



To: D. J. Emery

Subject: Giant Yellowknife - Gold Marketing

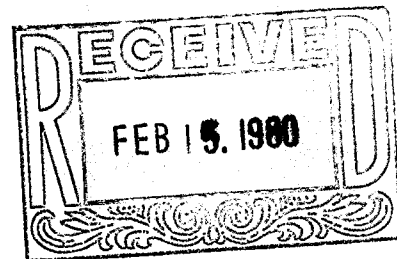
Date: January 21, 1980

From: D. N. Zeraldo

Copies to: TJD, MOP, File.

INTER-OFFICE MEMORANDUM

H.O. 331-4-79



A review of the gold market in 1979 and the outlook for 1980 is provided below:

The gold upswing of 1978 continued through 1979. There was a spectacular increase in price from a low of \$U.S. 217 per ounce in late January to \$512 per ounce at yearend. Throughout 1979 the advancing price of gold was a reflection of:

- (a) the continued decline of the U.S. dollar on foreign exchange markets.
- (b) increasing domestic and foreign concern over new high levels of inflation in the U.S. and also in the other developed countries.
- (c) uneasiness over the future stability of price and supply of crude oil from the Middle East in light of the recent crisis in Iran and Afghanistan.
- (d) soaring demand from Middle East petrodollars as well as from private corporations and individuals who were adjusting their investment portfolios to include gold bullion.

The U.S. treasury auctions which started the year at a level of 1,500,000 ounces per month, were reduced to 750,000 ounces per month in May. Following the IMF meeting in Belgrade during the first week of October the U.S. treasury announced that it would make future auctions on a surprise basis, that is, the U.S. treasury would provide advance notice of only one week of the date and quantity of gold to be auctioned. The U.S. treasury sold 12.5 million ounces in 1979 without any noticeable calming effect on prices.

With the spectacular burst in the gold price from \$US 512 per ounce at yearend to \$US 850 during late January 1980, projections for 1980 are difficult to make. The U.S. treasury made its last surprise auction of 1,250,000 ounces on November 1, 1979. Since that time no further announcements or auctions have been made. The withdrawal of this supply against burgeoning investment demand could result in an undersupply of metal. Furthermore, the IMF auctions which were initiated in 1976 are scheduled to cease in May, 1980. Failure to extend these sales could lead to a further shrinkage in supply.

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The level of monetary demand will likely be the key determinant to the level of gold prices in 1980. The strong measures taken by the U.S. Federal Reserve during the third quarter of 1979 to halt the excessive growth in the U.S. money supply have as yet not had a stalling effect on the U.S. economy as GNP continued to grow in real terms during the fourth quarter and inflation continued at double digit levels. In addition it will take tremendous discipline on Washington's behalf to maintain monetary restraint during an election year. Considering past performances of governments in this area one would have to expect the continuation of gold prices at high levels.



D. N. Zeraldo

DNZ:dlr