THE GOLDEN THREAD: Jonathan Spall – Voices of the London Bullion Market

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In memory of Jon, Michele has dusted off the archives and prepared the interview which was conducted back in 2014 but never before published. Here Michele reflects back on his career in the bullion market.

From an early age, Jon Spall knew what he wanted from life. Enthused by his father, the legendary Jack Spall, Managing Director of Sharps Pixley (later Kleinwort Benson)[1], his formative years were spent learning the finer intricacies of the workings of the international financial markets. While still at school in the late 1970s and 1980s, Jon took his first steps, working during holidays mainly in the back office of Kleinwort Benson. This led to him being exposed to the front office with a unique view on the gold business just as the gold market was waking from the price slumber with the exciting run-up to the then record price of $850 per ounce.

Early on, Jon was able to combine his career choice with his love of travel. In 1979, ahead of going to university, he was invited by the head of the New York office to work there, spending some time on the COMEX floor. He was later offered a permanent position but took the sensible decision to head home, opting to study Economics at Durham University.

Of this early experience working in New York, one of his strongest memories were the noise levels of the trading arena. The sheer volume was so different to present trading rooms. Then, you had dealing machines, telephones or telex. Market practices were different. People worked much more closely as one unit. Jon explained that "the distinction you see today between sales distributions and trading differs. The market maker had the price and you [visited] or you phoned the client to see if they were interested… it was anyone's role to do it. It was not such a divided line as today and, of course, there was no derivatives market as we know it."

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On completing his degree, Jon applied to and was interviewed by a number of London institutions, before deciding to take up an offer by Credit Suisse to be the first graduate trainee. In 1983, when he joined the London trading room, it had no more than 20 people trading across all products. Being the first trainee brought its own challenges and opportunities. Unlike the targeted approach of today, Jon was exposed to a multitude of back and front office jobs. While his core working hours were 9 to 5, he would arrive at 7am, spending time on the trading desk, before going to perform his assigned tasks in the back office. It was this proactive approach that prepared him, when the time was right, to take his place on the front-office gold trading desk.

As the market slumped, he was given the opportunity to join the FX trader, which he really enjoyed, before being asked to trade cable. In Jon's own words, "the guy who traded cable sterling against the dollar was sacked and I was asked if I'd fancy on Monday morning trading spot cable instead".

1. Jack Spall (b.1930) joined the East Indian merchants, Wallace Brothers, in 1947 and moved to Merrill Lynch in 1961. He joined Sharps Pixley in 1970, where he became Deputy Chairman and Managing Director before retiring in 1988. Jack took part in the National Life Stories Collection, located at the British Library Sound Collection, in 1991-2 sharing much of his life working in the City. Brief accounts were included in the subsequent publication, Cathy Courtney and Paul Thompson, City Lives, The changing voices of British Finance (London: Methuen, 1996).

This period in his career coincided with him accepting a position with Deutsche Bank to trade sterling-mark. He got turned, however, and ended up remaining with Credit Suisse trading Eurobonds. This interchanging ability and adaptability not only demonstrated the fluidity between roles, but also his depth of understanding across markets. It wasn't long before the Eurobond market took a downturn and Jon was asked to go back to trading precious metals. The appeal of trading gold for him was greater, because "when you traded FX and other commodities, it was just a number, but gold differs because it actually moves somewhere!"

Joining Chase Manhattan in 1989, he was exposed to a more aggressive trading team. Reflecting on this period of his career, Jon noted that it was his most enjoyable time in the market in terms of the people he worked with. The noise levels alone were exhilarating, and he and the team had a lot of fun and were very successful! His role required him to market precious metals, liaising with clients as well as central banks. An opportunity to work in Hong Kong presented itself in 1991. He had spent time there in 1976 when his father worked for Sharps Pixley and, more recently, had holidayed there. Jon adored the place and jumped at the chance. He landed on the 3 January 1992 to start work as a spot trader. The next five and a half years were a really happy time in his life, leading to a move to Sydney, now accompanied by a wife, Cynthia, and two children, Charlotte and Alex. This came about while he was in Hong Kong, when he had moved jobs from Chase Manhattan to Deutsche Bank HK, which had no presence in the region for precious metals. He was engaged to set up a trading team for them, with 16 people at the time trading precious metals, which he grew. Comparing Hong Kong to London, Jon noted that the market was more erratic, mainly due to being dominated by physical flows. This was why Deutsche Bank wanted a presence there notwithstanding the arbitrage between the futures market, which at the time was represented by the Hong Kong Tael Market. Unfortunately, one needed to speak Cantonese to be able trade, which Jon did not. He overcame this difficulty by employing someone who did, heading up a five-man team who sat on the desk with him, having in the background 15 to 20 Chinese-speaking Cantonese, ensuring that sometimes it was hard to know exactly what was going on!

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Below - The Hong Kong skyline.

When Hong Kong was handed back to China on 1 July 1997[2], plans had already been afoot that Deutsche Bank should move operations to Australia. Although the timing of the move was a management strategy decision, rather than a political one, it could have proved awkward amongst some of his larger clients, central banks and Chinese government entities. In order to set the record straight and avoid any ill feeling, Jon went to great lengths to visit his clients to explain that it was simply a change in management from a German to an American director who had a focus on Australian gold-mining companies that had motivated the move. This initiative allowed him to maintain many good relations, enabling him to transport and build upon his contacts while sitting in Sydney and working there for the next three years. On reflection, he had mixed feelings about his time in Sydney for "although it was a lovely place to live, it was a terrible place to work because of the time zone. People think it fits in, but it doesn't, it's bad in summer and it's bad in winter. It doesn't fit in properly with New York. It doesn't fit in with Europe. That was more of the challenge, I suppose, of Australia itself, but it was a successful time."

THE CATALYST FOR CHANGE CAME IN 1999 IN RESPONSE TO THE UNITED KINGDOM TREASURY ANNOUNCEMENT THAT IT PROPOSED TO SELL OFF OVER HALF OF UK GOLD RESERVES THROUGH BANK OF ENGLAND AUCTIONS.

The catalyst for change came in 1999 in response to the United Kingdom Treasury announcement that it proposed to sell off over half of UK gold reserves through Bank of England auctions. This announcement had greatly unsettled the market, because unlike previous discreet sales by other European banks and the proposed sale by the International Monetary Fund, the UK sales were announced in advance. During the International Monetary Fund annual meeting of 1999, behind closed doors, the 11 central banks of nations then participating in the new European currency, plus Sweden, Switzerland and United Kingdom, signed the European Central Gold Agreement (Washington Agreement), which said that gold should remain an important element of global monetary reserves. They agreed to limit sales to no more than 400 tonnes annually over the five years from September 1999 to September 2004.

The assumption that Deutsche, being German, would have the best relationship with the Bundesbank was a gross miscalculation. Jon's account of this period in the market explains that "it was anticipated by my bosses at Deutsche Bank that the German Central Bank, the Bundesbank, would be a major seller. This had been heavily hinted at…

They were horrified when they realised that JP Morgan had a much better relationship with the central bank." Realising that this was the case, Jon's boss flew into a rage, bringing Jon back to troubleshoot as he had already done in Asia.

2. 'The handover' marked the end of British rule in Hong Kong, Britain's last substantial overseas territory. The transfer coincided with the expiration of the 99 year lease on the 30 June 1997. British sovereignty over Hong Kong ceased, no longer a British Dependent Territory, it became instead a special administrative region of the People's Republic of China.

Above - Sharps Pixley's trading room in the late 1970's with Jon's father, Jack Spall, in the foreground. This would be very similar to the first trading room that Jon would have worked in.

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In August 2000, he attracted him back with the chance to build something new, which he did extremely well, being able to secure a large proportion of the business from the sale of European central banks' reserves. Jon shared that:

"To a certain extent, I learnt from my previous experiences, but – and this goes back to my father – I have never believed in the quick buck mentality. To be fair, I hope not many people in the gold market do, but certainly, in some markets, people have been guilty of it, to do a quick turn, do a big trade. I have always believed that it is a small market and you need to have people on side all the time, so my ammo, for want of a better phrase, was to make sure that there were long-term relationships, that people could trust me and therefore trade with me. They knew I was telling the truth and we could build on that – that I would be open with them – and that's how I approached everything. It was fairly easy to build those relationships and make them long term."

In 2004, Jon was approached by Barclays to go and develop relationships with central banks on its behalf – initially with gold but also on a wider basis – which he successfully did, staying with Barclays until 2014. He then became a consultant and ambassador of London Bullion Market Association, helping to guide it through the turbulent period in which the fixing process came under the regulatory spotlight. He was also instrumental in developing and designing the new pricing mechanism for gold.

Reputation and trust meant a lot to Jon, and he joked that his grey hair helped him in this respect! He found people very welcoming, and he was able to build up a large and secure network, stating that:

"One of the noteworthy things of the gold market is that a gold trade done by a c entral bank received enormous attention. The minute a central bank reports anything to do with the gold reserve, it excites enormous amounts of press attention. The fact that, years later, people still talk about the UK selling gold and Gordon Brown is a testament to that. There is huge sensitivity surrounding gold transactions. It tends not to be a portfolio manager or a trader who transacts that [generally], it had to be signed off at Head of Reserve Management or Deputy Governor or Governor level… in terms of relationships, it gave you unparalleled access. People tend to stay at central banks and, as they move up the chain, your contacts get more senior. Once you have gained the trust, it is important to keep it. You have to work at it."

Building trust, capturing changes and demystifying the gold market for his colleagues and clients was the main reason behind Jon writing several books on the subject, including the 'how to book' on gold, which has been translated into many different languages. Those early experiences in the history of the market, captured in the teachings of his father Jack post-1945, with subsequent decades of stagnation, entwined with the awakening of exciting decades of inherent change

in the new environment of his own career, provided Jon with the golden thread to share his knowledge of this most exciting and interesting of topics.

Dr Michele Blagg (BA, MA, PhD). In 2013 Michele completed her PhD thesis 'The Royal Mint Refinery, A Business Adapting to Change' at King's College, London, charting the history of the London Bullion Market through the operation of the Royal Mint Refinery, owned and operated by N M Rothschild & Sons between 1852 and 1968. In 2014 she was engaged as a Research Consultant for the London Bullion Market Association, heading the oral history project 'Voices of the London Bullion Market'. Returning to the Rothschild Archive in 2015 she worked as a Consultant and Researcher across a variety of projects. Currently she is a Business Analyst for the NATO Communications and Information Agency, Mons, Belgium.

Her areas of interest are in financial and business history, with special regard for the actors and networks located in the London Market.