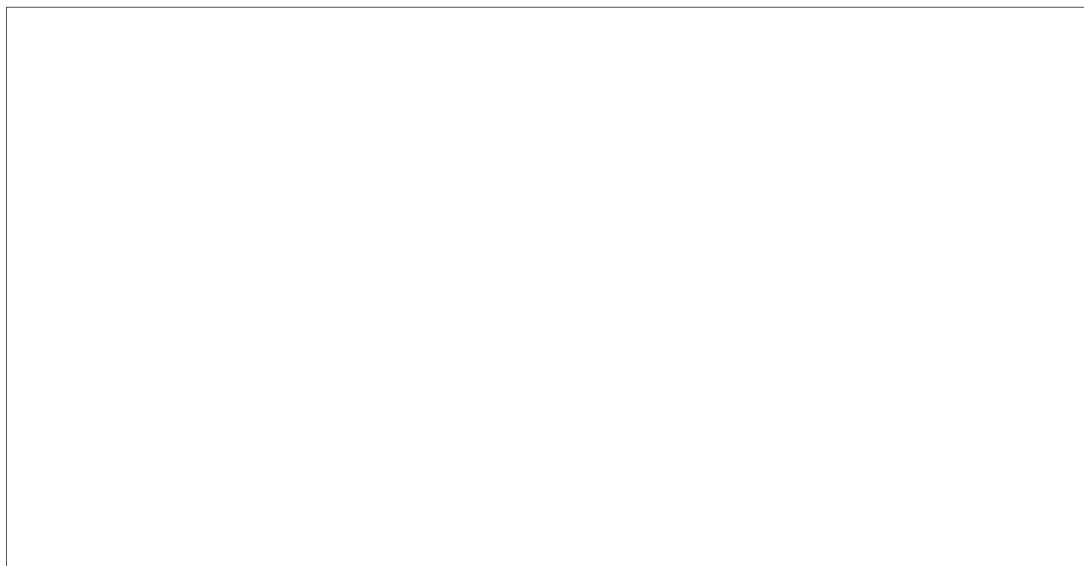
25X1



25X1

SECRET

25X1

Rhodesia Sells Gold

16. Between 19 July and the end of November, the Rhodesian Chamber of Mines sold nearly 190,000 ounces (5.9 metric tons) of gold to the Union Bank of Switzerland. In all, there have been 11 separate transactions, roughly one every two weeks. The Rhodesian gold is transported to South Africa, refined at the Rand refinery and then shipped to Switzerland via the Netherlands Bank of South Africa. Most of the 5.9 tons, accounting for nearly 30 percent of Rhodesian annual output, has been sold for about \$39.00 an ounce (less expenses).

17. Apart from these regular sales, a relatively large amount of gold, 144,300 ounces (4.5 tons), was sold directly by the Rhodesian Reserve Bank to the Union Bank of Switzerland in late October. The transaction had two unusual aspects: neither the Rhodesian Chamber of Mines nor the Netherlands Bank of South Africa were to know the nature of the transaction; and the proceeds from the sale were to be credited to the South African, not the Rhodesian, Reserve Bank. Although the transaction appears to have been a payment by Rhodesia rather than a sale of newly mined gold, the purpose of this payment is not known.

SECRET

SECRET

Sale of South Africa Gold Coins to the Union
Bank of Switzerland

18. In early December the South African Chamber of Mines sold \$1.4 million worth of gold coins to the Union Bank of Switzerland, which acts as an intermediary in sales to coin dealers and individual collectors. Such transfers between the Chamber and the Union Bank of Switzerland occur periodically, but because the amounts are relatively small, these sales have little impact on the world gold market.

Table 1
Gold Transactions with the United States
October-December 1968

Country	Million US \$					
	1-31 October		1-30 November		1-6 December	
	Purchase from the US	Sale to the US	Purchase from the US	Sale to the US	Purchase from the US	Sale to the US
France		30		110		
United Kingdom				15		
Greece			10			
Turkey						10
Argentina	5					
Philippines		5				
Ireland		3				
Yugoslavia					1	
Jordan			2.8			
Chile			0.9			
Indonesia			0.4			
Other	0.2		1.7		0.6	
<i>Total</i>	5.2	38	15.8	125	1.6	10
<i>Net</i>		32.8		109.2		8.4

SECRET

11

SECRET

Table 2
Price Range in the London, Zurich, and Paris Gold Markets
7 October-6 December 1968

	US \$ per Fine Ounce		
	London <u>a/</u>	Zurich <u>b/</u>	Paris <u>b/</u>
7-11 October	38.825 to 39.80	38.75 to 39.88	38.94 to 39.96
14-18 October	38.95 to 39.40	38.75 to 39.50	39.06 to 39.39
21-25 October	38.95 to 39.30	38.80 to 39.35	39.05 to 39.31
28 October-1 November	38.90 to 39.60	38.75 to 39.65	39.14 to 39.56
4-8 November	39.20 to 39.525	39.10 to 39.65	39.25 to 39.58
11-15 November	39.50 to 40.00	39.45 to 40.15	39.79 to 40.27
18-22 November	39.95 to 40.75	39.85 to 41.00	40.12 to 42.50
25-29 November	39.70 to 40.30	39.60 to 40.20	41.02 to 42.27
2-6 December	39.90 to 40.775	40.00 to 40.75	41.97 to 43.91

a. Based on morning and afternoon fixes.

b. Not exactly comparable with London; these data consist of the lowest offer to buy and the higher offer to sell during the week.

SECRET

- 12 -

SECRET

SECRET

Table 3

Summary of South African Gold Sales
1 January-6 December 1968

Million US \$ at \$35 per Fine Ounce

<u>Month</u>	<u>Amount</u>	<u>Location of Sales</u>
January	48.0	London
February	23.0	London
March	22.0	London
April	0	
May	0	
June	42.0	To France and the United Kingdom in return for Rand obtained by those countries in IMF drawings
	20.0	Probably Swiss commercial banks
July	34.0	Portuguese Central Bank
August	61.9	Portuguese Central Bank
	28.8	Swiss commercial banks
September	25.6	Swiss commercial banks
	16.9	Portuguese Central Bank
October	0	
November	35.0	Swiss commercial banks
	10.0	To Peru in return for Rand obtained in IMF drawing
December	35.0	Swiss commercial banks
<i>Total</i>	<i>402.2</i>	

Table 4

South African Gold Reserves
30 September-29 November 1968

Million US \$			
<u>Date</u>	<u>Reported Reserves</u>	<u>Estimate of Reserves Before Known Sales</u>	<u>Discrepancy</u>
30 September	1,069	1,069	0
4 October	1,077	1,081	4
11 October	1,094	1,102	8
18 October	1,112	1,123	11
25 October	1,129	1,144	15
1 November	1,147	1,165	18
8 November	1,161	1,185	24
15 November	1,178	1,205	27
22 November	1,181	1,225	44
29 November	1,198	1,245	47

SECRET

- 14 -

SECRET