

## Gold by Montresor

### Tokyo's new market

*Quietly and steadily, Japan is becoming a major force in international gold transactions.*

Japan's Ministry of International Trade and Industry, in the purest spirit of Japan's brilliant trading abilities, took the moment of greatest weakness in the international gold price to announce the opening of a new gold exchange in Tokyo. Earlier this year the Japanese became the most visible source of demand for physical bullion, and the trade ministry's approval for an international gold exchange makes it possible for Japan to conduct substantial accumulation without the previous reliance on Hong Kong, which the Japanese found supremely distasteful.

To associate the sudden Japanese interest in gold purchases, which is occurring at the broadest base of the Japanese population—two dozen or so new retail facilities for the metal's sale are now opening in Japan each day—with the motives for gold hoarding that occur in France, or even the United States, would be a grave misjudgment. Not only do the Japanese still enjoy a single-digit inflation, a remarkable achievement for a nation entirely dependent on imported energy sources, but the Japanese population trusts their financial institutions in a way that the French, and increasingly the Americans, do not.

It is wise to recall that the Japanese are a population which dutifully handed their private gold hoards over to the central government in 1947 in exchange for paper, only two years after the conclusion of the world war.

For political reasons, the Japanese do not choose to accumulate a substantial governmental gold reserve. Pressure from the United States Treasury was sufficient, while France, Germany, and Italy drained America's gold reserves during the 1960s, to persuade the Japanese to forego exchange of their growing dollar reserves for gold. It is not the Japanese way to enter into an open quarrel with the United States. Neither are the Japanese so foolish, however, as to enter the 1980s without a substantial gold reserve. Well-informed Japanese sources explain simply that individual wealth of this sort is national wealth, whether it be in the backyards of Japanese farmers or in the vaults of the central bank. Should the government ask for it, the Japanese population will happily turn their gold in for low-interest, long-term government bonds, just as they did in 1947.

Moreover, the reported volume of Japanese gold purchases—97 tons during the first nine months of this year—reflects only part of what the Japanese have actually bought. Relatively insignificant buyers during the big 1980 price runup, the Japanese are aware that this may be the last chance to purchase gold at a price less than the marginal cost of new gold production (or about \$500 per ounce, according to Consolidated Gold Fields). Should the dollar run into major trouble over the next year, as appears likely, the price would run up considerably

further.

On Oct. 21, for example, Japanese brokerage firms placed a several-page advertisement in West Germany's leading daily, the *Frankfurter Allgemeine Zeitung*, to argue to their German counterparts that the strong dollar, "based on America's trade surplus and leading strategic role," was a thing of the past, and that other currencies, including the mark, yen, and French franc would slowly replace many of the dollar's functions. But the Japanese are skeptical of the sort of pure "multi-currency" system that the Bank for International Settlements likes to talk about, and expect the weakness of the dollar to necessarily lead to a fallback onto gold.

Therefore the Japanese are engaging in a gold-accumulation campaign almost without precedent in recent history. The 100 tons or so reported may reflect a little more than half of the actual totals, Japanese experts say, because Japanese Treasury reporting requirements on gold purchases are extremely lax.

Furthermore, the cited figure reflects only the gold actually imported into Japan. It does not include purchases of gold, gold shares, or gold mines and undeveloped deposits by Japanese nationals, including Japanese trading companies, in a dozen different areas of the world. Actual purchases of gold by the Japanese this year probably amount to between \$4 and \$5 billion at current market prices, thus perhaps \$10 billion at the likely price one year from now. I would not be surprised if the Japanese were planning to mine gold on a scale surpassed only by South Africa and Russia as well.