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Zurich's Gold Market

Up to 1968 London was the world centre of the gold trade. The principal reason for this was that South Africa, the foremost gold producing country, had traditionally preferred London for the sale of its continuous supply of the noble metal. In addition, eight central banks had founded a "gold pool" in the autumn of 1960 for the purpose of regulating the international gold trade, and the Bank of England had been entrusted with the technical modalities.

After the split of the gold market in 1968 and the simultaneous dissolution of the gold pool set up by the banks of issue, the Union Bank of Switzerland, The Swiss Bank Corporation and the Credit Suisse (Swiss Credit Bank) decided to create a gold pool of their own.

As Zurich had already been an important retail centre for gold, Switzerland was able to maintain and even to strengthen her position on the gold market after the split. London, by contrast, lost some of its importance, as the central banks dropped out of the picture as a source of supply and South Africa for a time discontinued its gold sales on account of its balance of payments. When it resumed them a year later — this time on the Swiss gold market — a primary source of supply was thereby opened up for Switzerland. Zurich had consequently advanced from the position of a retail market in 1968 to that of a universal market able to satisfy the demand for gold from the current output of the largest producing country.

Features of the Zurich Gold Market

Although London was later able to recover a considerable part of the gold business it had lost in 1968/69, it no longer succeeded in displacing Zurich from its leading position. Today Zurich and London are the two most important centres of the international gold trade. Fears that the forward dealing in gold on various American commodity exchanges —introduced when it was made permissible for private persons to own gold in the USA—would lessen the importance of the European gold centres have meanwhile proved unfounded. The rates on the American "futures" market for the most part follow the quotations of Zurich and London.

The importance of Zurich today can be gauged from the fact that South Africa sells about 75 per cent of its gold in Zurich because of the enormous potential Switzerland offers for placing the metal. The recent gold auction of the U.S. Treasury clearly underlined the leading position of Zurich, for about 35 per cent of all offers came from Switzerland's three big banks.

This hegemony cannot be exactly expressed in per cent, as no accurate turnover figures are available for the other gold markets; but at the present time it may be assumed that about two thirds of the total free trade in gold is passing through Zurich.

If reasons are sought for the prominence of Zurich in this field, the first that presents itself is Switzerland's liberal import and export legislation. The free convertibility of the Swiss franc and the absence of any legal restrictions have favoured Switzerland at all times. Up to 1972 the Swiss banks also had the advantage of being able to count their gold as part of their primary monetary reserves. Perhaps the decisive reason for Zurich's strong position, however, is the initiative shown by the three big Swiss banks in their business practice. They have always regarded it as one of their principal functions to meet the gold needs of customers all over the world and to take account as far as possible of individual wishes. Because the large international standard ingot of $12\frac{1}{2}$ kilograms was usually too big for private interests, the Swiss banks began to have smaller bars made in their refineries, even down to small units of 1 kg to 5 grams.

Another feature of the Zurich gold pool is that the three banks that participate in it supply the market in part from their own stocks. This enables them to intervene on the market on their own account within certain limits when prices fluctuate sharply. Such price-stabilizing interventions are in the interest both of the gold producers and of customers, who are thus furnished with a more reliable basis for their calculations.

Technical Procedures of the Zurich Gold Trade

Whereas in London the gold price is fixed only twice a day, in Zurich gold is bought and sold the whole day from 9 a.m. to noon and 1 to 4 p.m. The gold counters of the three big banks are in constant contact with each other by telephone and inform each other of transactions above 250 kg, according to the situation. The price is continually adapted to supply and demand in the light of this information. If a buyer wishes to purchase a gold bar against cash, the price is at once quoted —which is not the custom in London. If he is agreeable to this price, the bank will at once sell him this bar provided certain requirements with regard to trustworthiness are fulfilled. The procedure is the same —in the opposite direction—for the sale of gold. The man behind the counter will make the seller a firm offer if he is ready to close the deal at once. Quotations are made in dollars per ounce or in francs per kg. The prices given in the daily press relate to the internationally traded standard ingot of 12½ kg of a purity or "fineness" of 995/1000. The 1-kg bars with a fineness of 995/1000 cost Fr. 10.—per kilogram more. The 1-kg bars of 999.9/1000 fineness cost Fr. 15.—per kg more than the 12½-kg ingots.

Price Development

Like all other prices on a free market, the gold price results from the interplay of supply and demand. If we are to understand price fluctuations, which are sometimes turbulent, we must first look more closely at the various components of supply and demand. In the case of the demand, we have to remember that gold is not used only for industrial purposes and for making jewellery. Its functions as a form of saving and in the currency system are just as important. We can therefore make a basic distinction, as far as the private demand is concerned, between industrial or trade requirements and investment. In the last few years there has been a distinct shift of the emphasis as between these two groups: while the net requirements for trade and industry dropped from 1400 metric tons of gold in 1971 to about 700 tons last year, the demand for purposes of investment and speculation rose sharply as a result of the ups and downs of the currency situation and the high rates of inflation. In the past two years alone about 500 tons of gold per year has been absorbed from the new production to cover investment requirements.

The gold supply has so far been comparatively stable. South Africa still holds a dominant position among gold producers. Last year it accounted for 760 tons of the total supply of 1135 tons, or about 70 per cent. Second place was taken by the Eastern bloc, which in 1974 sold some 330 tons of gold in the West.

The sales policy of the Eastern countries helped a good deal to keep prices stable, for Russian suppliers sold as a rule only when price trends were firm, but withdrew from the market when the demand declined.

The pronounced run on the gold market which drove prices up as high as $200 per ounce at the end of 1974 must be attributed, in view of this stable supply, to a big increase in the demand on the part of private buyers. As long as the present worldwide uncertainty in the currency sector persists and there is a risk that national currencies may cease to be accepted as a means of payment in times of war, disasters or social unrest, it is unlikely that this component of the demand will be eliminated.

Gold Price Trends

While the gold price was relatively stable at about 163 dollars per ounce in August 1975, it dropped in early September to some 150 dollars and has since fallen further as a result of the general uncertainty about the monetary future of gold. At the annual meeting of the International Monetary Fund the members of the interim committee agreed on a plan to sell one sixth or about 25 million ounces of the Fund's gold reserves and to place the proceeds at the disposal of the developing countries. The exact terms of the sale have not yet been decided on. They will no doubt be designed to preclude any serious disturbance of the market. For a collapse of the gold price would not be in the interest of the developing countries, which hope for a high return from the sale, nor in that of the central banks, which still possess large gold reserves. In any case, the gold sales proposed by the interim committee of the International Monetary Fund are only likely to affect the market temporarily. In the long term the demand for gold for investment purposes, which has been stimulated in recent years by inflation, will continue to be the most important factor influencing the development of the gold price.

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