Gold by Alice Roth

Giscard's gold initiative

Gold markets have become battle zones between those for and against remonetization, in the wake of a visit to India by the President of France...

In the wake of French President Giscard d'Estaing's four-day summit with Indian Prime Minister Indira Gandhi, international banking circles are buzzing with rumors that Giscard may bring Western Europe and the Nonaligned Third World movement together around a gold-based international credit system to fund development.

In the words of the New York-based *Journal of Commerce*, "the international community is waiting with some trepidation" for Giscard's monetary reform proposals which will be presented at the Venice economic summit of leading industrial nations in June.

According to top French sources, Giscard may call for the establishment of a new international institution (such as the European Monetary Fund) which may offer gold-indexed bonds to investors and recycle the funds into long-term industrial projects.

As speculation concerning Giscard's proposals mounts, the world gold market has increasingly taken on the appearance of a battle zone. The wild price oscillations which have occurred during the past two weeks reflect a bitter struggle between the U.S. Treasury, on the one hand, determined to prevent full remonetization of gold, and continental European banks and Arab investors, on the other, seeking to increase their positions in gold until such time that the Giscard plan is put into action. Thus, after peaking at $875 an ounce on Jan. 21, the gold price plunged to as low as $624 in London on Jan. 28, rebounded to $700 in New York on Jan. 29, only to fall back to $658 the following day.

U.S. Treasury official have put out the word on the market that they plan to hold another large government gold auction shortly. The Treasury may also be behind the decision of the New York Commodity Exchange (COMEX) earlier this month to suspend silver futures trading. The action (along with higher margin requirements in both silver and gold) resulted in a wave of forced liquidation in silver, which also affected gold because of investors' fears that gold trading might also be restricted.

Ironically, the major West German banks and their Arab customers appear to have welcomed the price falls as an opportunity to stock up on more gold at what would appear to be "bargain" prices. West Germany's *Die Welt* even suggested that Arab interests had sold some gold on Jan. 21 to panic the market, drive down prices, and facilitate further purchases.

At a recent conference of gold experts in Toronto, Dresdner Bank managing director Hans-Joachim Schreiber, a well-known advocate of gold remonetization, predicted that the gold price would continue strong. He dismissed rumors that the major Western European central banks had agreed to hold joint gold sales with the U.S. to depress prices as "a lot of talk" for which Swiss National Bank chief Fritz Leutwiler was primarily responsible.

The Treasury, meanwhile, has been placed in a position where it is damned if it holds another gold auction and damned if it doesn't. Another sale might hold down prices a little longer, but would permit Dresdner and other European banks to gain access to new gold supplies. On the other hand, if Treasury fails to resume its auctions, the price could rebound and add further credibility to France's demand for remonetization.