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The Hong Kong Gold Market during the 1960s: local and global effects

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The Hong Kong gold market is one of the oldest and most prominent in East Asia and is ranked fourth in the world in terms of volume. After 1945 the geographical advantages of the colony of Hong Kong, the commercial infrastructure and the financial services agglomeration all encouraged the renewal of the market. However, global restrictions on the gold trade due to its monetary role in the Bretton Woods system prompted a range of adaptations. This chapter reviews the operation of the market, how it adapted to the regulatory environment and presents new volume and price data to assess the impact of local as well as global shocks. The evidence suggests that the Hong Kong market was well integrated with the global gold market despite restrictions on its operations.

Key Words: Hong Kong, gold market, gold trade, Bretton Woods, Macao

Historically, gold has embodied particular characteristics that make it close to the classic definition of money; store of value, means of exchange and unit of account. These properties are reinforced by its physical properties, particularly at times when paper or fiat money is discredited. Gold cannot be manufactured, it is malleable and easily divided, its chemical properties are well defined so copying is difficult and it has a high weight to volume ratio so small amounts are convenient for transactions and transport. Gold functions as a safe haven or hedge against uncertainties about the future value of fiat currencies, whether because of inflationary expectations or political risk, tend to influence short term fluctuations in the demand for gold. The combination of physical properties and gold's store of value function encourages its use in ornaments and jewellery that can be sold in emergencies. Since the supply of gold is relatively inelastic, such fluctuations in sentiment are quickly translated into price volatility. This was particularly evident during the 1970s and early 1980s global inflation and the late 2000s global financial crisis, when the gold price soared due to

instability in international financial and monetary markets. As the rate of price increase rises, the capital gains from gold also increase, attracting speculators to reinforce this trend. Unlike other forms of security, gold does not generate a yield and these capital gains are only captured when gold is sold. Historically, speculative bubbles in gold have frequently burst leaving behind capital losses.

In East Asian cultures, gold's store of value function is particularly prevalent both at wholesale and retail levels, but this role depends on a liquid market where gold can be exchanged for other assets and capital gains can be realised. In other words, the limit of gold's functionality is determined partly by the ability to access a reliable, liquid and transparent market. In East Asia, Hong Kong was traditionally the largest regional market for gold due to its commercial and financial infrastructure. Excellent port facilities, banking and insurance and close communications with global markets are all key elements in Hong Kong's sustained prominence as an international entrepot. This paper reviews the special features of the Hong Kong gold market in the post-war period, its role as a gap in restrictions on the global gold market in the 1950s and its continued development through the turbulent 1960s in East Asia. New data is presented from Hong Kong and UK archives to show the size of the market and the nature of the links to Macao that were created by restrictions on the operations of the market in Hong Kong. The impact of local factors is compared with global fluctuations in the use of gold in the international monetary system.

Development of the Market

The Hong Kong gold market was a natural development of the regional commercial and financial services that agglomerated in the Colony after it came into British possession from 1842. Although gold trading began almost with the origin of the Colony, the Chinese Gold and Silver Exchange was formed almost sixty years later in 1910 to structure the market and increase transparency. Members were restricting by registration with the Exchange, which was meant to establish the reputation of participants and ensure the quality of the gold, but in the early days "failures and closures happened many times" (Chinese Banker 1954, p. 803). Some members minted their own bars, while others were merely agents and traders, including so-called 'native banks' registered in Hong Kong, including Po Sang Bank, which acted as an agent of the Chinese mainland government. In 1951, 44 members were authorised to issue gold bars, having committed to a guarantee of HK$20,000 against fraud, and the bars were

inspected and endorsed by the Exchange itself (Chinese Bullion Dealer 1951, p. 123). Of these members, only half actually refined gold themselves; led by Wing Sing Loong Bank, Shun Hang Bank and Tak Cheong Bank. In 1950, Wing Sing Loong Bank had the best reputation for fineness, while Tak Cheong bank issued the most bars, "but traders and exporters often doubted their fineness" (Swatow Gold Dealer, 1950). Membership of the Exchange had to be purchased, initially costing HK$500 but the price fluctuated with the volume and price of gold traded and the dividends paid to members. In 1950 it peaked at HK$72,000, but fell back to HK$8000 by 1954 (Chinese Banker 1954, p. 803). The membership was relatively steady; by 1920 there were over 200 registered members of the exchange, 197 in 1954 and 193 by the late 1980s (Chan 1991, p. 252). The Exchange gathered commission on trading, although in peak periods 'curb-side' deals outside the exchange periodically flourished and traders thereby evaded the commission. Violators were punished with fines and expulsion from the Exchange, but curb dealing persisted. Figure 1 shows the relative volumes of sales inside and outside the exchange for the 1950s, when the data were reported separately in the local financial magazine, the *Far Eastern Economic Review*. This shows that during the early 1950s, the Exchange captured almost all of the trading, but that in the latter part of the decade when the market was much quieter, prices and turnover were lower and profits for the Exchange receded, about 80% of sales took place in 'curbside' deals.

The market opened six days per week at its premises in Mercer Street to deal in both spot and forward transactions and attracted gold from the major European gold centres as well as producers in the Asia-Pacific region, including Philippines and Australia. Floor traders representing the members called out their prices or used hand signs and "the first trader to touch a seller's body wins the deal", a process that necessitated that all floor traders were male (Chan 1991, p. 254). Prices were fixed twice per day, at noon and 4pm for members to set off their sales and purchases. Interest was charged on trades carried over from day to day. Gold traded in Hong Kong was exported illegally throughout East Asia and South Asia including South Korea, Singapore, Thailand and India. The standard bar was denominated in Taels, which equated to 1.2 Troy ounces, and prices tended to be quoted in HK$ although trades were settled in US$. Hong Kong hosted a freely floating open market in foreign exchange (including the US$) at a time when there were tight restrictions on currency convertibility in Europe. A dollar market also operated within the Exchange building. The Hong Kong Gold and Silver Exchange became an important commercial organisation in

Hong Kong that supported a range of charitable projects including sports and educational facilities (assets valued at HK$3 million in 1954) and persists to today (Chinese Banker 1954, p. 803).

In Chinese and many other Asian communities (such as India), gold (stored as bars or jewellery) has an important cultural and economic role to play, particularly as a store of value. This reflects limited access to (or mistrust of) other ways to store savings (such as banks) and also the often volatile economic and political histories of this region where fiat money could quickly become valueless. In the case of China, the hyperinflation during the defeat of Chiang Kai-shek's Guomindang regime in the late 1940s was a stark lesson about the risks associated with fiat money. During this turbulent period from 1945-1949 there was a considerable flight of gold out of mainland China and a flow of Hong Kong dollars toward the mainland that displaced the rapidly depreciating local currency (Schenk 2000). As we will see below, activity in the gold market in Hong Kong continued to reflect local and global uncertainty as well as cyclical demand for local festivals such as Chinese New Year and underlying demand for weddings and other cultural uses.

The foundation for the importance of the Hong Kong gold market in the decades after 1945 lies in the role of gold in the international monetary system. Gold has traditionally had an important monetary role that distinguished it from other commodities. As noted above, the ability for gold to be easily divided, tested for purity, with a relatively high value per weight (making coinage and transport efficient) and geological and technological restrictions on supply all led to gold becoming a store of value, medium of exchange and unit of account for many economies. From the late 19th century, these properties were formalised in the Gold Standard whereby the official value of national currencies was determined with reference to a weight in gold. By the time of the interwar period, inflation had dramatically increased the ratio of paper money to gold supplies, but the desire for a commodity based anchor led to the reconstruction of a modified Gold Standard from the mid-1920s. This system quickly came unstuck once central banks were not able to defend the official gold price of their currency in the economic maelstrom of the great depression. Countries progressively abandoned the gold standard from 1931-1933 and this devaluation of currencies was part of the road to recovery from the depression (Eichengreen 1992). Once the responsibility of governments for economic welfare increased, the tendency to try to control national money supplies in pursuit of national policy objectives meant that a strict adherence to a commodity value for a national currency was no longer sustainable. The gold standard system was discredited as contributing

to deflation (since the rate of growth of global gold reserves was slow) and also restricting the sovereignty of national governments. Over the ensuing decades there have been occasional calls to restore a gold standard as a means of exerting monetary discipline, but they have not been successful. In 1981 the US President Ronald Reagan created a Gold Commission to investigate a possible return to a Gold Standard, but the commission found against this proposal on the grounds that it was impractical with the existing US gold stock and the large amount of outstanding international US dollar liabilities. It would be difficult to find a fixed gold price for the dollar that would allow convertibility of these liabilities and there was no enthusiasm among international trading partners to return collectively to a gold standard (Report to Congress, 1982). The issue returned in the 2012 US presidential election race, when the Republican Party called for another Gold Commission to review a return to the gold standard as a way to reduce the power of the Federal Reserve and the US government over the money supply (Republican Party 2012, p. 4). However, the inflexibility of a gold standard and the tendency of the gold price to become highly volatile in periods of uncertainty meant that this initiative drew considerable criticism.

Despite its evident flaws as the basis for a modern monetary system, the post-1945 Bretton Woods system retained a role for gold, including the formal valuation of paper currencies at a gold parity. In practice, however, most currencies were not actually convertible to gold and the value of currencies was expressed in a pegged exchange rate to the US dollar. The US dollar, in turn, was convertible to gold through the Federal Reserve Bank and had a formal value of $35 per Troy ounce of 0.99 fine gold. In the immediate post-war years, gold could only be bought and sold by central banks (at the official price) and when the London market opened in 1954, the price was fixed within tight margins at the official level of US$35/oz.

Global restrictions on the gold trade because of its monetary role constrained the Hong Kong gold market and forced a circuitous route for the market to operate. The fact that the market continued to function despite costly controls testifies to the strength of local and regional demand and the unparalleled facilities in Hong Kong for air and sea transport as well as commercial and banking services. After 1945, a freely fluctuating price for gold in Hong Kong clearly contradicted the IMF's prohibition of 'premium' gold markets and undermined the protection of the official fixed price of $35/oz, which was lower than the price which would have reflected market supply and demand. After considerable wrangling between the Governor of Hong Kong, Alexander Grantham, on the one side and the British Treasury and Bank of England in London on the other, the Hong Kong market was finally closed to trading

in 0.999 fine gold in April 1949 (Schenk 1995 and Schenk 2001). The official closure came just at a time of considerable political and economic upheaval as the Chinese Communist Party took control of more of the mainland, culminating in the establishment of the People's Republic of China in October 1949. Despite the new controls, therefore, the demand for gold was so great that the market continued to function both through smuggling and through evasion of the prohibition of 0.999 fine gold by re-smelting to a lower concentration. Grantham soon renewed his lobbying of London to allow the market to re-open. His argument was that, with the retreat of China behind trade and embargo walls, the future of Hong Kong's prosperity depended on the revival of its broader regional trading and financial functions, which included hosting the primary regional gold market. He finally won his battle in October 1953 when imports of gold for re-export were allowed and a market in 0.945 pure gold was allowed for gold in situ in Hong Kong. From this time, pure (0.999) gold was permitted to transit through Hong Kong to Macao, there to be smelted and clandestinely returned to the Hong Kong market to be legally traded as 0.945 fine for the local market or re-exported throughout the region. Informally, about half of the gold was reported to be smelted illegally in Hong Kong despite being consigned to Macao.[1]

Gold was flown in to Hong Kong's Kai Tak airport from Europe, the Middle East and Asia, stored in bonded vaults at Kowloon Docks and then re-exported to Macao from where it eventually found its way back into the Hong Kong market (Schenk 2001, pp. 47-48). In Hong Kong, the main importers were Mount Trading (part of Samuel Montagu of London), Commercial Investment Company (a subsidiary of Wheelock Marden) and Premex (owned by Swiss and Panamanian interests) (Sitt 1995, p. 14). These three firms formed a cartel that operated cooperatively once the market was reopened. The gold was then re-exported forty miles to Macao, initially aboard a Catalina Flying Boat owned by the Macau Air Transport Company (for a charge of 30 cents per oz) until the advent of the first hydrofoil boats in 1965 (Far Eastern Economic Review 1954, p. 611). In Macao the bars were smelted down into 0.945 Taels and smuggled back to Hong Kong, since gold of this fineness could be traded legally once it was in situ.

Given the geography of the islands of Hong Kong and the premium in the market, gold smuggling was clearly a major enterprise and, although the Hong Kong authorities did seek to enforce the ban, they only managed to seize 3636 lbs of gold from 1955-1965 according to the annual reports of the Director of Commerce and Industry. Whether this was due to a lack of initiative by the authorities or the skill of smugglers is an open question, but the smuggling

routes were well documented and the rewards leading to seizure were paltry. Rivalry between smuggling groups, dubbed the ‘inter-group war’, led to informants and seizures by the government in 1951 of “several tens of thousands of taels” but this was unusual (Far Eastern Economic Review 1952a, p. 294). In 1953 the fine for exporting gold illegally was reduced from 40% of the value of the seizure to HK$10 per tael, but the route between Macao and Hong Kong was considered safer than exports to other countries. In 1968 The Economist noted that junk owners were charging only 24 cents per ounce to smuggle gold from Macao to Hong Kong and that “the authorities most closely concerned keep their eyes firmly glued to their official records, pick up the occasional smuggler when they can – and ignore the rest” (Economist 1968, p. 40). In 1954 the Far Eastern Economic Review reported that the smuggling between Macao and Hong Kong and exports from Hong Kong were arranged by firms connected to the native banks, which were members of the Exchange (Far Eastern Economic Review 1954, p. 611). It was estimated that about 90% of gold exported to Macao found its way back to the Hong Kong market smuggled in the small craft and sampans that traded across the straits (Green 1970, p. 130).

Despite the controls imposed in Hong Kong, the British colony retained the market because Macao could not match its financial and commercial services, but Macao did benefit. Gold imports into Macao were controlled by a syndicate with an official license from the Macao government. The syndicate negotiated minimum guaranteed payments to the government and a tax per ounce imported. In 1966/67 the minimum payment was 8 million patacas (about USD450,000) and the tax was 8 patacas (USD0.44) per ounce for the first 1.5 million ounces, rising to 9 patacas thereafter. The syndicate then charged a levy on imports: amounting to HK$14-15 per ounce in 1951 (the pataca was officially at par with the HK$) (Far Eastern Economic Review 1951, p. 466) during lively trading but reduced to HK$7 per ounce in August 1953, partly to increase competitiveness against other Asian centres such as Bangkok (Samuel Montagu and Co 1954, p. 5). This was obviously a lucrative license for the syndicate, generating an estimated HK$5.25m in 1963, and accounting for about 20% of Macao’s government revenue in 1967 (Green, 1970, p. 128). In return for the monopoly, members of the syndicate were required to support public services such as a hospital, bus transport, hotels and the costs of constructing reservoirs on the border with China.[2] In the mid-1960s two leaders of the Macao syndicate were the prominent businessmen, Ho Yin and Y.C. Liang. Ho Yin had close connections with the Chinese Communist Party and was involved in a range of businesses, including the gaming industry, and headed the Chinese

Chamber of Commerce (Pina-Cabral 2002, p. 136; Clayton 2009, p. 359). His son became the first Chief Executive of Macao after its reversion to Chinese sovereignty in 1999. Y.C. Liang owned the Hong Kong Macao Hydrofoil Co. Ltd., was a director of Hang Seng Bank and a prominent philanthropist in Hong Kong. The gold syndicate was thus closely embedded in both the Macao and Hong Kong commercial, social and political environments.

The importance of the gold trade to the viability of the Macao government and economy was a reason why the controls in Hong Kong were not lifted despite pressure from the Hong Kong and Shanghai Bank for the licenses to be moved to Hong Kong to the benefit of the government and traders there (Schenk 2001, p. 103-4). Destroying this important support to the Macao economy would undermine its political sustainability and potentially invite a Mainland Chinese take-over that could ultimately threaten Hong Kong's position in the British empire. Instead, the fiction of a controlled market in Hong Kong was allowed to persist while the market flourished in the context of more effective controls in European centres. This promoted the Hong Kong gold market to global importance since it was one of the few substantial markets where gold could be bought and sold at premium prices. At the same time, the market serviced the local needs of the Hong Kong people for their cultural purposes (including weddings and Chinese New Year) and as a hedge against monetary risk.

An episode in 1965 offers a glimpse into the role of gold in Hong Kong's local economy. In March 1965, rumours that some banks might run out of cash and therefore not be able to honour deposits led to a series of bank runs and ultimately the failure of several banks as depositors sought to withdraw before the doors to their bank were possibly closed for good. This prompted a liquidity crisis for several banks, which had to ration withdrawals to preserve their cash supplies and led to the closure of several banks and the merger of others (most prominently Hang Seng Bank had to be rescued through a take-over by HSBC). This general atmosphere of panic and uncertainty prompted the diversion of savings away from banks and into gold, leading to a rise in the gold price.

The Secretary for Chinese Affairs reported that the impact on the gold market was due to the response of the "moderately literate" part of the population with small savings who could be prone to panic in newspapers or by rumour.[3] Although his report is biased by apparent elements of racism, it was based on a survey of a large number of goldsmiths' shops selling gold bars and jewellery, as well as local anecdotal intelligence. The report distinguished between different regions and social classes. In the urban area of Hong Kong Island, only Aberdeen, a fishing village and port on the south coast with a substantial community living

on boats, revealed evidence of speculative buying of gold by drawing on bank deposits. Aberdeen was also the location of the first local bank run in 1965. In Kowloon, opposite the main financial district of Hong Kong, a sample of 20 shops "sold in the last three weeks more gold bars and jewellery than they did in the whole of January and December combined" although this was partly due to the New Year celebrations. An important part of the Kowloon market was "housewives and amahs" who were highly visible buyers, although of small amounts of 0.1 – 5.0 taels or a maximum of HKD1500 per transaction. In the urban centre of Hong Kong Island, women also dominated: "at a luncheon party attended by a dozen well-educated young Chinese men, who discovered that every one of their wives and amahs had in the last two weeks been purchasing gold". The role of women in the market thus appeared to cross the class divide. The report also remarked that those of Chiuchow origin (about 250,000 in the 1961 census) "have been the most concerned, from speculators down to housewives. Women of all classes have been buying gold. Male owners or managers of the smaller rice-shops, plastics works and other typically Chiuchow enterprises have been inclined to secure their savings when possible by the purchase of gold or US dollars (in that order)". The Hakka, Sze Yap and Shanghai groups were less evident in the market although "there is evidence that at least the [Shanghai] women rivalled their Chiuchow sisters in their reactions to the gold rush". It is clear from this account that income, gender and cultural factors were influential in the retail demand for gold in Hong Kong. As we shall see, however, the retail market was only a small share of turnover.

The role of gold in the international monetary system was effectively ended in 1968. In the first quarter of that year there was a loss of confidence in the fixed dollar price of gold and private sales increased substantially, draining the Federal Reserve Board's reserves and requiring expensive intervention by the central banks of major economies to keep the market price at US$35/oz. In March 1968 the market prevailed and official support for the private market in London ceased. As a result, there was a two tiered gold market with a price set by supply and demand in London as well as an official price among central banks, which stayed fixed at US$35/oz. Essentially, the gold foundations of the international monetary system had disappeared with the end of a fixed dollar price for gold. As a result, greater liberalisation of gold trading ensued in Europe and the rationale for restricting the Hong Kong free market weakened. From mid-January 1970, the Hong Kong gold market was again allowed to trade legally in 0.999 fine gold, and the market was finally fully liberalised in 1974 so transfers via Macao were no longer necessary. By this time the gaming industry had superseded the gold

trade as the key contributor to Macao's finances. In order to meet the expectations of customers and retain credibility, the Gold and Silver Exchange agreed to buy 0.945 fine gold from customers at the prevailing 0.999 price so that they did not lose on their investment. By the end of the decade, the in loco London market was well established so transport to and from the Colony was not required, and all the main gold traders had offices in Hong Kong to take advantage of the time change and trade while London and New York were closed (Sitt 1995, p. 16). Through most of the Bretton Woods period, therefore, Hong Kong operated as a 'gap' in the global controls on trade in gold and thus formed part of the global market in addition to servicing local needs of small savers in Hong Kong itself. After 1974 the market reverted to its traditional role as an important entrepot for regional demand and supply.

Trends in the Post-War Hong Kong Gold Market

As a result of excess demand for gold and extra transactions costs associated with transhipment and storage, gold sold in Hong Kong at a premium on the IMF's official rate. The extra costs included the legal transfer to Macao and smuggling the gold back to Hong Kong, as well as re-smelting to 0.945 fine. The heyday of the market was clearly during the end of the Civil War in China when there was considerable flight of gold from the mainland. After peaking at over 60,000 taels per week in 1950, Figure 1 shows that by the mid-1950s weekly trading amounted to about 10 to 20 thousand taels and that trading volume then fell to 6000-10,000 per week by the early 1960s. In the first half of 1952, trading was very depressed as the heyday of 1949-51 ended. Several native banks failed and seats at the Exchange "always a good indicator of financial business" fell to HK$19,000 (Far Eastern Economic Review 1952c, p. 190). Partly the slump was due to competition from other gold centres in Asia, such as Bangkok, which liberalised gold imports in October 1952. At this time demand arising from the mainland Chinese market was also closed; Samuel Montagu and Co. noted that "in suppressing free market gold dealings, it would seem that the knife and the noose of totalitarian methods are more effective than the gentler democratic approach" (Samuel Montagu and Co. 1953). Laos was an emergent competitor serving Southeast and East Asia from the end of the 1950s. In 1959 turnover there amounted to about 300,000 ounces, rising to imports of 700,000 ounces of gold in 1961 compared to 991,000 imported into Macao in that year. These amounts, however, were much smaller than the Beirut market where an estimated 2.5 million ounces passed through in 1961, mainly destined for local

hoarding and for smuggling to India (Samuel Montagu and Co. 1962). Table 1 shows estimates by a major gold trader in London of the 'offtake' of gold through the Middle East and Far Eastern markets into private holdings through legal and illegal routes. The Hong Kong/Macao and Far East markets were close to the same size as Beirut in the mid-1950s but fell behind the Middle East markets by the end of the decade. The Middle East markets were heavily influenced by local political disturbances and by changes in demand in India. The prohibition in India in January 1963 on possession of gold without a licence, except for ornaments not exceeding 14 carats (0.583 fine) had short term effects on demand, but the high price for gold in India (twice the price in the Middle East) encouraged continued smuggling and appeared not to have a substantial impact on the flow of gold (Samuel Montagu 1964 p. 9)

Table 1: Imports and Sales in Free Gold Markets (millions of ounces)

Year	Hong Kong/Macao	Total Far East	Beirut	Other Middle East (Kuwait, Bahrein, Teheran)	Total Middle East	Total Private Hoarding	Total Arts and Industries
1955	1.8	-	2.0	-	-	9.0	3.0
1956	2.251	-	1.8	-	-	10.0	3.0
1957	1.863	-	2.25	-	-	7.5	-
1958	1.236	-	1.0	1.0	-	4.0	-
1959	1.435	-	.75	.50	-	-	-
1960	1.363	-	1.85	1.0	-	17.0	7.0
1961	0.991	-	2.5	-	-	11.0	8.5
1962		1.4			5.0	-	-
1963		1.4			5.5	-	-

1964		1.3			6.5	-	-
1965		2.9			8.0	-	-

Source: Samuel Montagu and Co., *Annual Bullion Review*, various years. '-' = data not available.

[insert Figure 1 here]

Weekly total sales data from January 1960 to April 1962 presented in Figure 2 confirm the reduction in turnover in the spot market but this higher frequency data also show the occasional spikes associated with Chinese New Year in January/February (especially in 1961) and other local conditions. The spot market tended to involve trades between importers and exporters for cash and therefore reflected Hong Kong's role as an entrepot for the regional gold trade rather than purchases for the local retail market. However, there is also some seasonality around the end of the year and the run up to Chinese New Year and the Chinese 'marriage season'. Gold was exported from Hong Kong primarily to Japan, India and South Vietnam by the mid-1960s. The spot market was dwarfed by the much larger 'speculative' market that traded in gold futures, mainly short term positions of a few days. Figure 2 reports the 'speculative' turnover when it was noted separately by the Far Eastern Economic Review for this period, which shows that the turnover in this part of the market was much higher than the spot market. The large disparity between spot and futures contracts (frequently up to 40,000 taels per day) shows the speculative element of the latter since the volume of futures trading is so much higher than actual physical exchanges.

[insert Figure 2 here]

To get a more continuous series for the volume of the Hong Kong market, Figure 3 shows the amount of gold transhipped to Macao from Hong Kong based on unpublished archive data. As noted above, at least 90% of this gold returned to the Hong Kong market. From 1961-1964 an average of 78,000 ounces of gold per month was transhipped from Hong Kong to Macao, comprising an average value of about US$3 million per month at market prices (equivalent to $21 million in 2010 using the CPI). From 1965-67 the trade was at its highest volume for the decade, reaching 290,000 ounces in June 1967 just after the onset of riots that heralded a summer of political and social unrest in the colony due to Communist-inspired terrorist attacks. Figure 3 also shows the gold price on a monthly basis. The price was relatively stable during the first half of the 1960s but then became more volatile as the

international monetary system deteriorated with the devaluation of sterling in November 1967, the collapse of the Gold Pool and the introduction of a freer market price in London from March 1968. The final surge in the Hong Kong gold price occurred as the pegged exchange rate system crumbled with the float of the sterling exchange rate in June 1972 and of the Hong Kong dollar from July.

[insert Figure 3 here]

The volume data emphasise the importance of the May-June 1967 political events on the gold market. During the mid-1960s, the political environment in Hong Kong became increasingly uncertain due to the planned withdrawal of British military presence from East of Suez and the onset of the Cultural Revolution on the mainland of China. In May 1967, riots in Hong Kong were brutally subdued by the Hong Kong government and police, but civil unrest continued on a sporadic basis through the summer. This prompted a flight of capital from the colony as business confidence dropped. Bank deposits were withdrawn at an unprecedented rate, particularly from Mainland-controlled banks in Hong Kong, and those with access to overseas banks sent funds out of the colony (Schenk 2009). In the three months May, June and July over HK$700m (US$117m) flowed out of Hong Kong. The withdrawal of deposits and capital flight caused a monetary contraction of 5.5% from May to July and a short-lived surge in the local price of US$ on the free market. Clearly the gold market was another avenue for a flight to assets that might be more reliable than fiat currency at a time when the banking system appeared insecure and the threat of invasion from the mainland or a potential need to evacuate the colony encouraged people to shift their assets into portable forms. After this panic receded, there was another revival in the volume of trade in November and December 1967 when sterling was devalued unexpectedly by 14.3%. However, the impact on the gold market was short-lived and indeed the volume of gold flowing to Macao was smaller in 1968-69 than it had been in 1965-66. From 1972, the re-shipments fell away as the market in Hong Kong was liberalised.

Figure 4 shows the weekly high and low prices for 1967 and the surge in May is clearly evident. In the week ending 19 May the spread between high and low price surged to 5.4%, up from an average of only 0.17% in April. There was a second spike in the price in the first week of June as civil unrest was renewed, but the price gradually declined thereafter to return to the levels of the start of the year. The unexpected devaluation of sterling by 14.3% on 17 November 1967, and uncertainty about whether the Hong Kong dollar would follow sterling

or not, caused another (and larger) surge in the market. This time the price rose even higher than during the May riots, but the spread between high and low price was much narrower suggesting less intra-week volatility.

[insert Figure 4 here: Source: Transit data from Hong Kong Public Record Office (HKRS 163-3-168), price data Pick's Currency Yearbook (US$/Troy Oz, converted at free dollar rate).]

Figure 5 shows the premium on the Hong Kong market over the London market price (rather than the official IMF price). Clearly, the international monetary turmoil through the devaluation of sterling by 14.3% in November 1967 and then the collapse of the Gold Pool in March 1968 led to a higher premium in Hong Kong, peaking at 28% in March 1968. Once the London market price better reflected global demand and supply rather than being held at the IMF price, the Hong Kong premium receded to about 5-10% and the attractions of the Hong Kong market, with its higher transportation costs compared to European centres, receded. The impact of the Nixon shock in August 1971 was more severe on the London gold price than in Hong Kong so that the premium in Hong Kong all but disappeared. Anticipation of the legalisation of the market contributed to rising prices at the end of 1969 just before 0.999 trade was officially condoned in January 1970. Thereafter, the premium in Hong Kong declined to about 5%, which reflected higher transactions costs of trading in Hong Kong. Seasonal patterns drove variations in local trading demand associated with holidays and cyclical demand from the local and regional jewellery industry. There is clearly a break in the premium over London from about 10% to about 5% once the London gold market began trading at a market rate for non-residents.

[insert Figure 5 here]

The monthly data on the Hong Kong market clearly obscure some short-term trading volatility. Figure 6 shows the weekly high and low prices on the Hong Kong gold market from 1967-72 as reported in the *Far Eastern Economic Review*. The price was in the doldrums as central banks sold off their reserves until the global price began to rise after the Nixon shock of August 1971 when the USA abandoned the convertibility of the US dollar to gold at the official price and then the price rise accelerated with the float of sterling from June 1972.

[insert Figure 6]

[insert Figure 7]

Unlike the volume data, the price data show larger effects for global than for local events. Figure 7 shows that during the week ending 15 March 1968 during the global gold crisis, the gold price jumped 12.4% whereas during the May 1967 crisis the weekly rise was 7.2%. During the devaluation of sterling when the value of the Hong Kong dollar was uncertain, the jump was 7.3%. In August 1971 the increase in the Hong Kong gold price was more sustained as the pressure on the dollar grew, climbing about 1-2% per week from mid-July to the Nixon Shock in mid-August 1971. As part of the Nixon Shock of August 1971 the convertibility of gold through the Federal Reserve Board at the official price was finally ended and the demonetisation of gold was accelerated in the early 1970s by the creation of the SDR. The IMF's plans to reduce the role of gold began in March 1972 with proposals to enhance the role of the SDR and reduce the role of national currencies. The formal role of gold as a reference point for the valuation of currencies and for transactions between members and the Fund was finally ended in 1978, just on the eve of a global surge in the gold price. From the early 1970s the jewellery and manufacturing demand for gold came to dominate the global gold market, replacing the monetary demand for gold by central banks.

Conclusions

After the liberalisation of the global gold market in 1974 and the demonetisation of gold during the 1970s, Hong Kong was able to retain its position as the premier Asian gold market. By 1980 it was the fourth largest gold market in the world, after London, New York and Zurich (Meyer 2000, p. 207). The Chinese Gold and Silver Exchange continues to operate with 171 members, serving the Asian region. In October 2011 it was authorised to sell offshore renminbi denominated spot gold contracts, selling RMB111.7m (322 kg) of 'Renminbi Kilobar Gold' on the first day of trading. Providing another yuan-denominated asset is an important additional service for Hong Kong's international financial centre and for the Gold and Silver Exchange. Recently, the Chinese government has been encouraging retail sales of gold (for example through vending machines) and China is poised to become the world's largest gold consumer, overtaking India. In 2010, imports of gold from Hong Kong tripled compared to the year before to 428 tonnes according to Hong Kong trade statistics.

The Hong Kong Gold and Silver Exchange may face greater competition as mainland gold exchanges develop but it remains competitive. The CGSE announced that it would diversify to trading silver futures against HK$, Yuan and US$ in June 2012.

This paper has reviewed movements in the volume and price data for the Hong Kong gold market in the 1960s. This has revealed that the Hong Kong market had both a local and a global role. The global importance arose from the unique position of Hong Kong in the international monetary system until free markets in gold were liberalised in 1968. The premium gold market, supported by an established commercial and financial centre, attracted imports and traders from around the world. The market was clearly sensitive to global market fluctuations, particularly in March 1968 and the Nixon Shock of August 1971. On the other hand, the role of gold in Chinese and other Asian societies led to an important local retail market, particularly in times of uncertainty when gold proved to be a safe haven. Thus, the volume of turnover in the gold market clearly reacted to the banking crisis of 1965, the political unrest of May-June 1967 and the devaluation of sterling in November 1967. Nevertheless, the heyday of the Hong Kong gold market was over by the 1960s as competitors elsewhere developed in Europe and the Middle East, the London gold market was liberalised and the monetary role of gold receded.

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