Gold markets

Gold prices have continued to slide, hitting $290 per ounce on December 22. Since February 1996, the price has fallen more than $115, with $34 of that amount coming in the last two months.

Much of this downturn is mirrored in the options market. The February 1998 290 call gives the owner the right, but not the obligation, to buy a futures contract at $290 per ounce. This contract expires in January, and its declining price shows that investors find the odds of gold prices remaining much above $290 increasingly slim. Of course, along with the trends and variability of gold prices, the falling price of the February option reflects the diminishing time left to exercise it. As that period shortens, there is less time for the price to move above $290, or for the option to move into the money. Prices of gold coins—whether the bullion sort valued mainly for their metallic content, like Krugerrands, or those with collectible value, like U.S. $20 gold pieces—have also dropped off.

Much of the decline in gold prices has been attributed to sales by central banks, which hold nearly one-third of the world’s stock. Argentina sold 125 tons in early 1997 (exercising put options), Australia announced a sale of 167 tons in July, and Switzerland revealed its plan to sell 1,400 tons in 2000. There is also some question about the European Central Bank’s demand for gold, and many believe that the recent price slide can be traced to this uncertainty. Jewelry demand, another major source of the demand for gold, is also expected to drop off as a result of Asia’s economic woes.