

## ANALYSIS ON THE GLOBAL MARKET OF INVESTMENT GOLD BEFORE AND IN A FINANCIAL CRISIS\*

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***Abstract:** At a financial and economic crisis time a part of the investment forms are unavailable and loosing. A movement and increasing is seen in the investment market with precious metals: gold, silver, platinum and palladium. The history tells that in a financial and economic crisis the precious metals, and mostly the gold, are accepted like a basic alternative for protection of the savings and the wealth. The paper aim is to be made an actual analysis on the gold market, as well on the having influence on it basic factors. Here are examined the basic sources of consumption and offering, like a leading factor in the price development towards the principle of the demand and offering.*

### INTRODUCTION

The end of 2007 is accepted as a conventional beginning of the world financial – economic crisis. The start is the mortgage problems in The United States, then it is the bankruptcy of some USA banks and gradually spreads across the Ocean in the European economic space. The problems in USA and Europe drain the tow World currencies (US dollar and EURO), that brings to decreasing of the investment interest in the countries of the Euro zone and USA. The tendency of shaking the trust goes deep and the indication is the beginning process for payment of some of the stocks, as the Iranian oil for example, by gold instead by US dollar. Of course, in the Iranian government decision there is a political element too, but the importance is that the precious metal gold is accepted as a means for paying off in the deals.<sup>2</sup>

### EXPOSE

The investment gold may be differentiated as bars and ingots and bullion coins. The European legal definition about the investment gold is regulated in Chapter 5 „Special scheme for investment gold” at Directive 2006 /112/EU of The Council from the 28<sup>th</sup> November 2006, regarding the mutual system of the VAT. Under this Directive, and without prejudice to other Community provisions, "investment gold" shall mean:

(1) gold, in the form of a bar or a wafer of weights accepted by the bullion markets, of a purity equal to or greater than 995 thousandths, whether or not represented by securities;

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(2) gold coins of a purity equal to or greater than 900 thousandths and minted after 1800, which are or have been legal tender in the country of origin, and are normally sold at a price which does not exceed the open market value of the gold contained in the coins by more than 80 %.

2. Member States may exclude from this special scheme small bars or wafers of a weight of 1 g or less.

3. For the purposes of Directive 112/2006, the coins referred to in point (2) of paragraph 1 shall not be regarded as sold for numismatic interest.

Starting in 1999, each Member State shall inform the Commission by 1 July each year of the coins meeting the criteria laid down in point (2) of Article 344(1) of Directive 112/2006 which are traded in that Member State. The Commission shall, before 1 December each year, publish a comprehensive list of those coins in the "C" series of the Official Journal of the European Union. Coins included in the published list shall be deemed to fulfil those criteria throughout the year for which the list is published<sup>3</sup>.

The investment golden ingots are directed to institutional investors and their standardized quantity has a scope 350 – 430 fine troy ounce /approximately 10.9 – 13.4 kilograms/. For individual purchases the investment gold is widespread as in small gold bars /1, 5, 10, 20, 31.1035, 50, 100, 250, 500 and 1000grams/, as well in investment golden coins. In the same time the coins could be divided into classical golden coins and into currency golden coins. The classical coins have been legal payment means from the end of 18 century till the beginning of the Second World War. Their quantity that is at the inhabitants is exceptionally big and for this reason namely they don't defy numismatic collector's interest. For that reason the smashing in the classical coins is the quantity pure gold /24 carats/ that they content.

Of another side, the current golden coins are issued especially with an investment aim. These are coins issued in a strictly definite circulation with the highest carat of a golden content.

The historical point of view is that the possessing of an investment gold is a part of the obligatory elements of a defend of the investments in a crisis, e.g. an element of the management in a time of crisis. As basic reasons we could pointed the limited World quantity gold, the limited production per year of an investment metal, its universality as a means for exchange in the hole world and its easy carrying. As an example of its universality we could point the investment gold coin "British sovereign" that is a part of the surviving package of American military pilots in an enemy territory. The reasons, pointed before, make the investment gold as a suitable investment tool in a financial crisis time.

To be traced the price development and the trend of the investment gold is necessary to be traced and investigated the means that provoke the searching and offering of the precious metal. As I've already said, the quantity gold in a worldwide fame is an end quantity, in spite of the development of the technologies, its production doesn't increase drastic. One of the basic consumers of gold is the technological sector, but in the same time the metal extraction by an old technique still is unprofitable. Influence in the golden market comes from the traditional Asian markets in regards to their national holidays and rituals, for example the increasing searching of golden jewelers for the Indian light day /Diwali festival/.

In a historical plan the price of the gold increases in a long period. The pick in the price of the gold is registered on the 06<sup>th</sup> of September 2011 and reached over 1'900.00 dollars per troy ounce. One troy ounce is equal of 31.1034768 grams.

One of the main reasons for the increasing searching of the investment gold are the net purchases of a National governments side, as the states like a big owner of gold changed its behavior and from net vendors became net customers. That is due to the buying of a side of the Federation of Russia, the Asian states: South Korea, India, China, Hong Kong, Indonesia and Vietnam. For a six month period Russia increased its golden reserves of 841.1 tons, that is equal with the golden reserve of the Republic of Bulgaria or at 01.04.2012 approximately to 2.146 billiards USD.

It is interesting that in the analyzed period of 6 months the states that haven't changed in quantity tons its golden reserve have increased golden quantity in its common reserves. E. g. we could

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<sup>3</sup> See article 344 – 345 of Official Journal of the European Union L 347, 11.12.2006, p 58- 59

make the conclusion that rest part of the common reserves has decreased and the gold has increased its correlation toward the common states' reserves. For example toward October 2011 the Republic of Bulgaria with its 39.9 tons golden reserve (that is 11.7% of the common state's reserve) has had 44 places in the classifying. Toward March 2012 the quantity own gold wasn't changed, but it is on 47 places in top 100, as the quantity owns gold is equal of 13.1% state's reserves.

In Table No1 we give a classifying of the first 20 World owner of golden, as well their correlation to their state's reserves.

Table No 1

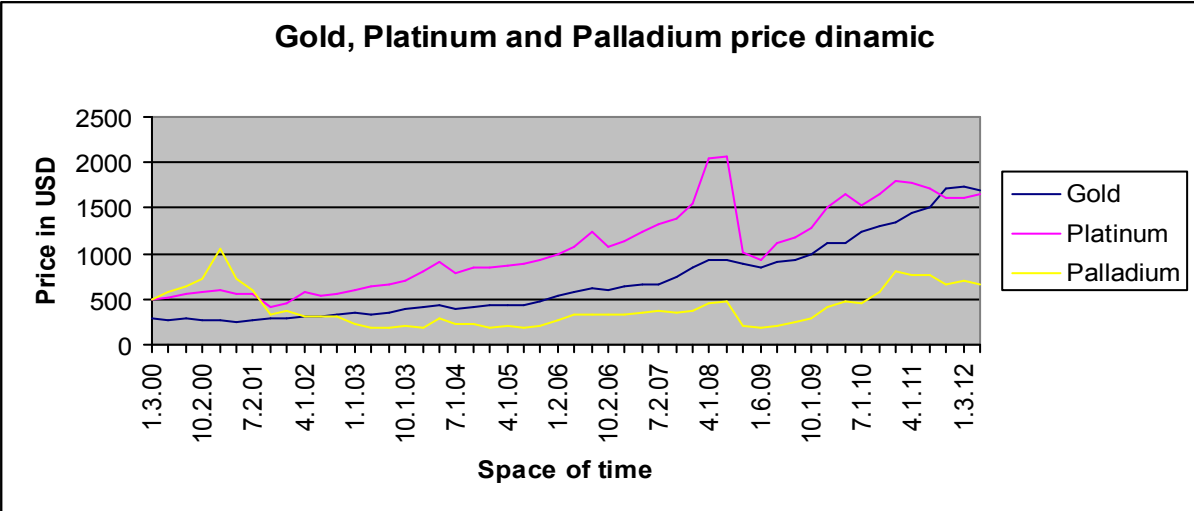
№	State /Organization	Quantity in tons	% of the reseves
1	USA	8 133.5	76.7%
2	The Federal Republic of Germany	3 396.3	73.9%
3	Международен валутен фонд	2 814.1	
4	The Republic of Italy	2 451.8	73.4%
5	The Republic of France	2 435.4	73.0%
6	The National Republic of Chine	1 054.1	1.8%
7	The Confederation of Switzerland	1 040.1	17.3%
8	The Federation of Russia	883.0	9.8%
9	Japan	765.2	3.2%
10	Kingdom Holland	612.5	62.7%
11	The Republic of India	557.7	10.5%
12	The Central Bank of Europe	502.1	34.5%
13	Taiwan	422.4	6.1%
14	The Republic of Portugal	382.5	91.5%
15	The Bolivar Republic of Venezuela	372.9	75.0%
16	Saudi Arabia	322.9	3.2%
17	The United Kingdom of Great Britain	310.3	17.7%
18	The Republic of Lebanon	286.8	32.3%
19	The Kingdom of Spain	281.6	32.4%
20	The Republic of Austria	280.0	58.6%
47	The Republic of Bulgaria	39.9	13.1%
58	The Republic of Serbia	14.3	5.1%
	<b>Common for the World – World golden reserve</b>	<b>30 922.0</b>	
	<b>Common for the European Union, incl. CBE</b>	<b>11 953.8</b>	

Source: World Gold Council/, <[http://www.gold.org/government\\_affairs/gold\\_reserves](http://www.gold.org/government_affairs/gold_reserves)>

With a science – examination aim the paper takes up a time interval of 12 years, as a three months price analysis is made on three basic types investment precious metals: gold, silver, platinum and palladium. The analysis is made on the base of the quote of the course of London fix PM per every working day after the end of the previous three months. As a basic conclusion of the made examination we could conclude that the analyzed metals, the gold has the highest stability in the price development. In the 12 years period the trend increase constantly without serious price picks or drops. The serious price fluctuations increase the risk of non right investment decision.

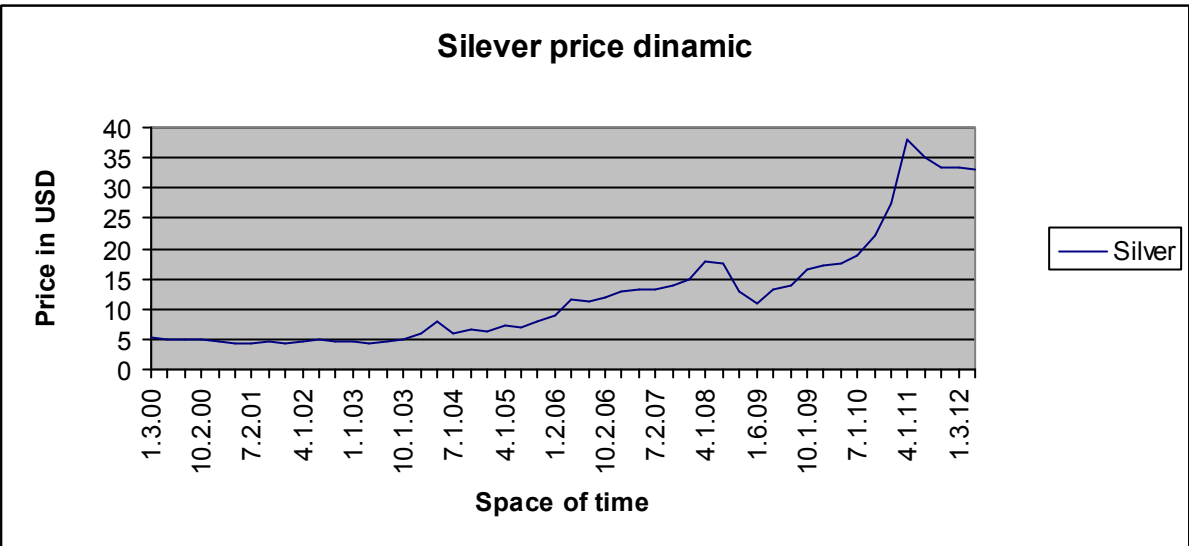
The investment in a physical owning of investment gold is accepted mainly as a conservative investment business strategy. There is a opinion that when a long – term position the investment in gold always will be profitable. About platinum and palladium there are pick moments, where the price change at once in diametrical opposition directions, that makes the investment in them more – risky toward the conservative position in gold. The visualization of the data is made in Graphic No 1 and 2, as on the vertical line is the price of the metals in US dollars per one troy ounce pure metal.

Graphic no1



Source: Own examination of the author on data of price quotes of London fix PM

Graphic No 2



Source: Own examination of the author on data of price quotes of London fix PM

An object of an interesting analysis could be also the ratio between the prices of the different precious metals. Many experts count that the investment gold and silver are in correlation, and with the increasing of the first metal automatically the second increase too. This is true in a big rate, but as well every rule there is exclusions, for example the price of the gold toward the price of the silver. Before coming of the financial - economical crisis this correlation has ranged between 50 and 76 or at an average for the period 01.01.2000 – 01.01.2008 the correlation is 61.15, e. g. for the price of one troy ounce gold we could buy 61.15 troy ounces silver. The lowest correlation gold – silver is in the pick moment of the price of the silver about 50 dollars per a troy ounce in April 2011. At that time the price correlation between the two metals is 37, e. g. for one ounce gold we could buy 37 ounces silver.

## CONCLUSION

As a part of the financial management in a crisis time, the investment for a long time in the physical owning of precious metals could be accepted like a attractive form for defend of the savings and the wealth. In a crisis time the value of the investment gold is in a constant increasing trend. In spite of variety of priorities, the investments in precious metals have got their risks for loosing and might be analyzed, especially for short time investment decisions.

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