

Gold by Alice Roth

Out-of-control markets

The run-up in the price of the yellow metal has nearly prompted a shutdown of some futures markets

On Jan. 7, the U.S. Commodity Futures Trading Commission and the New York Commodity Exchange took steps to restore order to precious metals futures markets, which had been nearly overwhelmed by speculators seeking to corner physical metals supplies. Although these measures placed a momentary damper on the metals markets, prices had already begun to rebound, as of this writing, as the center of speculative activity shifted from futures to the private cash market.

The speculative genie cannot be so easily put back into the bottle when basic confidence in the U.S. economy and international monetary system has vanished.

The factors behind the runup of gold and other precious metals are two-fold: 1) the imminent danger of a U.S.-Soviet confrontation and 2) the possibility that America's Western European allies, who dislike Carter's confrontation policies, will relaunch their effort to create a gold-based monetary system.

The prospects of a Soviet-run gold-based system has so terrified British policy-makers that the *London Times* negotiated a nearly 180-degree turnabout in its editorial stance on gold. An earlier *Times* editorial had suggested that the International Monetary Fund supervise a return to some form of austerity-based gold standard. On Jan. 4, however, the *Times* warned that the gold rise had gotten out of hand and that, unless a "coordi-

nated plan of reform" was instituted quickly, "grave and lasting damage on the international monetary system" would be inflicted. The editorial also took aim at French President Giscard's expected new monetary initiative around gold: "it is unrealistic to think in terms of some grand new design, negotiated and agreed by all, comparable to the design of the post-1945 world monetary system."

Sources close to the West German Bundesbank, meanwhile, denied reports that a plan to depress gold prices through joint central bank sales had been discussed at the Jan. 6 meeting of major central bankers in Basel, Switzerland. "If anyone else plans to sell major quantities of gold, the Bundesbank is prepared to buy it," the source stated.

In an interview published in the Jan. 7 *New York Times*, James Stone, chairman of the Commodity Futures Trading Commission (CFTC), warned that speculators were using the futures markets to corner physical supplies of metals

and that this development had seriously undermined the viability of the markets. That same evening COMEX officials sought to avoid a CFTC crackdown, by themselves imposing limits on silver futures trading—the first time in its 47-year history.

These new COMEX rules, and rumors that the CFTC might close down the futures markets altogether, resulted in a sharp break in prices on Jan. 8. Spot gold prices fell from a peak of over \$670 an ounce in Hong Kong on Jan. 7 to \$602.50 in late U.S. trading on Jan. 8, only to rebound to \$610 the following morning.

The CFTC/COMEX actions are unlikely to quell precious-metals speculation for long. With economic warfare now the name of the game in international politics, European governments and private interests will seek to build expanded, protective gold positions—whether they join France's quest for a gold-based system or not. Indeed, at the Jan. 2 International Monetary Fund auction, three West German banks, including Dresdner, Deutsche, and Deutsche Genossenschaft, outbid their competitors and walked away with all the gold offered.

