

# The Gold Survey - Whence it Came, Where it Went



by Timothy Green

The genesis of this annual study on gold was the turbulent market conditions of 1967. Central Banks sought to contain the gold price at \$35 per troy ounce (where President Roosevelt had fixed it in 1934) against growing private buying. The demand was for fabrication in an increasingly prosperous world, coupled with speculation against a weak dollar and the anticipation that the price, capped for so long, must rise. Yet relatively little was known of this new offtake. Such estimates as there were counted only official statistics in the main industrial countries, but took no account of unofficial distribution channels of gold, since many nations still imposed controls on private imports or taxed them highly. Only Samuel Montagu, close to the market, had pointed out in their Annual Bullion Review that most gold was going into private, not central bank, hands. Seeking to fill that gap, David Lloyd-Jacob at Consolidated Gold Fields (CGF), then the second largest South African producer, sought to expand on official figures for fabrication of gold by tracking jewellery, industrial and hoarding demand world wide. "For a mining house this information is relevant to future investment policy," he argued.

By the summer of 1967 he put together an internal report to CGF which revealed that over the previous decade the amount of gold going into jewellery and industry had risen from about 25% of world output to at least 50%. He projected, moreover, that by 1973 this fabrication, at prices then prevailing, could absorb all new production annually. This had serious implications for the international monetary system which, although no longer on the gold standard, had major reserves in the

metal. It implied a complete reversal of gold demand which, until then, had primarily been either in coinage (until the First World War), or for central bank stocks. Hard numbers on this new market were imperative. The directors of CGF did not want to publish the report, but Lloyd-Jacob leaked its main findings to *The Economist*, which featured them prominently in its issue of 23<sup>rd</sup> December 1967.

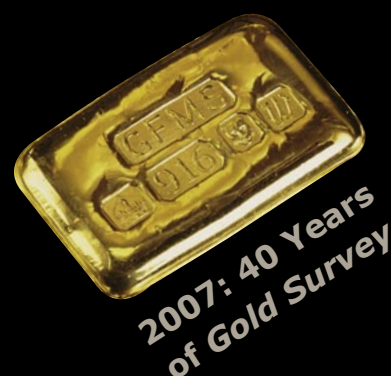
Within three months, the escalation of speculative buying against a fading dollar had precipitated the gold market crisis of March 1968, when central banks gave up trying to hold the antique price at \$35 and left it free to float. In this new world of gold, an understanding of world-wide demand became essential. Consolidated Gold Fields authorised David Lloyd-Jacob to commission a world-wide investigation to analyse private demand. The key questions, he noted, were "How much is bought, in what form is it bought and for what use? If there is hoarding, who does it, where and why? What are the psychological motivations of gold hoarders and how will they behave in the future?"

A gold survey team of CGF staff undertook fieldwork on jewellery manufacture and hoarding in Europe, Morocco and South America. The Battelle Memorial Institute studied industrial demand (especially in electronics) in the United States, Germany, Japan and other industrial countries. David Lloyd-Jacob also asked me if I would be a consultant covering "east of Venice up to and including Hong Kong", territory I had travelled extensively the previous year for the first edition of my book *The World of Gold*. That set the pattern of my life for almost three decades, with three or four months a year on the gold trail. The initial summary was

published as *Gold 1969*. This revealed that, in 1968, the fabrication of gold had amounted to 1,206 tonnes, neck and neck with mine output. "The private demand for gold has indeed called the tune for the last two years," concluded David Lloyd-Jacob.

The comprehensive report of our lengthy globe-trotting was published as *Gold 1971* (there was no *Gold 1970*) setting out all production and fabrication statistics for the previous three years. It showed a steady rise in fabrication which, by 1970, was exceeding new mine output. Jewellery manufacture accounted for 73% of fabrication, but electronics use grew 25% between 1968 and 1970, confirming the trend that has continued to this day. In short, gold had effectively transformed itself from being used primarily in the monetary sector; its future depended on fabrication or private investment/hoarding. That was what the *Gold Survey*, which thereafter became an annual, primarily monitored, although the interplay of central banks or governments in the market mix was always closely watched.

The challenge, David Lloyd-Jacob observed in *Gold 1971*, was "the true consumption of the ultimate purchasers



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of gold. In some cases, users were no more willing to give accurate information to investigators than the authorities, although in a surprising number of instances they were, once the investigators' bona fides had been established. We are convinced that the 'grass roots' approach offered substantial gains in accuracy".

The crux of the *Gold Survey's* success was building personal contacts with bankers, traders and fabricators who, over time, often became good friends. Soon they came to welcome us as we could give them an overall perspective on gold movements in their country, region or the market as a whole. We were their window on the world. These alliances were aided by the long service of several of the team; notably Irena Podleska covering Italy and Madhusudan Daga in India, who each contributed to the survey for close to thirty years. Constantine Michalopoulos in Washington DC watched the growing United States involvement in gold for twenty years. My own travels, mainly throughout Asia, but also North Africa and South America, continued from 1968 until 1996, often embracing thirty countries annually. We not only grew up with many of our contacts, but eventually met the next generation as fathers introduced their sons, telling them we were personae gratae.

Building such confidence was not easy. In 1970 at least 40% of newly-mined gold was smuggled at some point on the way to its eventual destination. Yet we tracked over 500 tonnes of gold through the entrepot markets of Beirut, Dubai, Vientiane, Singapore and Hong Kong, that filtered on clandestinely to Turkey, Iraq, Iran, India, Indonesia, Thailand, Vietnam and Taiwan. The task was helped because certain markets preferred certain bars. India took ten-tola bars (111 g/3.75 oz), for

instance, so we could double-check their arrivals in the entrepot markets (mainly Dubai), with production numbers from the refineries that made them. Similarly, there were often preferences for specific brands of kilo bar, which helped us allocate the right local offtake.

Each country or region was treated as an independent unit. If we knew the original supplies, but then assessed, say, local fabrication too high, or bar-hoarding too low, at least the overall offtake was correct. Similarly, we knew how much gold arrived in Beirut each year. The judgement came in assigning how much was re-exported, unofficially, to Turkey, Syria, Jordan, Iraq or Saudi Arabia. Any margin of error on an individual country was mitigated by the correct regional total. Over the years, local traders often began their own breakdowns, having been prompted by our enquiries. They also received the *Gold Survey*, showing how they fitted into the overall market, which encouraged them to help us make it accurate.

The desire to help the *Gold Survey's* accuracy, even prompted central bankers, always close with their statistics, to make sure we did not make mistakes. They might not give figures, but if we bounced a number at them, the tone of their response would usually indicate if it was wildly wrong, or reasonable. Put another way, we did not always get precisely the right figure, but rarely, if ever, wrong guidance.

The real test came in the mid-1970s and 1980, when the volatile gold price turned the market's physical distributions upside down overnight. When the price challenged \$200 in 1974 and \$800 in 1980, markets like Dubai, Kuwait, Singapore and

Hong Kong were not importing gold, but shipping back scrap to European refineries, as hoarders throughout the Middle East and South East Asia traded in their ornaments at a profit. The tables for gold fabrication showed negative numbers for countries such as Egypt, Turkey, India and Indonesia. This puzzled some readers, until we pointed out they had been net contributors to the market, not buyers, and this was the best way to demonstrate such reversals of fortune. Thereafter the *Gold Survey* took more account of scrap as an essential ingredient of the market equation. Even today a price blip can trigger tonnes of scrap appearing overnight. Jewellery demand, especially in Asia, is fickle; people buy on price lows and profit take on highs. It complicates the job of pinning down the right fabrication figure for the year.

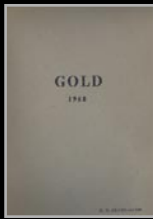
The *Gold Survey* itself also happily survived the demise of Consolidated Gold Fields, which was taken over in 1989. Three associates of CGF, Gold Fields of South Africa, Newmont Mining Corp, and Renison Goldfields, set up Gold Fields Mineral Services (GFMS) as a private venture limited company, with its principal activity as economic research on gold and the publication of the *Gold Survey*. Then, in 1998, a management buy-out took place, with GFMS since that date a privately-owned company that has expanded its activities beyond its traditional focus on gold and silver into the PGMs, base metals and steel.

What has not changed over forty years is the travel in pursuit of statistics. Even if the internet these days makes its contribution, there is still no substitute for leg work. Visit the GFMS office in London, and it is frequently almost deserted; everyone is out on the gold trail.

# 40 Years of the *Gold Survey* - The Covers



1967



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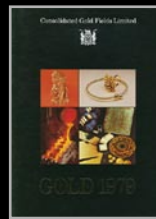
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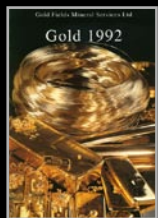
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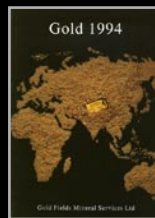
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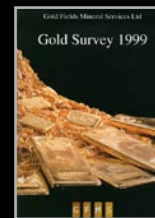
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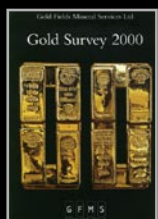
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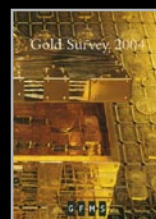
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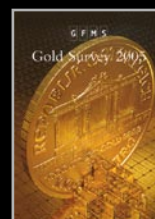
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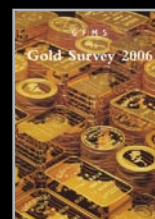
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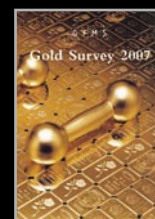
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2005



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2007

