***Bullion Market***

# Gold Passes Peak Point But Silver is Steady

NATURE may abhor a vacuum. But the Bombay bullion market can, apparently, function and even thrive in a vacuum. More surprising than the near-peak levels registered by both gold and silver during 1950, is the fact that the bulion market has continued to survive so many obstacles and restrictions. Supplies cannot be augmented through imports. Nor is there any silver mine in India, although the output of the Mysore gold mines continues to provide slender supplies to the market. Yet, strange as it may seem, gold remained relatively quiet during the past year. And this, despite the disturbed political developments in Nepal and in Tibet and the disquieting international situation!

To some extent, the relatively quiet tendency in gold was due to occasional sales of South African newly-mined gold at premium prices, despite the firm attitude of the International Monetary Fund against such transactions, South African authorities succeeded in evading the World Fund's directive through screened and indirect devices. And the Fund's categorical " no " to South Africa's demand or a higher dollar price for gold contributed to the downward tendency in the yellow metal. By and large, the world's "free" markets were pre-occupied in adjusting themselves to the repercussions of devaluation of currencies in September, 1949, and were only occasionally disturbed by the rumours about a possible devaluation of the dollar in terms of gold.

Two possible explanations can be put forward for the comparatively quiet tendency in gold during the past year. It is arguable that there is a limit beyond which the demand for gold falls oil, and is switched over to demands, say, for silver. In the retrospect of the past two years, it appears that that level is in the vicinity of Rs. 115 per tola. Yet, experience suggests that even this level docs not induce hoarders to disgorge their stocks. Does this mean that there are not large hoarded stocks of gold stocks, that is, which may conceivably be thrown upon the market through price inducements?

It is not as much the increase in supplies as the falling off in demand which explains the narrow fluctuations and the quieter tendency in gold. Continued smuggling of gold has had a psychological adverse effect on prices. There are estimates that as much as one million ounces have been smuggled into Bombay in recent months. Price fluctuations reflect that smuggling of gold there has been. In recent weeks, however, energetic measures have been taken to stop smuggling. And it is more than a mere coincidence that the price of gold has developed an upward trend in the past few days.

Those who are in search for dues may ponder over the implications of recent fluctuations in the price of gold: 1950 "highs" were below the previous peak levels, but the " lows " were above those registered in previous years. As long as the world situation remains tense or the World Fund's directive against sales of newly-mined gold at premium prices prevails or production remains relatively low, the price of gold may not register a sharp recession. But, prospects for a rise seem equally limited.

If smuggling and lack of demand at higher prices caused comparative quietness in gold, silver remained buoyant as fears of sales of silver by the Government leceded into the background, Silver recorded the year's " high " as the Finance Minister assured Parliament that the Government would not sell silver from its stocks and that they were anxious to retain the reclaimed silver from the quarternary coins in order to fulfil their obligations to return lend-lease silver to America. Phis assurance was enough to raise silver to the year's peak levels although the boom was short-lived and the bubble burst as the hull syndicate fizzled out.

Cuba and Argentina were for some months in the New York market to dispose of their bullion stocks. Their sales had a depressing effect on silver prices in London as well as in New York. Lower foreign advices acted as a brake *to* the rising tendency in local silver prices. Also, it became apparent that, with more energetic attempts at control of prices of raw cotton and at procurement of food at regulated prices, the traditional demand for silver from the farming community was less insistent. It was only when Cuba stopped silver sales in the New York market that world silver prices resumed the upward trend.

Unlike gold, silver stocks have not been replenished through smuggling. Though less insistent, the demand for silver continues. And " longs " of silver are secure in the knowledge that, unlike distress sales of gold, disgorging of silver is not common or expected. Distress sales of silver are not inconceivable but the general economic situation does not warrant such sales. Under the combined influence of scarcity of stocks and of spasmodic demand, silver prices remain relatively steady. Though the year's " high " was slightly below the " highs " previous recorded, the " low " was appreciably in excess of " lows " recorded by silver in the preceding years.

For some time past the bullion market has been functioning under strict restrictions and regulations. There is also the Damocles sword hanging over the market in the shape of the Government's proposed legislation on forward markets. During 1950, both gold and silver were subjected to trading under the system of margins. This had a sobering effect on the market as wejl as on prices. Though the margin system of trading was subsequently lifted, the threat that it would be re-imposed if the occasion arose acted as a deterrent to over-activity.

Silver is no longer under the threat of sales out of Government stocks. Gamblers in silver and gold are also assured in the knowledge that the Government have no intention to fritter away scarce foreign exchange on imports of bullion. These are highly bullish factors, but price fluctuations in 1950 indicate that the dealers are aware that there are limits beyond which the demand for gold as well as silver tapers off. They are also conscious that the Governments proposed legislation on forward markets is aimed at preventing wild gyrations in prices of bullion or of commodities dealt in futures market.

One clear fact emerges from the behaviour of gold and silver during 1950. Narrow fluctuations in prices, the quiet tendency in gold and the irregular, though slightly upward, trend in silver cannot be adequately explained by lack of uncertainty. On the contrary, recent political developments would have intensified the hoarding demand due to increased uncertainty and to fears of political upheavals. Besides, the belief still persists that the dollar may some day be devalued in terms of gold. Nor is the market any more apprehensive that the Government will enter the market as a seller of silver.

How, then, to explain the relatively quiet trend in bullion in the past year? Evidently, it reflects the diminishe ! and dwindling presence of black market funds on the bullion market. Demand for bullion has fallen as the volume of black money has decreased. Thus interpreted, the behaviour of bullion during 1950 is to be accused as a reflection of the receding pressure of inflation. Current financial statistics indicate that the Government is anxious to avoid monetary expansion. Unless inspired reports thaj New Delhi may beat a nasty retreat on the front of controlled economy, as they have already done on the food front, materialise, the bullion market is not likely to bene-

## Bombay Bullion Prices (Spot)

| | | Jan. | Feb. | Mar. | April | May | June | July | August | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gold per tola | 1949 | 114-15 | 117-13 | 112- 6 | 112- 4 | 117- 1 | 117- 8 | 113- 2 | 114- 7 | 114- 9 | 115- 4 | 114- 9 | 172- 0 |
| | 1950 | 114- 4 | 116- 3 | 116- 1 | 116-15 | 118-15 | 115- 2 | 114- 9 | 113-15 | 113- 0 | 110- 3 | 108- 3 | 186- 6† |
| Silver per 100 tolas | 1949 | 182- 2 | 187-12 | 185- 1 | 178- 9 | 183-11 | 186-10 | 165-10 | 162- 6 | 162- 3 | 167-12 | 168-15 | 113-15 |
| | 1950 | 178- 5 | 183- 9 | 185- 3 | 187-11 | 190- 5 | 181- 9 | 181- 8 | 180- 2 | 182-15 | 182- 7 | 180- 8 | 110- 0† |

Average of closing quotations for working days. †Estimated.

## Bullion Prices in Pakistan

(Monthly Average : Karachi Spot Quotations)

| | | Jan. | Feb. | March | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gold Tejabi per tola | 1949 | 106-4 | 108-1 | 106-1 | 105-2 | 104-8 | 109-5 | 107-9 | 105-10 | 106-2 | 100-2 | 99-8 | 98-10 |
| | 1950 | 97-11 | 97-12 | 101-15 | 103-0 | 100-13 | 101-0 | 100-11 | 96-12 | 96-6 | 97-0 | 98-0 | 88-8 |
| Silver, handles per 100 tolas | 1949 | 141-12 | 140-11 | 137-14 | 132-10 | 143-1 | 148-8 | 138-0 | 136-8 | 126-10 | 124-12 | 124-0 | 126-0 |
| | 1950 | 134-0 | 136-0 | 128-13 | 130-10 | 135-0 | 132-11 | 131-12 | 130-12 | 132-0 | 133-0 | 134-8 | 136-0 |

fit in the coming months from the pressure of inflation or of black money.

### Bullion Market in Karachi

Gold went down with occasional interruptions in Pakistan also and even more heavily though silver steadied up from around the middle of the year and has since been firm.

How explain the greater fall in gold prices in Pakistan and the more arresting feature of the year, the widening difference between Karachi and Bombay gold quotations?

The price of gold in Pakistan appears to be much more susceptible to influences abroad, e.g. the sharp decline in Hongkong free gold market which travel via Persian Gulf for it moves ' almost parallel to prices ruling in the Gulf Ports, so much so that any marked movement in Bahrein or Musqat does not fail to find a reflection in Karachi. For this there are good reasons. Smuggling from the Persian Gulf is more or less taken for granted and the market goes down whenever influx of contraband gold is heavy and tends to firm up whenever Customs authorities succeed in catching a big haul of contraband gold which is not often. When they do, it is a mere interruption in an otherwise steady flow. Persian Gulf quotations during the earlier part of the year Went down from Rs. 92 to. Rs. 82 following the 30 per cent fall in the world free market and Karachi followed suit. The margin of difference ranges between Rs. 15 and Rs. 17 and this is considered sufficiently attractive for smuggling of Persian Gulf gold to have become a regular trade.

*Karachi Commerce* reports, " Many have taken to this trade and have sent their families for a short trip to the Gulf Ports from where they return wearing ornaments up to 50 tolas of jewellery. On her return trip, she finds she has made a profit of between Rs. 700 to Rs. 750. Repeated journeys are made; the correspondent himself found 50 families sailing by the same boat on such short visits to Persian Gulf. The gold brought in by the Haj pilgrims, however, is only a seasonal affair, though it is a market factor of no mean importance.

Another factor responsible for the declining trend was the Gustoms check on movement of gold to East Pakistan to prevent gold being smuggled out to India. The tax on jewellery is yet another factor suspected to be responsible for it. Pakistan commentators variously attribute major movement in gold prices to the exodus of or smuggling by Hindus. Thus the first big break in gold prices early in 1948 was attributed to the exodus of Hindus from Karachi. The end of the Trade Pact with India brought about a temporary improvement in October because with it, the rate of Indian rupee fell and this, the *Karachi Commerce* reported, raised the expectation that " more jewellery would be utilised by the remitters of funds to Bharat". Curiously enough, Hindus are again responsible for the fall brought about by the imposition of more stringent Customs restrictions on the movement of gold to East Pakistan, which was obviously intended to check outflow of gold to India via East Bengal.

The declining trend however, is so steady and persistent that it cannot be explained by such factors alone. it also seems to indicate a lessening of inflationary pressure, perhaps to a greater extent than in India.