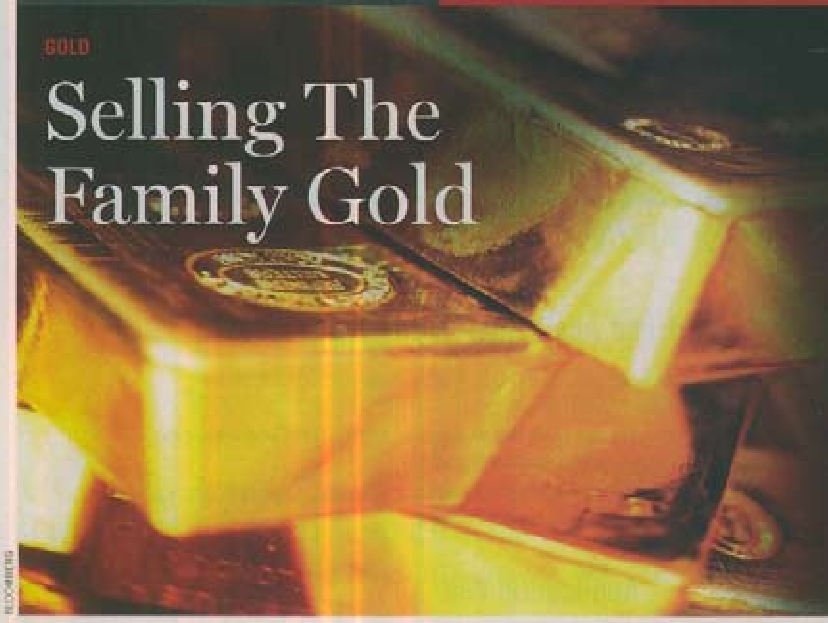
Date : 25-May-2009 Edition : National Page No.: 22 Page Name: n.a. Size: 456.88 sq. cm
Sector: Banking and Finance Circulation: 125009 AVE: Rs.516271.01 Frequency: Weekly

Businessworld

In The News

GOLD

Selling The Family Gold



Bullion Stocks

Who owns how much of gold reserves

Worldwide	29,697
US	8,133
Germany	3,413
IMF	3,217
France	2,528
Italy	2,452
Switzerland	1,040
Japan	765
Netherlands	621
China	600*
ECB	534
Russia	496
Taiwan	422
Portugal	383

Figures are gold reserves in tonnes as of 30 September 2008 *as of 31 March 2008
Source: Gold.org

Can the IMF's proposed sale of 500 tonnes of gold change market equations?

"WHENEVER THE INTERNATIONAL MONETARY FUND (IMF) starts selling gold, I would start buying," said Jim Rogers, the commodity guru who co-founded Quantum Fund with George Soros, in a recent interview. From current levels of $923 per ounce, Rogers expects gold prices to fall (whenever IMF sells) to about $750 per ounce — at which price he finds gold prices attractive enough to buy.

The words of Rogers — who predicted the commodity boom since 1999 — can't usually be taken lightly. After all, the IMF's gold sale will add 500 tonnes into the 3,600-tonne annual world gold market. And this could disrupt demand and supply equations, rather than compensating for poor mining production. But then, there are equally strong counter-transactions.

China, Russia and Argentina, for instance, have been buying a lot of gold over the past few months. China, which had 600 tonnes of gold as on March 2008 is believed to have acquired 400 tonnes of gold last year. "Asian central banks are buying gold to diversify/hedge their reserves — away from the US dollar," says Si Kannan, assistant vice-president with Kotak Commodity Services.

The IMF's gold sales might also be coordinated with current and future Central Bank Gold Agreements (CBGA), as per the Andrew Crockett committee recommendations. As per the current CBGA, a group of European central banks have agreed to limit their gold sales to not more than 500 tonnes annually.

It is expected that IMF and the European Central Bank put together wouldn't breach the limit, thereby causing lesser disruptions in the market. "The sale will be staggered over the next five years with not more than 80-100 tonnes of gold sold every year," says Rajani Panicker, head of research at MF Global Commodities.

During 2008-09, European central banks have been selling gold in lower quantities (85 tonnes against the agreed limit of 500 tonnes) providing room for IMF sales. Before that, they had sold 430 tonnes of gold each year almost reaching the annual limit. The CBGA agreement is due for renewal this September. But countries such as France, Netherlands, Switzerland and Spain — the erstwhile huge gold sellers — have already stopped selling the yellow metal.

The IMF is selling gold and adopting a new income model so that it no longer depends only on lending income to finance its various activities. The G-20 summit held last month proposed to use additional resources from gold sales to provide $6 billion in financing for poor countries. But for a while, the proposal might remain on paper. "No executive board decision to sell gold has been taken and US Congressional authorisation by law would be required," says the IMF website.

That means Rogers might have to cool his heels for a while.

Muthukumar K.