VI

Gold Production and Prices

Gold Production

GOLD production in the world (excluding the U.S.S.R. and countries associated with it) in 1956 was 28 million ounces, the largest since 1942. Valued at $35 per ounce, the 1956 output may be estimated at $985 million, compared with $944 million in 1955, $897 million in 1954, and $849 million in 1953.

These increases in world production were due almost entirely to the expansion of gold mining activity in the Union of South Africa. Output in that country increased in 1956 by the equivalent of about $45 million, to approximately $556 million, a new record figure. It was about 9 per cent greater than in 1955 and some 33 per cent greater than in 1953. About three fourths of the increase during 1956 was attributable to the expanding operations of mines in the Orange Free State, whose production rose by the equivalent of about $34 million, to some $111 million. The output of mines on the Witwatersrand also increased, by the equivalent of $11 million, to about $427 million.

The second largest absolute increase in production during 1956 was in Colombia, where output increased by $2 million, to about $15.3 million. The only other recorded increase was in Brazil, where production rose by about $0.6 million, to $5.7 million.

In Canada, the second largest gold producing country in the world (excluding the U.S.S.R.), output declined in 1956 by the equivalent of $5.1 million, to about $153.9 million. Other declines reported were in the Gold Coast (Ghana)—by the equivalent of $1.7 million—and in the United States, Chile, and Mexico—by about $1 million each. In the other producing countries output remained relatively stable.

The mining industry in most gold producing countries was confronted during 1956 with a further rise in production costs. In South Africa, average working costs per ton of ore milled, which in 1950 had been 29s. 7d., and in 1955, 40s. 5d., rose further in 1956, to 42s. 11d. In the new mines, the effect of this rise was more than offset by increases in working revenue resulting from the mining of higher grade ores, but it was reported by the Minister of Mines that the cost squeeze had forced 3 mines to close down, and that 20 additional older mines were operating on small working profits considered to be lower than the break-even point. These mines are approaching the stage where, owing to the absence of higher grade ore, they can no longer preserve a reasonable margin of profit by raising the grade of the ore to be mined, and South African authorities have estimated that the loss of production following upon the contraction of activities by these mines might exceed any increase to be expected from new mines in the Orange Free State. However, certain gold mines in South Africa have obtained additional revenue from the production of uranium.

The measures reported in previous Annual Reports, which had been adopted by several gold producing countries for the relief of gold producers, were maintained in 1956. Some countries extended the existing program of relief, or introduced new measures. These measures were first considered as a means of giving temporary aid to the industry, but because of world-wide increases in operating costs, it has usually been thought necessary to extend them from year to year.

The Canadian Government amended its Emergency Gold Mining Assistance Act to extend its provisions through the years 1957 and 1958. The amendment involves no change in the subsidy program described in the Fund's Annual Report for 1955. As in 1954 and 1955, all mines eligible for subsidy elected to sell their output to the Government rather than in free markets.

The Emergency Gold Mining Assistance Act of the Philippines, described in the Fund's Annual Reports for 1955 and 1956, was modified and extended to July 18, 1957. The latest modifications of the original subsidy scheme extend the categories of producers to be assisted so as to cover all producers, and are also designed to channel a greater quantity of newly mined gold into the central reserves. The right to receive assistance has been extended to mines producing gold as a by-product of other metals. The new scheme provides that at least 75 per cent of the newly mined gold produced by each mine must be sold to the Government through the Central Bank at the current official price per ounce plus the assistance. The remaining 25 per cent may be sold either to the Government or in the domestic free market without benefit of the assistance. In the original program there had been no prescribed portion of production that mines producing gold as their principal product had to sell to the Government, except for the period September 16, 1955 through December 31, 1955, when they were required to sell 50 per cent. The rates of assistance have not been changed. The Philippine monetary authorities, by a resolution of February 19, 1957, also authorized the use of blocked peso deposits of nonresidents for the direct purchase of gold bullion up to 25 per cent of the output of local mining companies. Such purchases in the domestic free market must be sold to the Central Bank at the official price of $35 per ounce, payable in U.S. dollars, and the proceeds remitted abroad.

As an incentive for increasing gold production, the Monetary Board of the Bank of Korea approved on November 15, 1956 the purchase of newly mined gold with government-owned dollar exchange. The new regulations established the Bank of Korea's buying price at US$1.12 per gram of fine gold (equivalent to $35 per fine ounce). The dollar proceeds from such sales to the central bank are credited to an import account in the name of the seller, and may be used to import foreign goods under the same conditions as are granted to exporters of domestic commodities.

To finance these purchases, the Bank of Korea established a revolving fund of $1.7 million to be replenished by the proceeds from overseas sales of domestically produced gold by the monetary authorities. A gold producer who desires to receive payment in hwan for the gold sold to the Bank of Korea may be paid in hwan converted at the official exchange rate.

During recent years, the Fund has accepted such schemes as the Philippine subsidy program as not being inconsistent with the objectives of its statement on gold subsidies of December 11, 1947, which was reproduced in its Annual Report for 1948, Appendix VI. It was emphasized that the Fund has "a responsibility to see that the gold policies of its members do not undermine or threaten to undermine exchange stability. Consequently, every member which proposes to introduce new measures to subsidize the production of gold is under obligation to consult with the Fund on the specific measures to be introduced."

Gold Reserves

Monetary gold reserves continued to grow throughout 1956. The stock of gold in the possession of monetary authorities in the world (excluding the U.S.S.R. and the countries associated with it, but including the Fund and the Bank for International Settlements as well as the European Payments Union) is estimated to have increased during 1956 by approximately $600 million, compared with increases of about $500 million in both 1955 and 1954. Part of the increase in 1956, as in some previous years, is probably to be attributed to sales of gold by the U.S.S.R. in Western European countries. At the end of 1956 monetary gold holdings, as defined above, amounted to $37.6 billion, of which $22 billion was held by the United States.

Total sales of gold by the U.S.S.R. in 1956 have been estimated at about $150 million. As total production in 1956 was some $985 million, the amount of gold available to the rest of the world was thus increased during the year by about $1,135 million. A comparison between this amount and the estimated aggregate increase in official gold holdings suggests that the amount of gold going into the arts and industries or to private hoards in 1956 was slightly larger than during the preceding two years.

Gold Markets and Gold Prices

During the year under review, several countries took further measures to relax restrictions on the sale of gold and the movement of gold through their territories. In May 1956, Lebanon removed all restrictions on the export of gold coins and gold bars and their passage in transit through its territory. Previously, the import of gold into Lebanon was entirely free; but exports were subject to authorization by the customs officials, which was, however, in practice never refused. The Syrian Government announced in March 1957 that the import of gold bars, gold coins, and gold in other forms would be free from customs duties.

In the Federal Republic of Germany, steps were taken with a view to the revival of a free gold market. The Bank deutscher Länder, in concert with the Federal Ministries of Economic Affairs and Finance, issued in June 1956 a general permit allowing gold coins to be imported freely into Germany by travelers. This regulation was subsequently amended so as to provide that gold coins could be imported as a commodity within the framework of the regulations governing commodity imports. Thus banks, as well as residents and nonresident travelers, were permitted to import gold coins and to sell such coins to German residents. The export of gold coins is prohibited out of consideration for the policies of neighboring countries that do not permit free trade in gold. After the reopening of the domestic gold market in West Germany in October 1954, there had been a steady inflow of gold coins, and the new regulations were issued primarily to regularize the actual situation that had developed as public interest in buying gold coins for hoarding purposes increased. The market price quoted for the German 20-mark gold piece rose from DM 37.50 on June 30, 1955 to DM 45 in June 1956 and to DM 47 at the end of April 1957. The Federal Ministry of Finance decreed that as from January 2, 1957 imports of gold coin that are not legal tender should be subject to the general 4 per cent turnover tax. The Ministry of Economic Affairs also issued an ordinance permitting imports of gold bars from EPU countries by German residents without specific approval, as from April 1, 1957. Prior to that time only industrial users were permitted to import gold bars under license against payment in dollars. On April 5, 1957 the Government abolished the ceiling prices for gold and other precious metals. Thus, for the first time in 26 years, trade in precious metals became virtually free in West Germany, though exports of gold still require a permit. While the general public is restricted to the use of EPU currencies in its purchases of gold, industrial users and dealers may continue to purchase gold against payment in dollars.

The proportion of the world's population which is free from any legal impediment to the purchase or holding of gold has increased in recent years, but there appears to have been no substantial increase in the demand for gold bullion for hoarding purposes. On the contrary, there appears to have been some dishoarding from time to time. Nor have the facilities made available for gold dealings in other international centers had any significant effect upon the operations of the London gold market, which is still the world's main gold trading center. During 1956, the equivalent of $655.2 million in uncoined gold was reported to have been imported into the United Kingdom. Most of this gold came from the Union of South Africa and other sterling area producers, while about 9 per cent was Russian gold. Central banks in Western Europe continued to be the principal buyers, but private operators also purchased gold for export to the Middle East and the Far East. When the price of gold was below $35 per fine ounce, some central banks from time to time bought gold for EPU monthly settlements; and there was also evidence that, when the price was above $35, some EPU countries sold gold in order to obtain dollars to meet their obligations in the EPU.

During the year under review, the price at which gold is traded directly for U.S. dollars in international gold markets moved within a somewhat wider range than in the previous year. For most of the year, however, it remained under $35 per fine ounce. The political crisis in the Middle East, which on two occasions sent the price slightly above the U.S. selling price of $35.0875, failed to cause a premium price to develop, such as followed the outbreak of hostilities in Korea in mid-1950. Indeed, shortly after the suspension of the Suez hostilities, the dollar price of gold in international markets dropped below the U.S. buying price of $34.9125. This sharp drop was reportedly caused by a lack of demand for gold on the part of central banks and private operators. Some central banks sold gold to obtain U.S. dollars to make payments for oil, and there were also some sales by the U.S.S.R. The possibility of selling gold held under earmark in New York at the price of $34.9125 per fine ounce no doubt set a limit to a further decline in gold prices.

During the year under review, the London "fixing" price of bar gold in sterling fluctuated between a high of 252s. 1d. per fine ounce on July 31, 1956 (the highest price in sterling since the reopening of the gold market in March 1954) and a low of 248s. 11d. on January 22, 1957 (the lowest since August 12, 1954). The U.S. dollar price of gold in London (converted at the sterling-dollar rate at the time of daily fixing) remained slightly (within a few cents) under $35 per fine ounce from May 1, 1956 through July 22, 1956, rising to about $35.09 on July 31. The price then fell to parity and remained at that level until October 31, when it rose to about $35.06. Within a few days, however, it again fell below $35, and gradually declined to $34.85 on January 21, 1957, the lowest dollar price reported since the reopening of the London market. The dollar price in London on April 30, 1957 was $34.92.

The dollar bid price of gold in Zürich remained during most of the year within a few cents per fine ounce of the dollar price in London, moving between a high of $35.10 and a low of $34.90. It was quoted at $34.93 on April 30, 1957. In Tangier, however, the price of bar gold did not follow the day-to-day movements of prices in London and Zürich. The local political situation in Tangier was reported to have caused a movement of large amounts of gold to Western Europe for safekeeping.

Because of the special characteristics of each market, the prices for bullion elsewhere did not necessarily follow the day-to-day movements of London prices. The price of bar gold in Paris rose from a low of 445,000 francs per kilogram on June 6, 1956 to the year's high of 488,000 francs on August 23, and then returned to 445,000 francs on October 25. The price of bullion per fine ounce, when converted into U.S. dollars at the parallel market rate for dollar banknotes in Paris on these three dates, was $36.04, $36.14, and $36.14. The U.S. dollar equivalent price of bar gold in Paris, which reflects movements in the franc rate for U.S. dollar banknotes, fluctuated more widely on other dates. It rose from $35.82 per fine ounce on July 5, 1956 to $36.72 on July 31. After declining to the equivalent of $35.89 per fine ounce on October 18, it rose again to $36.77 on October 30, 1956. On April 30, 1957, the price of bullion was quoted at 463,000 francs per kilogram, equivalent to $36.27 per fine ounce at the day's rate of 397 francs per dollar. The U.S. dollar equivalent price for bar gold in Brussels did not fluctuate to the same extent as the Paris price, nor did it follow the same trend. It declined from a May-October 1956 level of about $35.20 per fine ounce to a low of $34.76 during February 1957 and was quoted at $34.83 on April 30, 1957. In Beirut, the U.S. dollar equivalent price for bullion rose from a low of $35.03 per fine ounce on July 31, 1956 to $36.09 on November 6, and then declined to $35.03 on March 14, 1957. At the end of April 1957, it was quoted at $35.12.

The price of bullion in the Far East tended to be higher during the year under review than in the two previous years. In Hong Kong, the price of bar gold rose from HK$254.375 per tael (equivalent to $38.35 per fine ounce at the day's T.T. Hong Kong dollar rate for the U.S. dollar) on May 4, 1956 to HK$286.50 ($39.27) on November 15 (the highest since early 1953), and was quoted at HK$271.25 ($38.41) on April 30, 1957. In Bombay, the price of bar gold fluctuated between the year's low of

Rs 99-3 per tola (equivalent to $55.55 per fine ounce at par value) on July 7, 1956 and a high of Rs 109-4 ($61.18) on February 18, 1957 and was quoted at Rs 105.56 ($59.11) at the end of April 1957.

As in the previous year, the prices of gold coins fluctuated widely, with a general tendency to rise. Between the first week of May and November 6, 1956, the U.S. dollar equivalent prices of the sovereign rose by the equivalent of about $7 per fine ounce in Brussels and Milan, to about $49 per fine ounce; by $6 in Beirut, to about $48; and by $3 in Paris, to $46.55. The napoleon rose by about $7 per fine ounce in Beirut and Milan, to $44.64 and $47.10 per fine ounce, respectively, and by about $4, to $46, per fine ounce in Paris. With the exception of the napoleon in Paris, the prices of gold coins in all these markets had declined by the end of April 1957, but remained higher than the prices quoted in early May 1956.