

ANNEX 3: GOLD IN THE RESERVES: TRANSPARENCY

The table below sets out where information on the reserves is published, with what delay and to what degree of detail.

Publication	Frequency	Delay (from the end of the period)	Gold Separately Identified	Valuation
Official Reserves: Monthly	Monthly	2 days	No	Spot only; parity dollars
Official Reserves: Quarterly	Quarterly	2 months	Yes	Spot and forward; parity dollars
Bank Stats	Monthly	2 months	Yes	Spot only; parity dollars
Fin Stats (ONS)	Monthly	2 months	Yes	Spot only; parity dollars
IMF	Monthly	2 months	Yes	Spot only; parity dollars; and gold weight amount
EEA Annual Accounts	Annual	6 months (?)	Yes	Spot only; parity dollars; forward obligations identified in the notes to the accounts

Table 1

Source: International Financial Statistics (IMF).

	Troy ounces	Gold (tons)	Valued at \$350 (\$mm)	Gold at national valuation	Total reserves (\$billion)	Gold (nv) % total reserves	Gold (mv) % total reserves
Belgium	19,150,000	586	6,703	6,703	17,546	28%	28%
Canada	3,130,000	96	1,096	156	19,337	1%	5%
France	102,365,000	3,134	35,828	31,851	26,843	54%	57%
Germany	118,975,000	3,642	41,641	8,966	84,983	10%	33%
Italy	83,339,000	2,551	29,169	25,533	48,763	34%	37%
Japan	7,900,000	242	2,765	1,221	213,810	1%	1%
Luxembourg	381,000	12	133	18	76	19%	64%
Netherlands	43,466,000	1,331	15,213	8,771	27,999	24%	35%
Switzerland	83,280,000	2,549	29,148	9,471	34,728	21%	46%
Sweden	6,063,000	186	2,122	245	22,391	1%	9%
UK	18,427,200	564	6,450	5,480	42,530	11%	13%
US	261,710,000	8,012	91,599	11,050	64,460	15%	59%

Chart 1
Gold price 1968-1997

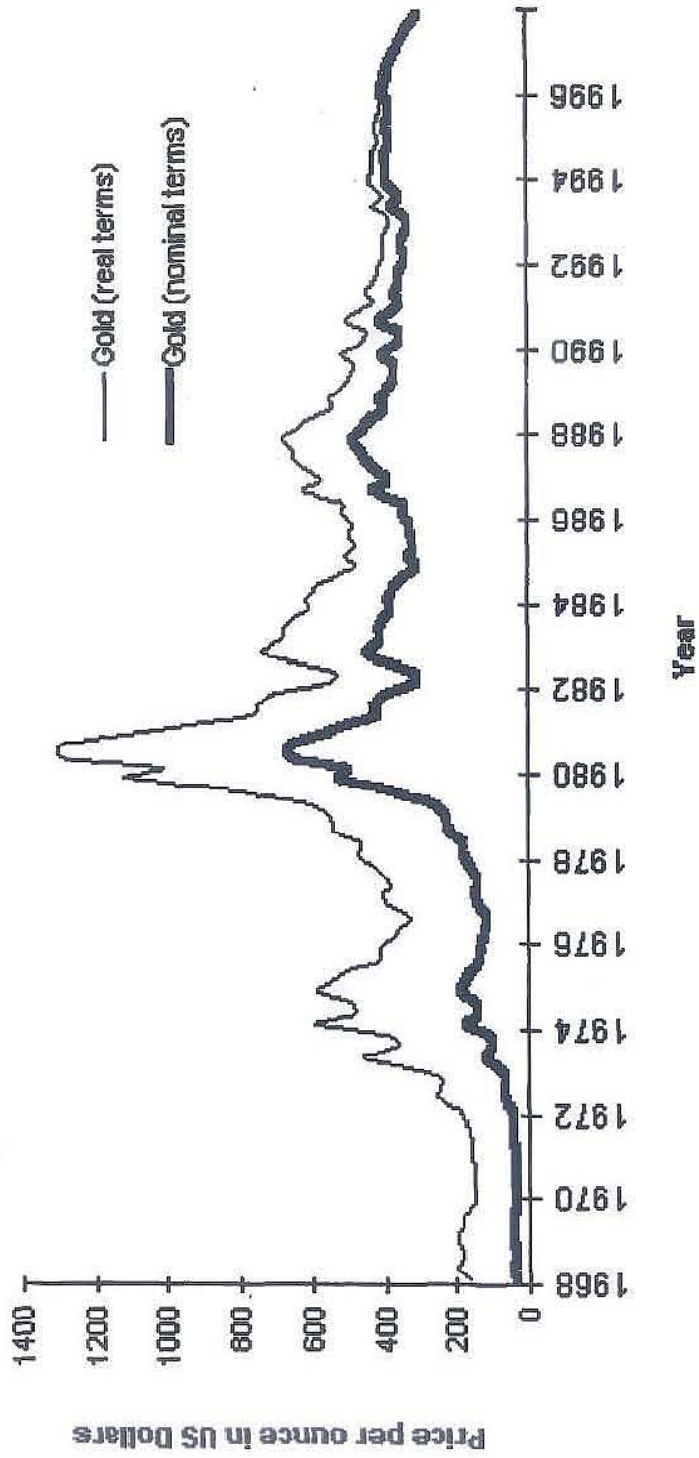
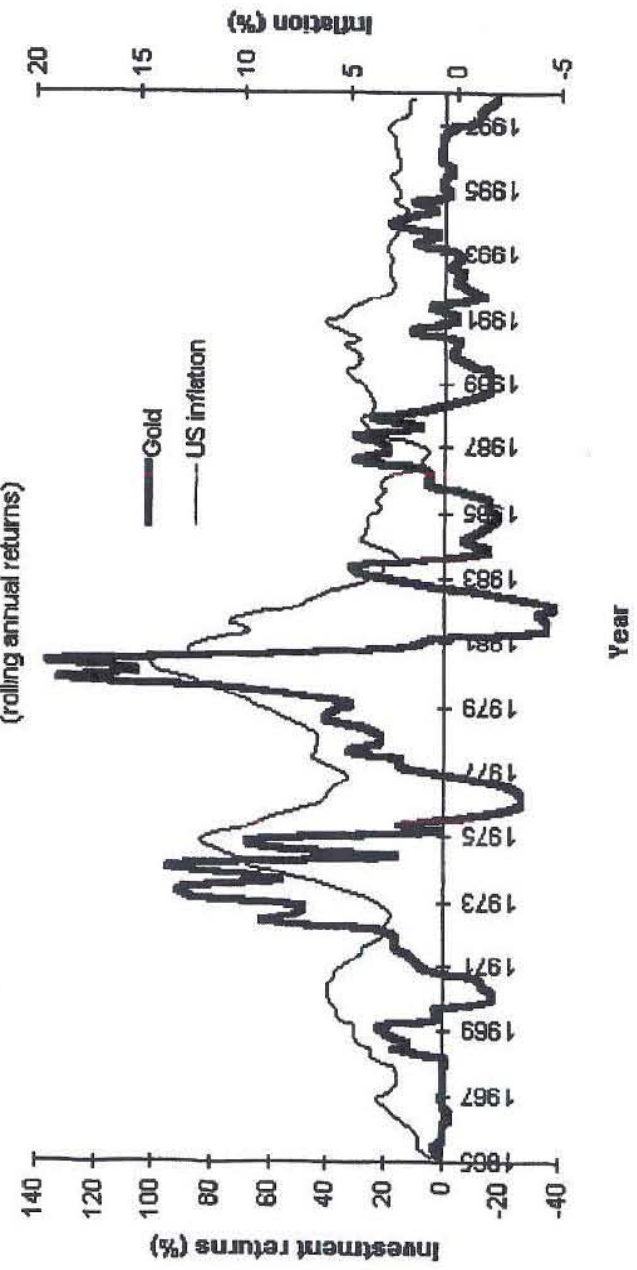


Chart 2
Investment returns 1965-1997
 (rolling annual returns)



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R/T

FROM: TOM SCHOLAR
DATE: 10 August 1998
EXT: 4330

JAMES STEEL

cc: Chief Secretary
Economic Secretary
Sir T Burns
Sir N Wicks
Mr O'Donnell
Mr Cunliffe
Mr Gieve
Mr Deaton
Mr Balls

GOLD

The Chancellor was grateful for your note of 29 May.

- 2 He has some sympathy for the arguments for reducing the EEA's holdings of gold. But he would like to discuss this with the Governor before making a decision.
- 3 He would be grateful if you could take forward this work with the Bank, and work up a joint Treasury-Bank proposal on a programme for gold sales. He will then discuss this with the Governor in the autumn.

TS.

TOM SCHOLAR
Principal Private Secretary

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From: James Steel
To: OdonneG
Date: 15 September 1998 3:42pm
Subject: GOLD

Where we are

Mid August CHX asked us to work up a programme of gold sales which he can discuss with the Governor in the Autumn.

We met with the Bank on August 28th. They should be sending us a paper with detailed options this week (via Ian P). You might want to have a word with Ian P to avoid it getting lost in his in-tray

James Steel

CC: DeatonD, KidmanJ

LMP0187

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cc James

BANK OF ENGLAND
LONDON EC2R 8AH

Clifford Smout
Head of Foreign Exchange Division
Tel 0171-601 3348
Fax 0171-601 5470

28 September 1998

David Deaton Esq
DRM Team
HM Treasury
Parliament Street
London SW1P 3AG

Dear David

GOLD

Following our meeting at the end of August, we have done further work on the mechanics involved in selling EEA gold. The attached paper is a working outline of our current thinking which we may want to fine-tune as we do further work on the preparations. We would of course be happy to discuss this with you once you have had a chance to consider the paper.

Yours sincerely

Clifford Smout

AnnexSelected other countries' gold reserves (in tonnes)

Belgium	586	Luxembourg	2
Canada	96	Netherlands	1331
France	3134	Switzerland	2549
Germany	3642	Sweden	186
Italy	2551	US	8012
Japan	242		

IMF gold auctions

28 There were 45 auctions that began in June 1976 and ended in May 1980. In total, the IMF sold 23½ million ounces (around 730 tonnes), reducing from 24 tonnes in the initial auctions to 14 tonnes in the later ones. The first 20 auctions were varied in a pre-announced way between multiple and single-price auctions, with the other 25 auctions being multiple-price auctions. The auctions were conducted in one round with bidders entering sealed tenders, with a minimum award of 1200 ounces. 34 of the auctions were conducted for delivery at the Federal Reserve Bank of New York, 7 at the Bank of England and 4 at the Banque de France. The price of gold rose from \$110 to \$710 per ounce during the period of the auctions, and finished at around \$500 per ounce.

US treasury auctions

29 The US treasury sold gold in two spells; two auctions of 23 and 15 tonnes in 1975, which were not continued in 1976 as the IMF auctions were announced and the spot price fell; a larger programme of 491 tonnes during 1978-79 as the gold price rose sharply. Indeed the second programme was extended three times as demand for gold continued to push up the spot price. The US Treasury used a multi-price auction system initially with open bids, but switched to closed bids by the end because open bids were causing market disruption. The auctions in 1979 offered two grades of gold: 995 fine and 900 fine. It is not clear whether this was a market-driven switch, or whether it reflected the US Treasury's preference.

London Good Delivery Status

30 The term London Good Delivery represents the standard measure of quality for gold bullion within the London market and, consequently, has become the accepted standard world-wide. There are certain criteria to be met before a bar can attain good delivery status: it must be at least 995 parts per 1000 pure gold, with 999.9 being the highest attainable quality; the weight of each bar is expressed in troy ounces in multiples of 0.025 with the minimum weight being 350 fine ounces and the maximum 430 fine ounces; it must bear the serial number and the stamp of an approved refiner as designated in the London Good Delivery list of acceptable melters and assayers; the bars must be of good appearance, free from surface cavities and other irregularities, layering or excessive shrinkage; finally they must be easy to handle and convenient to stack. Provided that these strict conditions are met, the country of origin of the bar is unimportant.

31 Good delivery bars are the medium for international trade, and the gold price always relates to these sized bars. Any bars that fulfil all the relevant criteria are therefore fully acceptable in any gold market in the world.

Recent central bank sales

Netherlands	400 tonnes 1992 300 tonnes [REDACTED] January 1997
Belgium	707 tonnes [REDACTED] 1989-1996 299 tonnes [REDACTED] March 1998
Australia	167 tonnes [REDACTED] in June 1997
Argentina	125 tonnes [REDACTED] [REDACTED] December 1997
Czech	31 tonnes [REDACTED] September 1998 and 25 tonnes [REDACTED]
Luxembourg	10 tonnes (roughly) [REDACTED] September 1998



Market

ISSUE 13 - July 1998

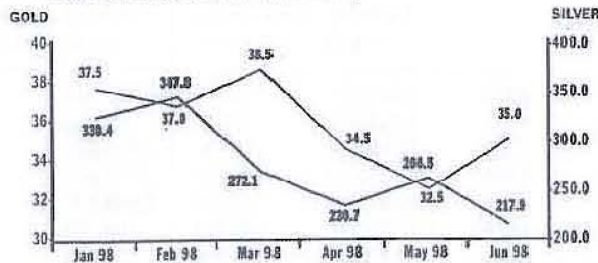
Gold and Silver Fixings for six months to June 1998

98			GOLD A.M.			GOLD P.M.			SILVER SPOT	
			DLRS	STLG	SFR	DLRS	STLG	SFR	CENTS	PENCE
			JANUARY	H	304.500	185.123	444.509	304.850	185.805	447.977
	L	278.500	170.621	409.339	278.700	170.666	410.541	553.250	341.900	
	A	289.26429	176.85819	426.37414	288.61905	176.66657	425.93281	588.19524	359.62143	
	FEBRUARY	H	302.000	185.333	448.077	301.500	184.308	445.466	781.000	472.700
	L	292.300	177.388	425.662	291.400	176.789	423.690	604.750	368.550	
	A	297.74250	181.57980	435.90185	297.49250	181.22055	435.06450	683.16750	416.54250	
	MARCH	H	302.750	181.227	456.307	301.950	180.523	457.731	660.500	399.850
	L	289.100	172.679	428.302	290.400	173.612	431.825	580.000	346.900	
	A	295.87045	178.09368	440.14877	295.94091	178.06423	440.37945	624.29318	375.75682	
	APRIL	H	314.600	189.117	477.241	313.150	188.064	474.193	673.000	404.950
	L	299.300	178.922	457.728	300.300	179.852	457.868	606.950	360.400	
	A	308.55750	184.53385	464.68405	308.28500	184.23655	463.90189	633.36250	378.77000	
	MAY	H	306.100	185.574	458.997	306.900	185.542	459.736	623.500	375.000
	L	292.400	178.360	427.342	292.750	178.855	429.025	495.650	304.150	
	A	298.97105	182.47316	441.92716	299.10000	182.67579	442.30400	556.10000	339.12105	
	JUN	H	296.250	181.237	451.019	297.750	181.740	449.783	546.000	334.050
	L	286.100	174.176	427.438	285.850	174.045	426.628	509.250	311.550	
	A	292.22273	177.11741	436.24536	292.31818	177.01918	436.73409	526.67045	319.04818	
	TO DATE 1998	H	314.600	189.117	477.241	313.150	188.064	474.193	781.000	472.700
	L	278.500	170.621	409.339	278.700	170.666	410.541	495.650	304.150	
	A	297.10475	180.10931	440.88022	296.95927	179.98518	440.71779	601.96481	364.88000	

H = HIGH L = LOW A = AVERAGE

Clearing Turnover (Daily Averages)

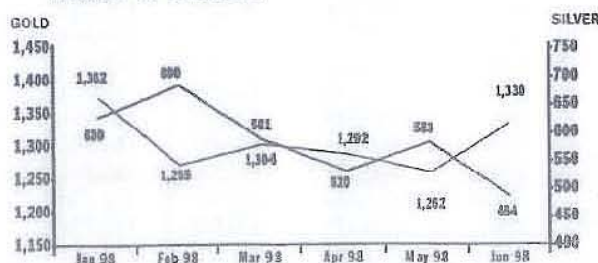
Ounces Transferred (Millions)



Value (US\$ Billions)



Number of Transfers

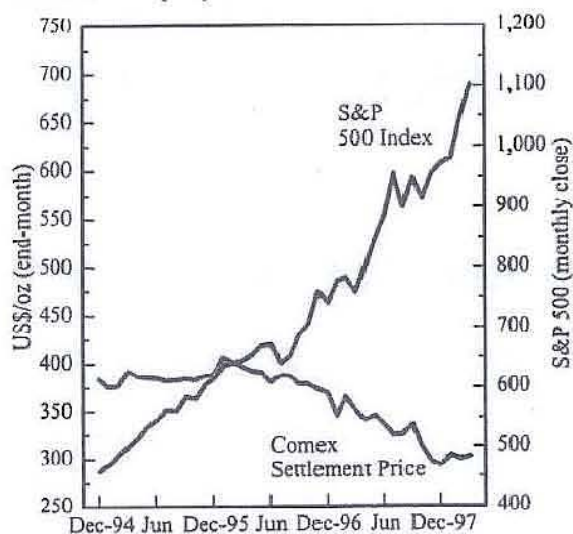


The volume figures represent the aggregate debit entries of all loco London physical and book transfers reported by the bullion clearing members of the market.

US\$ values are based in the case of gold on the average p.m. fixing price for the month, and in the case of silver on the average spot fixing price for the month.

GOLD _____
SILVER _____

Figure 50
Gold and Equity Prices



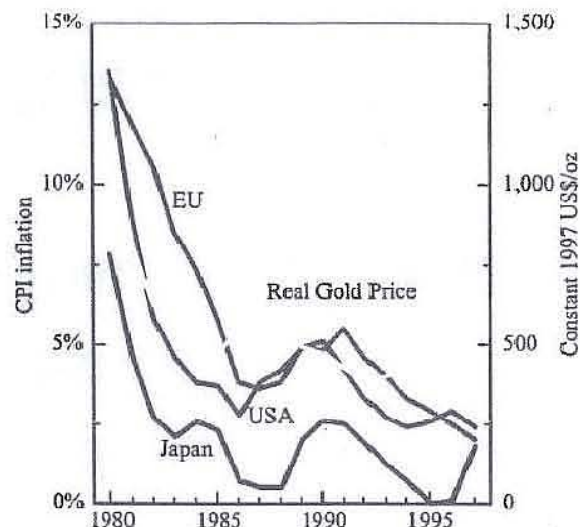
the \$350 barrier, losing \$20 during the month. In July the price fell sharply to test the \$318 level on Comex before recovering. And in October, the price traded in a \$27 range, falling at one point to \$307. November was also a fairly busy month, the settlement price breaking \$300 on the 26th. But it is curious (even accounting for the "holiday effect") that turnover slumped in December in spite of the collapsing gold price. Nevertheless, by year-end, 7% more contracts had been traded on Comex than in 1996. What is more, 1997 turned out to be the busiest year in turnover terms since 1990. Furthermore, a new daily trading record of 140,276 contracts (the 1997 average was 37,865) was set on 24th October, the day the price fell by nearly \$16.

Futures open interest was at its height in July, peaking on the 16th at 222,069 contracts. By the end of the month open interest had fallen back to below the 185,000 contract level, marginally below the average for the year of 186,698.

Options turnover was slightly lower last year than in 1996. Meanwhile options open interest generally continued to rise as it has done since 1994.

The Comex attracts a wide variety of users so the aggregate statistics on futures and options volume and open interest do not provide the best insight into investors' positions on the exchange. A much clearer picture of these comes from the data on Non-commercial Net Open Interest (Figure 52). Although the data cannot be interpreted literally, they do indicate the trend in investor positions and the strong correlation between them and the direction of the price. The "funds" shift from the long side in early 1996 to a sustained short or occasionally neutral stance has been accompanied by a steady decline in the price. Last year investors' net short positions increased by 9,119 contracts from the end of 1996 (41,925 contracts) to the end of 1997 (51,044 contracts). This amounted to a nominal 28 tonnes, not sufficient it would seem to drive the price down by over \$70. When looked at on a half-year basis, we can see that net short positions in the first half increased by a nominal 78 tonnes which fits nicely with the \$34 fall in the price over the first six months. By contrast, in the second half, net

Figure 51
Inflation and Real Gold Price



short positions actually declined: they fell by a nominal 50 tonnes yet the price still dropped by \$43. The relationship (or lack of it) between the change in fund positions on Comex and the price is presented even more clearly in Figure 53. This shows the weekly change in positions either as demand (short covering and/or new longs) or supply (long liquidation and/or new shorts) and the weekly settlement price. It is apparent that the five week period from the end of September through October was of greatest importance in terms of changes in investor positions and in determining the direction of the price which had settled into a predictable trading range. Yet it seems that in practice the

Comex Futures and Options Turnover and Open Interest
(number of 100 oz contracts)

	Futures		Options	
	Turnover (total)	Open Interest (end-period)	Turnover (total)	Open Interest (end-period)
1993	9,364,805	163,121	1,717,015	134,231
1994	8,503,366	176,072	1,589,065	134,578
1995	7,785,544	142,179	2,006,695	276,737
1996	8,902,179	189,805	2,079,663	328,367
1997	9,541,904	177,770	2,064,883	404,403
Jan 97	1,102,791	195,844	203,293	344,593
Feb	830,206	180,520	174,193	405,071
Mar	899,439	151,569	134,160	275,713
Apr	508,546	165,543	123,531	382,222
May	762,130	150,326	119,607	311,786
Jun	522,727	194,341	135,520	352,428
Jul	1,147,537	184,713	209,389	365,753
Aug	667,825	191,966	147,012	412,885
Sep	715,755	182,284	189,970	424,610
Oct	987,989	216,305	283,551	481,215
Nov	808,824	194,422	164,086	348,064
Dec	588,135	177,770	180,571	404,403
Jan 98	1,078,214	157,946	217,270	383,703
Feb	534,173	180,869	182,776	419,629
Mar	877,233	151,569	152,747	352,852

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FROM : James Steel
DATE 24 November 1998
:
EXTN : 4612
ROOM: 108/2 (DRM)

EST

cc : PPS/CHX
Sir Nigel Wicks
Gus O'Donnell
Jon Cunliffe
Joe Grice
Jonathan Taylor
Peter Curwen
David Deaton
Nicholas Joicey
Ed Balls

Ian Plenderleith Bank
Clifford Smout Bank

GOLD

Issue: Proceeding with gold sales

Recommendation: Are you content with the attached submission to the Chancellor?

Timing: Comments this week would be helpful.

Background:

Following our meeting last week, I attach a draft submission to send to the Chancellor for your comments. If you are content I can provide a follow up note you can send to the Chancellor.

I would be grateful if Clifford Smout could let me have the Bank's comments.

I would also be grateful for IFD (Nicholas Joicey)'s views on my paragraph on how UK sales could interact with IMF sales (assuming there is an IMF decision on sales in December).

James Steel

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FROM: ANTONIA KING
DATE: 27 November 1998
EXTN: 4350

JAMES STEEL

cc: PPS
Sir Nigel Wicks
Gus O'Donnell
Jon Cunliffe
Joe Grice
Jonathan Taylor
Peter Curwen
David Deaton
Nicholas Joicey
Ed Balls
Ed Miliband

Ian Plenderleith - BoE
Clifford Smout

GOLD

The Economic Secretary was very grateful for your submission of 24 November.

2. The Economic secretary is content with your draft submission to the Chancellor.
3. The Minister would be grateful for a draft note for her to send to the Chancellor, as you suggest.

Antonia V King

ANTONIA KING
Private Secretary

~~SECRET~~

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From: Tamara Finkelstein
To: OASIS05.PO05(SteelJ, DeatonD, OdonneG, TaylorJ1)
Date: 23 December 1998 12:05pm
Subject: gold -Reply

That is not quite the feedback. I will respond to your submission by e-mail shortly but the Chancellor is keen that officials at the Treasury and the Bank work together to produce a joint proposal. As I understand it the latest proposal is not a joint one. The Chancellor needs to know the status of the proposal, what the difficulties are in drawing up a joint proposal, how you think we can move forward in achieving a joint proposal.

Thanks
Tamara

>>> James Steel 23/December/1998 11:58am >>>
thank you for your feedback on the Chancellor's views

I told the Bank that the Chancellor wanted to know what the Governor's position was before they met.

CC: tom

From: Action Chancellor's
To: Estactn
Date: 23 December 1998 1:10pm
Subject: Gold -Reply

The Chancellor was grateful for the Economic Secretary's note of 2 December. He has also seen James Steel's note of 30 November. The Chancellor would like to discuss this issue with the Governor in the New Year on the basis of a joint proposal by Treasury and Bank officials which he and the Governor can consider. If it is not possible to agree a joint proposal at official level the Chancellor would be grateful for advice from officials here on the views of Bank officials.

Tamara Finkelstein
x4519

CC: Ballse, Cstinfo, OASIS05.PO05.SteelJ, CurwenP, Tur...

From: Tom Scholar (Action Chancellor's)
To: OASIS05.PO05.SteelJ
Date: 15 January 1999 9:37am
Subject: Gold

James

The Chancellor was very grateful for your submission of 30 November. He discussed it with the Governor at their lunch on Tuesday. They agreed your recommendations.

[REDACTED]

[REDACTED]

The Chancellor agreed.

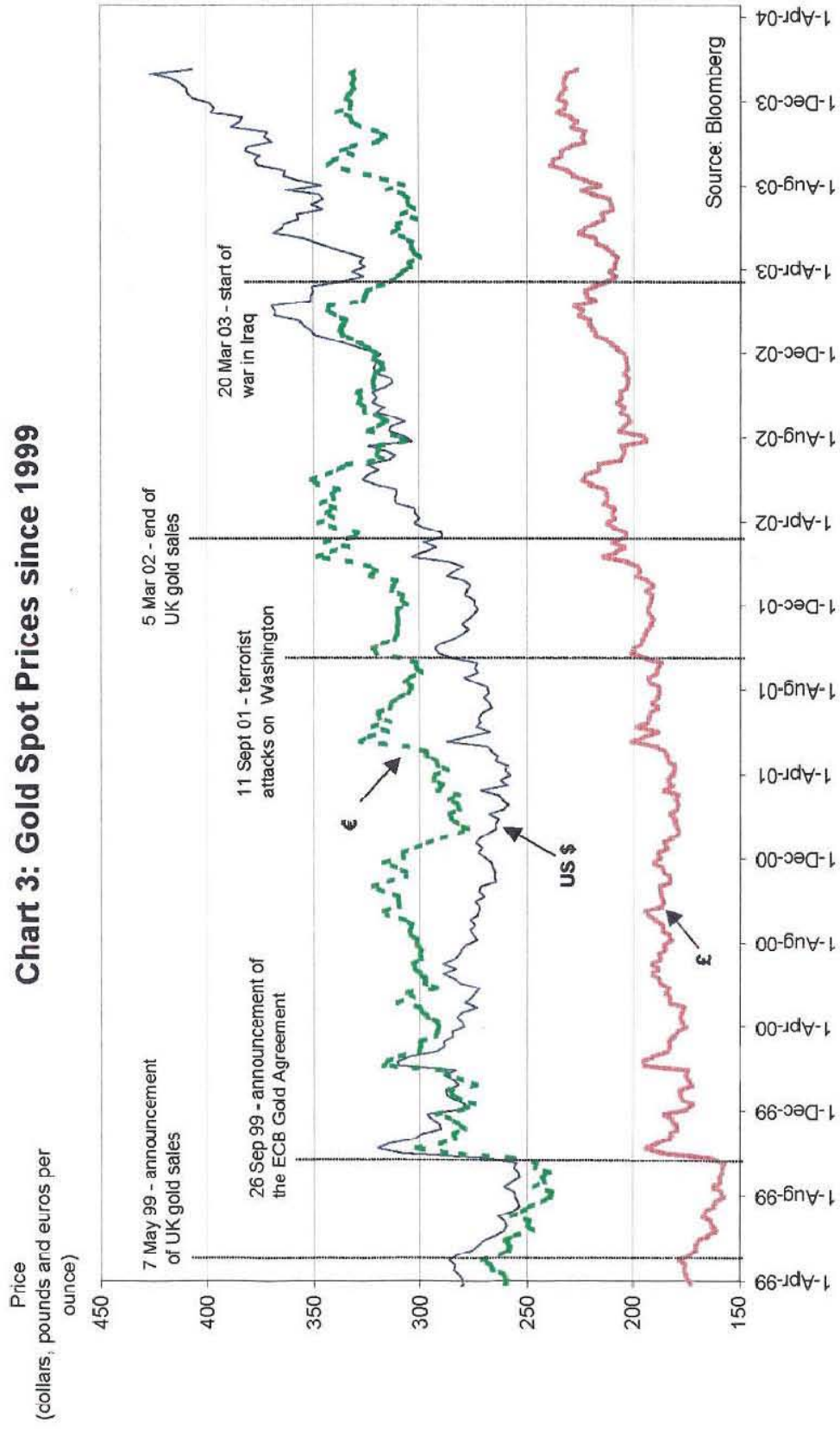
Tom.

CC: Ballse, Cstinfo, CurwenP, TurnbuA, WicksN, OASIS05...

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Chart 3: Gold Spot Prices since 1999



Box 1: Official Gold Sales

The Swiss authorities announced in 1997 that they were planning to sell 1,300 tonnes of gold. The UK announced sales of 415 tonnes in May 1999, and the first auction took place on 6 July 1999. These developments along with other central bank² (and potential IMF) sales sparked concern that there would be a rush of official gold selling.

Table 1 provides figures for official gold holding for a selection of countries at December 2003. Chart 4 shows the monthly gold market turnover in tonnes as measured by the London Bullion Market Association. Average monthly turnover in 2003 was approximately 490 tonnes and the trend has been declining. From comparing these two it is apparent that sales of even a small proportion of official holdings could have a significant impact on gold prices.

The European Central Bank Gold Agreement (ECBGA)

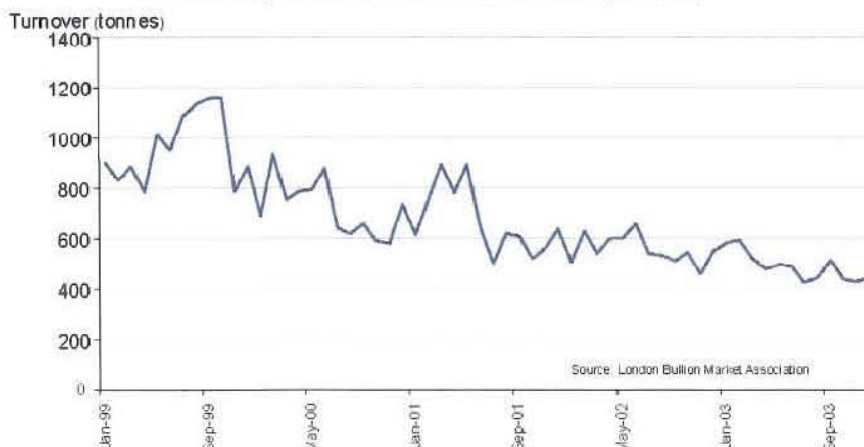
On 26 September 1999 the UK joined other European countries and the

European Central Bank (shaded in Table 1) in announcing that they would not sell more than 400 tonnes of gold a year for five years. The Agreement also capped gold lending and derivatives trading at existing levels. This announcement was called the European Central Bank Gold Agreement (ECBGA) or 'Washington Agreement'. It increased transparency with respect to official sales and help diminish market concerns that further (potentially covert) official sales were likely.

Table 1: Official Gold holdings (tonnes) December 2003

Australia	80	Japan	765
Austria	318	Netherlands	801
Belgium	258	Norway	37
Canada	6	Portugal	517
China	600	S. Africa	124
Denmark	67	Spain	523
Finland	49	Sweden	185
France	3025	Switzerland	1666
Germany	3440	ECB	767
Greece	102	UK	313
Ireland	6	Luxembourg	2
Italy	2452	USA	8135
		IMF	3217

Chart 4: Monthly turnover in the London Bullion Market (1999-2003)



² Canada, Belgium, the Netherlands, Australia and Argentina previously sold.