

Gold by Montresor

Off-market transactions

South African, Japanese, and other practiced investors are taking advantage of certain special channels.

As my more faithful readers remember, I recently reported that ancient and wealthy European families were using the slump of the price of gold, obtained through the services of their protégé across the Atlantic, Paul Volcker, to acquire large amounts of the metal at very cheap prices, in view of the predictable disgust for paper currency that will seize much of the investment world soon.

Since the purchasing of significant quantities of gold on the market would not fail to provoke hectic price increases, the gentlemen are simply bypassing the market, leaving it to less-informed individuals, and passing their private deals off-market, which offers great advantages, such as secrecy.

One manner in which this has been occurring is this: while in the recent past, a number of developing countries were trying to accumulate some reasonable gold stocks, the horrors inflicted upon the international financial and monetary system by Mr. Volcker have bared them of currency reserves, publicly or privately owned, and are forcing them to liquidate such gold stocks as they had acquired.

Sources close to the Tanzanian government reported to me that a score of black African nations have sold a total of several hundred million dollars worth of gold, off-market. And that went (in return for dollars whose long-term value cannot be guaranteed) to those who

buy for long-term purposes, and not to market-based speculators in search of fast profit.

That may help explain stories that a variety of journalists have recklessly issued concerning what they called the large fall in the producers' ability to sell gold. It is known, for example, that Moscow has been sharply reducing its consignments to Zürich customs of late. The very influential *Edel-Metall Marktbericht* published in Frankfurt by an interesting West German company, Degussa, which in its long existence has absorbed or controls many important precious metals companies, such as Comptoir Lyon-Alemand of Lyons, France, reports that "the Soviet Union is occasionally returning to the market, but with little quantities. One reckons with sales no larger than last year, around 100 tons." South African mines, Degussa reports, suffer the effects of inflation which represents a significant cost-push factor, which world market prices will not even out.

Why should the South Africans not have their own off-market operations? I can think of a little-known organization in Munich which specializes in just this sort of transaction. I incidentally remember witnessing a few conversations in Hamburg between Russian and South African experts over the last years.

Degussa additionally reports that "alone, Japan reports for the

first half of 1981, especially in June, a sizable increase of the gold imports, at 64 tons for the first six months of this year, as compared to ca. 31 tons for the whole of 1980."

Wise are the Japanese. I had luncheon in New York not long ago with a senior official of the Japanese government, who asked what my counsel might be concerning his nation's policy for precious metals?

"Should I possess so many dollars as your country presently does," I told him, "I should swap as large quantities of these for gold, and this, most secretively."

My Japanese interlocutor then giggled, which I took as expressing some degree of understanding of my views. The above report may reflect this, in part.

In this vein, one should also turn to Siena, Italy, and its bank, the Monte dei Paschi di Siena. (The curious name comes from the times when the capital of that bank was entirely derived from the collection of rights of pasture for cows grazing within the confines of the Republic of Siena. I should add that the bank's "unlisted assets accumulated through the centuries" is the manner in which this bank presented its own capital base, which apparently did not consist of shares, before the last world war.) Siena melters are presently busy reducing gold jewelry into bullion, in the context of flows of wrought and raw gold between Italy, Syria, the rest of the Arab world, and the Soviet Union. These flows have reversed from previous patterns, indicating, as in the other cases I described here, the growing tendency to circumvent those exposed and incongruously noisy marketplaces in London and Zürich.