Introduction

The historic trading rituals of the London Gold Fixing provided it with an immutable quality. It appeared, in many ways, to be frozen in time. Recent analysis of documentary evidence reveals, however, that the practices of the Gold Fixing were far from static. Rather than developing over a relatively short period, they actually emerged over several decades, with the Gold Fixing only achieving its most recognisable form near the end of the 1930s.

There is of course a well-known story about the development of the London Gold Fixing. Tim Green, in his masterful unpublished history of Mocatta & Goldsmid (1979), discovered evidence that the Gold Fixing existed prior to the First World War. It was an informal gathering of the four bullion brokers - Mocatta & Goldsmid, Pixley & Abell, Sharps & Wilkins, and Samuel Montagu & Co. - at which a single price of gold was established that cleared the market. The First World War halted the informal fixing, but after the cessation of hostilities, a more formal process was established on 12 September, 1919. At 11:00 that morning, N.M. Rothschild & Sons determined the best sterling price for gold. The merchant bank, which was not involved in the market making prior to 1914, was the main agent for the South African mining companies and had been invited by the Bank of England to act as the market’s chairman. Once the price was determined by N.M. Rothschild & Sons, the four bullion brokers were granted the opportunity to bid on the gold. Just as in the period prior to 1914, a single price was established at which the market cleared.

At first, market dealings were conducted over the telephone. Within a short period of time, it was determined that meeting in person would be far more practical. The bullion firms then began to conduct their negotiations at the offices of N.M. Rothschild & Sons. Initially, no outside communication was permitted during the proceedings and Johnson Matthey & Co. was not involved. Over time, however, the refiner was invited to join the Gold Fixing and

1. The more well-known story of the Gold Fixing was taken from archival documents including, R.M., XI/35/64, Memorandum: Gold Markets, October 1937, the writings of Timothy Green on the gold market (1968, 1979, 1981).
Excerpt from
“The World’s Gold Market”
Wall Street Journal,
April 20, 1907

If a stranger was to stop an average Londoner... to ask him the way to ‘the gold market,’ he would be answered with a stare of amazement. Even among the city numbers there are few who have actually seen the mechanism they admire so much. It is probably a mystery to them as to the ordinary public how gold is handled in London...

...At a place which, for obvious reasons, cannot be divulged, the bullion brokers meet punctually at a quarter to two o’clock. Some, or possibly all, of them have certain amounts of the precious metal to dispose of. Others may have buying orders, and there is nothing to prevent a broker acting for both sellers and buyers...

...By way of concrete example we may take their meeting of one Monday last month. It was an unusually interesting day, and very significant of the existing situation.

The demand for gold was keener than ever, and there were a good many small buyers in the market. The action of the Londoner... to ask him the way to ‘the gold market,’ he would be answered with a stare of amazement. Even among the city numbers there are few who have actually seen the mechanism they admire so much. It is probably a mystery to them as to the ordinary public how gold is handled in London...

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Discussions after the First World War about what form the London gold market should take were intimately connected to the Bank of England’s (the Bank) desire to restore the international importance of sterling and the City of London.

...The Bank favoured, however, an alternative mechanism. The position of the central bank was that the gold should be disposed of in London through intermediaries in the market - the bullion brokers.

Not only should the gold continue to arrive in London, but it should be marketed there. In addition, the practice of establishing a single price should continue. The Governor of the Bank at the time, Sir Brien Cokayne, thus desired, "an open market for gold in which not only every seller would know that he would receive the highest price the world could pay but also every buyer would know that he would get his gold as cheaply as the world could supply it".

As evident by the first fixing on that Friday morning in September 1919, the wishes of the Bank were enacted. In pursuit of its goals to re-establish London as an international financial centre and clearing house, the Bank ensured that the London Gold Fixing was to be resurrected and in a manner consistent with its pre-1914 form.

Yet the pricing ritual, as noted above, was different. Besides no longer being held at

2. Research also revealed that the Silver Fixing appeared to start in the 1870s. 3. RAL, XI/111/153, Proposed Reduction in Refining Charge: Interview with the Bank of England, 13 June, 1919 4. BEA, C40/360/90, Sir Brien Cokayne’s notes on a meeting with Anthony G. de Rothschild, 6 August, 1919.

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Sharps & Wilkins, not all the brokers were regular participants. It appeared that for the first few years, only Mocatta & Goldsmid was present at each fixing. By 1925, all the bullion brokers were at each meeting and, in 1926, Johnson & Matthey & Co. was invited to join the process.

The other elements traditionally associated with the Gold Fixing developed slowly. Phones appeared to only be introduced a few years after the 12 September, 1919 fixing - perhaps as late as 1923. Initially, only one phone was available for the brokers who had to "queue up in order to use it". In the chaos created in international monetary markets when sterling was decoupled from gold in September 1931, it appears that more phones were added. In the chaos created in international monetary markets when the Gold Fixing was introduced to the market as late as 1939 - perhaps as a patriotic gesture in the shadow of the oncoming war.

Thus by the start of the Second World War, the rituals synonymous with the Gold Fixing throughout the 20th century, were established. Attesting to their new permanence was that when the market resumed after an almost 15-year hiatus in 1954, the trading practices were reinstated. As noted above, the immutable hue surrounding the Gold Fixing's routines is, however, a relatively recent condition. The market's trading rituals slowly developed over several decades. Thus, it is now evident that the Gold Fixing was characterised by far more change than its traditional image might suggest.

References


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Dr. Rachel Harvey is a Postdoctoral Research Scholar at Columbia University. Her research focuses on the history of global financial markets and the centrality of socio-cultural processes in their emergence and functioning. She is currently completing a book manuscript, The Golden Standard: the Moral Foundations of a Global Financial Market, which explores the globalisation of the London Gold Fixing in the latter half of the 20th century. Dr. Harvey is a Visiting Research Fellow at the Centre on Global Legal Transformation, Columbia University; a Researcher with the Global Finance and Law Initiative; and a Fellow with the Framing the Global Research and Publication Project, Indiana University.

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