

Gold by Alice Roth

Gold is back!

Gold prices are soaring and the word is out that something big is in the works on the monetary front.

The world gold price soared to over \$580 an ounce last week, in the first significant gold market rally since Federal Reserve chairman Paul Volcker stepped on the credit brakes in February. The rally confirmed my prediction of three weeks ago: namely, that the gold market would spring back to life in response to a major initiative by French President Giscard d'Estaing to restore gold's central role in the world monetary system. Giscard is expected to unveil a plan for world monetary reorganization at the June 12 European Economic Community summit, and then at the economic summit of leading Western heads of state scheduled for June 22-23 in Venice.

The rally began to take shape over the last two weeks as traders discovered to their surprise that a \$500 floor had been firmly established under the gold price. American speculators' efforts to bash the price down below this level met with repeated fierce resistance on the part of major continental European banks, Middle East interests, and by some reports, the West European central banks as well. Then, beginning on June 2, a major new surge of buying pushed the price above \$580.

The wire services advanced numerous pat explanations for gold's initial rise, such as rumors that some Iranian hostages had been killed and the reported sabotage of

a synthetic fuel plant by black guerrillas in South Africa. When the climb continued, they cited U.S. interest rate declines. Among market insiders, however, the word was that "something big" was up on the monetary policy front and that something could very well be an enhanced role for gold.

This assessment was shared by Robert Guy, a director of N.M. Rothschilds and Sons, the London investment bank which oversees the twice-daily gold fixings. Speaking at the *Financial Times'* World Banking Conference in Singapore on June 2, Guy predicted that gold would play an important monetary role during the 1980s. "Leading central banks will seek to strengthen the position of the major paper currencies but will be less hostile to the role of gold as a reserve asset," Guy stated, with typical British understatement.

Although leading British factions, like the Rothschilds, have repeatedly backed gold as a "hard commodity" refuge from a collapsing dollar, the attitude toward gold at the Elysée appears to be qualitatively different. Officials at the Banque de France have reportedly spent months studying proposals for the creation of a new international system of gold-backed credits, perhaps employing a gold-backed ECU, which would replace the Eurodollar market and IMF/World Bank as the major

source of liquidity for the developing countries. Indeed, Giscard stated in December that he viewed Third World underdevelopment as the most serious threat to world peace and security and that his monetary blueprint would address itself to solving that problem.

West Germany's Helmut Schmidt appears to be coordinating closely with Giscard on this question. On June 2, the *London Times* revealed that Schmidt intends to use the Venice summit "to focus the attention of the other major industrial countries on the financial crisis facing the Third World." Schmidt is expected to suggest that the major industrialized countries join with OPEC in a joint Third World financing effort above and beyond what is presently available through private banks and the IMF.

It is known that the Europeans will grease the wheels for such a mechanism by introducing a peace-settlement proposal for the Middle East.

Could it also be that European governments are offering OPEC gold guarantees in exchange for their recycling of petrodollars into Third World development projects?

The answer is far from certain but it is interesting to note that, for the last year, gold and the world oil price have tended to move in tandem—a phenomenon which some observers blame on a "Euro-Arab conspiracy." Given that Saudi Arabia is being compelled to accept another round of price hikes at the upcoming OPEC meeting, these Euro-Arab forces may very well have decided to up gold's "target price" in advance from \$500 to closer to \$600.