

IMF Gold Sale – Part II

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The IMF proposed Gold Sale could be as much as 400 metric tons (12.9 million ounces)

The response to our recently issued Gold report would indicate that members are interested in what happens next, and would welcome a RIO prediction. This is not an easy call, due to the fact that neither the IMF nor the international gold trades are particularly transparent. The following will shed more light on the whole topic.

Last May, IMF Chief Rodrigo Rato convened a special committee to study Sustainable Long-Term Financing. This committee is known as the Crockett Committee, after its Chairman, Andrew Crockett, former director of the Bank for International Settlements and now President of J P Morgan Chas. It has consisted of a small group of eight "eminent persons", namely: Crockett; former Fed Chair Alan Greenspan; Mohamed el-Erian, CEO of Harvard Management Co.; Tito Mboweni, Governor of the South African Reserve Bank; Guillermo Ortiz, Governor of the Bank of Mexico; Hamad al-Sayari, Governor of the Saudi Monetary Agency; Jean-Claude Trichet, President of the European Central Bank; and Zhou Xiaochuan, Governor of the People's Bank of China.

The committee released its report on January 31 of this year. In this, it was noted that the 400-tonne figure, referred to above, corresponds to IMF gold that was sold and repurchased in an off-market transaction about 6 years ago and relates to about 12.5% of the Fund's total holdings.

The Crockett Committee, whose recommendations have been referred to the IMF Executive Committee for debate, took care to emphasize that the proposed sales should be ring-fenced to limit their market impacts. (RIO would bring the members' attention to the wording, citing that such phrases are a dead giveaway of Greenspan's participation.) To this end, Crockett promised the following safeguards:

1. The amount should be limited to the 400 tonnes without envisaging any additional sales.
2. The sales should take place within the existing Central Bank Gold Agreement [CBGA], that is to say it would not be additional to sales already programmed by central banks, but would be accommodated by reductions in the amounts of gold that central banks might sell under the CBGA.
3. The sale should be undertaken in a very careful way in terms of their periodicity amounts and manner of sale such as not to disturb the market.

The CBGA limits signatory central banks (all of the major ones, excluding only the U.S.) to sales of 500 tons/year. In 2006, however, the banks released only about 350 tons. Thus, the IMF special committee appears to be saying that it proposes taking up whatever slack exists this year, while not allowing its sales to push the amount of new gold coming to market over the pre-set 500-ton limit.

How would one interpret the following points?

First, it's not the IMF's gold. The metal belongs to the depositor nations, the largest of which is the U.S. It is the taxpayers who own that gold.

Secondly, and perhaps more importantly, the IMF is prohibited from trading in gold. Its bylaws state that it does not "have the authority to buy gold," nor may it "engage in any other gold transactions, such as loans, leases, swaps, or use of gold as collateral."

What it can do is accept gold in the discharge of a member's obligations and sell gold outright, but the latter requires an 85% majority of total voting power. Since the U.S. controls about 17% of voting power, it cannot by itself make a deal happen. But it has the absolute authority to block one!

What will be more interesting is the U.S. position this time? We'll have to wait and see, but if the past is the pattern, there will be stiff opposition.

If the Gold Anti-Trust Action Committee (GATA) is correct in their contention that the American government has acted deliberately, in concert with the major central banks, to suppress the price of gold in order to mask the dollar's inherent weakness (an effort in which Mr. Greenspan is alleged to have been a willing participant), then the IMF proposal plays right into such a conspiracy. Its hidden meaning could be that the IMF must help out with gold sales, because the CBGA signatories have become reluctant to part with enough of their reserves to keep a lid on prices and, in fact, may be pleased with the appreciation of their assets. Yearly sales boosted to the full 500 tons, thanks to IMF participation, should contribute to further price suppression. It would really be no great shock if the IMF were doing the U.S.' bidding.

Taking in to consideration the Dollar's continued weakness it is possible that some depositors, holding dollars and nervous about their decline, are making noise about recovering their gold. Propping up the dollar through gold sales could be viewed as an aid to easing their fears.

This is not the first time the notion of IMF gold sales has been floated. It is an idea that has cropped up repeatedly in the past but has always failed, either because of American opposition or because of opposition among the more general membership, which includes many gold-producing nations that have an interest in keeping a floor price.

The China factor

Analyst Michael Kosares wrote, "There is no doubt in my mind that China would like to see the IMF sell all its 3,217 tonnes of gold, particularly if China might become a primary recipient. Without any fanfare China would happily write the check for all 3,217 tonnes. Otherwise, I can't imagine why the Chinese central bank might have been included on this IMF committee, unless it was to demonstrate that the system is at least trying to get them some gold."

RIO's Analysts, however, feel that the proposal will not be approved!

That said, what would happen if a sale did take place?

Most analysts feel that the IMF's actions are not liable to have much impact on gold, arguing that the distortions of the CBGA, even at maximum 500-ton strength, have already been fully factored into the current price and its trend line.

RIO is not suggesting that there could not be a short-term fall in price. In fact there could be, especially as the IMF sales are formally announced. Some holders of gold, maybe a significant number, can be expected to sell on the back of the news. But with countries such as China, Russia and the nations of the Middle East itching to add to their reserves, even a large dump of physical metal onto the market is certain to be absorbed in short order.

Countries will be the only buyers. In fact a prominent Beverly Hills investments management house could have been writing about the IMF when it concluded, "Central bankers will most likely continue, as usual, to scare the price of gold down from time to time by statements of gold sales. But they are all too keenly aware of the growing number of people who realize that gold, not paper and ink, is the real stable monetary element."

Finally, it is important to keep the relatively miniscule amount of gold sales that are being discussed in perspective. In an era where over \$1 trillion in derivatives trade globally each day, \$6.6 billion in sales is a relatively small amount of money when compared to potential investor demand, once the U.S. dollar returns to free fall that RIO, among others, now believes is almost certain to resume.

In other words, if IMF sales do take place, and if this results in depressing the price of gold, many will see that as a buying opportunity.

William Gray