DO IMF GOLD RESERVES INFLUENCE THE GOLD PRICE?

Monday, November 11, 2013

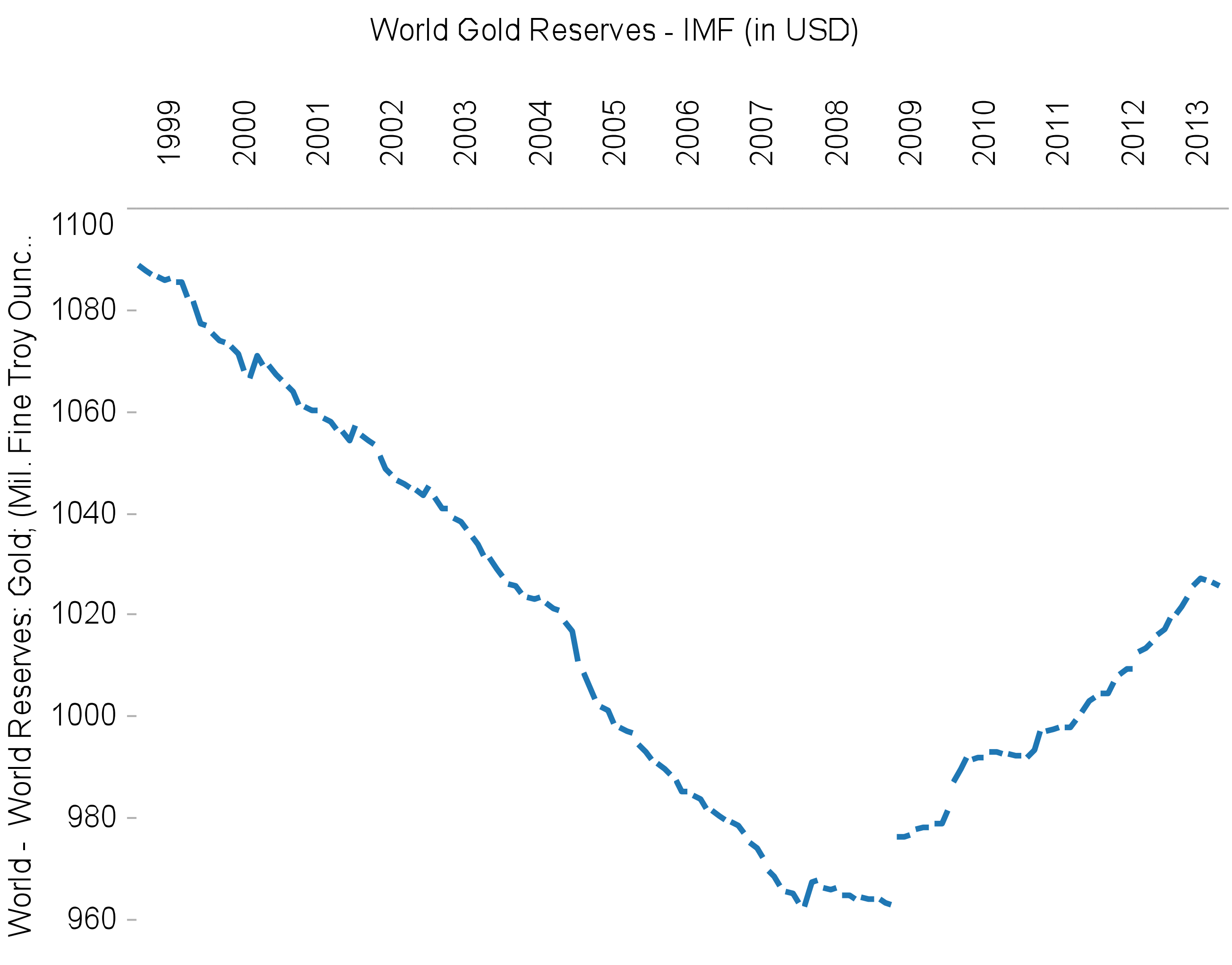
In September 2009, the IMF's Executive Board authorized the total sales of about 400 metric tons of gold. The gold was sold in two phases – market and non-market transactions.

During the first phase, the Reserve Bank of India, the Bank of Mauritius, the Bangladesh Bank, and the Central Bank of Sri Lanka purchased around 220 metric tons of gold.

Following the non-market sales, in February 2010 the IMF began its on-market sales program. The second phase was finished in December 2010, with total sales of 403.3 metric tons, or total proceeds of about $15 billion.

At the time of announcement, many analysts worried about whether the IMF's decision to sell some of its gold holdings would hurt the price of gold.

Has it?



Source: IMF, Moody's

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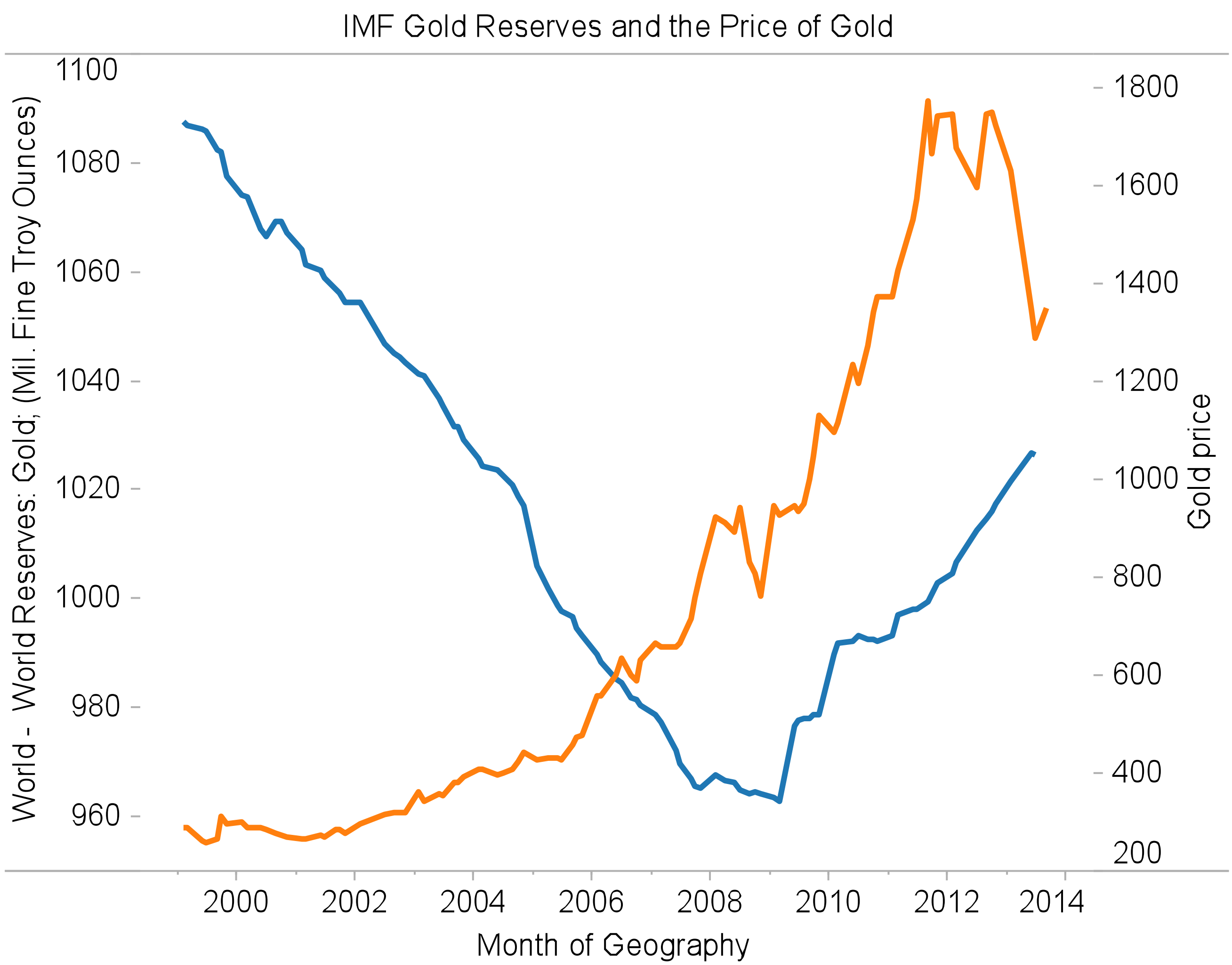
Here is what the price of gold has done since the Executive Board's rare decision to sell some of its gold holdings.

Overall, it doesn't look like the IMF has had much of an impact on the price of gold.

Total IMF world reserves declined consistently from 2000 to 2009, declining from about 1,090 million troy ounces of gold to about 960 million troy ounces (just a note, total IMF world reserves includes national deposits with the IMF).

Over the same time frame the price of gold jumped from about $200 per troy ounce to about $900 per troy ounce.

Following 2009, IMF member countries have been adding to their gold reserves. At the same time, the price of gold has generally increased, with the exception of the past year.



Source: IMF, Moody's

Measure Names

- World - World Reserves: Gold; (Mil# Fine Troy Ounces)
- Gold price

What do the results mean?

The IMF does not affect the price of gold very much, if at all.

A corollary finding is that gold demand continues to be strong even in the face of weak inflation and economic growth conditions.