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Viewpoint

Gold prices as material-social actors: The case of the London Gold Fix

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ABSTRACT

This opinion piece, drawn from a larger research project on market perceptions of physical gold and gold derivatives, argues that scholars of extractive resources have paid little attention to the pragmatics of prices or looked at prices as material-social actors in their own right. Drawing on literature from the Social Studies of Finance, this essay looks at the global benchmark gold price (formerly the London Gold Fix, now the LBMA London Gold Price) to see how its material and semiotic embeddedness affects its connections to other aspects of gold investment and gold mining.

1. Introduction: the pragmatics of price

Over the past fifteen years, peaking in 2012, a boom in metals prices spurred a global rush to greenfield areas, or those not mined for many years. In Latin America, for example, thousands of new mining projects were initiated between 2005 and 2012. These projects stirred up tremendous land, labor and other conflicts, brought diverse actors into new theaters of interaction, and frequently pitted dramatically different viewpoints and cosmologies against one another. All of this raised has drawn attention to these sites and provoked discussions about the social, political and environmental effects and entailments of resource extraction. Within my own field, anthropology, attention to extractive industries has raised fascinating questions about activism, corporate social responsibility, regimes of value and knowledge, incommensurability and ontological politics, temporality and materiality, and many other topics (Ferry, 2005; Kirsch, 2007; Welker, 2014; Rajak, 2011; de la Cadena, 2010; Richardson and Weszkalnys, 2014).

Similar discussions have taken place in policy circles, within the industry itself, and in interstitial spaces such the Center for Social Responsibility in Mining at the University of Queensland, the ecominerals listserv, and journals such as Resources Policy and the Extractive Industries and Society. These fora and institutions demonstrate a growing sense of the need to factor in diverse influences into prices and costs of mining extraction, and the social and political effects of these same prices and costs. Concepts such as "social license to operate," "chain of custody," and "transparency" entail technologies designed to deal with these recognitions.

In this opinion piece, I wish to draw attention to an aspect of the social and political dimensions of mineral extraction and minerals markets that is often, paradoxically, treated as centrally important and almost completely uninterrogated. That aspect is that of the material semiotic behavior of metals prices.

Let me say a bit of what I mean by this. To the extent that prices are discussed within scholarly literature (including by myself up to now) or, for that matter in policy and activist circles, they tend to be treated in one of two ways: as expressions of value that can be assessed for the greater or lesser accuracy; or as unitary prime movers (perhaps accurate representations of value, or perhaps not that are invoked at the beginning of the study as the explanation for the complex and frequently conflictive relations in mining localities, but not as material-social actors in themselves.

In examining how prices are composed and decomposed, how they act, and with what consequences, I take inspiration from recent work in the social studies of finance on markets as calculative devices and the material sociology of price. Within this vein, Fabian Muniesa's article on the constitution of end-of-day prices in the Paris Bourse and Beunza, Hardie, and MacKenzie's discussion of the sociology of arbitrage in the making of prices and their behavior have been particularly provocative for my thinking ((Beunza et al., 2006; Muniesa, 2007). In introducing his approach to the "pragmatics of prices," Muniesa describes a conventional understanding of prices

> that denote – or are meant to denote – value. The price is the sign and the value is the thing of which the price is the sign. Then we could add that prices can refer to value in a good or in a

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bad manner, so that we can distinguish between true prices and false prices (Muniesa, 2007: 378).

Within this understanding, even when (as been the case with metals prices over the past fifteen years) high volatility lends an air of arbitrariness to the relationship between price and value, prices still appear as already composed entities whose main purpose is to express value (even if they sometimes do so badly). Seeing them primarily as already packaged signs of value allows us to assign them a causal role in our analysis, without necessarily examining how they got to appear as packaged, how exactly they interact with other things, and how they come apart.

To this view Muniesa counterposes a pragmatist approach, rooted in the semiotic tradition of Charles S. Peirce, in which the price can be seen as a sign and an object at the same time, and in which the relationship between sign and object occurs within a semiotic process that takes place on a certain ground or context of meaning-making. Such a perspective draws attention away from signification as an abstract system of relationships of similarity and difference (suggested by Saussurean linguistics) and toward theories of how signs make meaning in practice, including in their material form and concrete behaviors and locations. The Peircean pragmatist approach has been recently adopted within certain conversations in science and technology studies as "material-semiotics" which describes, in the words of John Law "the enactment of materially and discursively heterogeneous relations that produce and reshuffle all kinds of actors" Law (2007: 2).

Similarly, Beunza et al. (2006: 729) argue that in their analysis of "the material sociology of arbitrage" "a price is a thing . . . .If a price is to be communicated from one human being to another, it must take a physical form". Recognition of the materiality of prices supposes a different approach to studying them than an assumption of price as a self-evident (though not necessarily always correct) representation of value. They go on to add, "A price is a thing,but it is also social." This too is something frequently overlooked, or at least undertheorized either in economics and finance or in sociology and anthropology. Seeing prices as embedded material-social actors allows for quite a different view of their relationship to the objects to which they claim to refer. Examining how prices are put together,circulated, and how they fall apart as independent entities gives us a much richer perspective on their role in markets,and the ways that other objects and people relate to them. Given the global nature of gold markets and the prominence of particular prices within them, an attention to prices as social things would be particularly useful.

I introduce this question of prices as material social actors as part of a larger research project, an ethnographic examination of gold in contemporary global finance. In particular, the project looks at perceptions among market participants of the relationship between physical gold and other assets based on gold, such as mining company stocks, gold futures, options and other derivatives, and a new range of financial products called exchange traded funds (ETFs). In this essay, I will briefly sketch out the topography of prices within these "gold spaces," and will then focus on the constitution of one particularly important and interesting price: the daily London Gold Price auction, which in 2014 replaced the century-old London Gold Fix.

There are a number of ways in which gold moves through financial markets. First, physical gold is sold as bullion in the form of bars and coins, which is then bought by central banks, bullion banks, individual investors, and fabricators (such as jewelers). Much of this takes place in the London Bullion over-the-counter (OTC) market among members of the London Bullion Market Association (LBMA). The London Gold Fix or Fixing referred to the process by which a benchmark price was "discovered" for gold bullion each day by five bullion banks (most recently the Bank of Nova Scotia–Scotia Mocatta, Barclays Bank, Deutsche Bank, HSBC Bank USA, and Société Générale)., by a series of bids that center on a price agreed upon by all players (at which point the daily price is "fixed). This serves as a global benchmark for physical gold and gold derivatives. This is likely to be continue to be the case with the new ICE administered London Gold Price that replaced the Fix in March 2015.

There are numerous other "gold prices" in the world, including the COMEX "spot price"[1] which refers to the closing price for a given day for the futures contracts closing in the current month and prices for particular gold products such as Maple Leaf coins or 1 oz. "PAMP" s (Produits Artistique Metaux Précieux, a Swiss refinery that produces minted ingots), premiums and discounts for gold imports in particular countries, and rates offered for gold loans and swaps (such as the recently discontinued Gold Forward Offered rate GOFO, wherein lies another tale). All of these have their own complicated sets of embedded material semiotic practices and effects. In this piece, I will concentrate on those of the London fix.

2. The London Gold Fix

The "London Gold "fix," or "fixing" has been a formal institution since 1919 but existed more informally for several decades before that (Harvey, 2012). The Fix was a gold bullion auction that took place at 11:00 for many years, in which London's four largest bullion dealers (names here . . .) bid on physical gold held by themselves and their clients. When the sellers and buyers in this auction agreed on a price, this was known as the "fix." As journalist Matthew Hart describes it, "The London fixing [did] not really "fix" the price but, rather, expresses the consensus of bullion players in light of market action. In that way, it supports the market by conferring a sort of senatorial stamp on the proceedings" (2013). The fix's ritualized character (including small Union Jacks that the participant would raise, exclaiming "Flag!" to indicate a desired pause in the bidding (Hart, 2013)) and strict closed-door policy have contributed to an air of mystery surrounding the bullion banks and the gold market as a whole.

Remarkably little scholarly discussion of the London Gold Fix exists, but sociologist Rachel Harvey has written perceptively about its role in maintaining London as the global center of the gold bullion market, and of the power of the British pound sterling. Harvey documents the reinstatement of the London Gold Fix (LGF) should be reinstated after a prolonged hiatus between 1939 and 1954, arguing that the main reasons for its reinstatement was "due to its importance as a cultural object rather than a pecuniary rationale" (Harvey, 2013: 182). Although the LGF in the 1950s did not clear large quantities of gold, and although it set a price in terms of the pound sterling rather than the dollar (since the dollar's rate of convertibility with as set at $35/ounce in the Bretton Woods agreement), the LGF "became a major theater in which battles of confidence [over international currency] were played out (p. 195). Harvey's emphasizes the cultural and symbolic (as opposed to pecuniary) logic of the LGF, but her description recognizes the

[1] These prices are based on trading activity that is based on the relationship between current and future prices for a commodity on an exchange. These commodities exchanges were originally formed, and are still used to some extent, as places where producers or others dependent on commodity prices (such as airline companies whose profit margins are closely tied to the price of jet fuel) can "hedge" or offset potential losses by locking in a certain price with futures contracts. They are also (and now much more commonly) places for traders to engage in speculation using "futures and options" (known as "derivatives" because they are contracts "derived" from the predicted future prices of commodities).

agonistic role of the Fix price, that is, its role not simply or even primarily as a reflection of value, but as an actor in its own right.

In 1968, when the Bretton Woods agreement was modified to establish a two tiered market in gold was set up to attempt to halt gold speculation, the LGF was closed for two weeks. When it resumed, participated in the second "private" gold market, the prices were quoted in dollars, not pounds, and an afternoon fix was added at 3 pm (so as to provide the price before the opening of the commodities exchanges in the United States). In switching to the dollar as the dominant currency, the LGF consolidated its activities as a global benchmark in an economic world governed by the Bretton Woods agreement (Harvey, 2008: 194).

After the end of gold/dollar convertibility in 1971 and through the period of the 2000s, when gold became a more diversified financial actor, though the establishment of gold exchanged-traded funds, and increased attention to junior miners' equities, the LGF;s role as benchmark began to diversify in its effects. The Fix price is used in the following ways, among others: by the wholesale and retail bullion market; by refiners and fabricators; by mining companies for valuing reserves and planning production; by central banks to value their holdings; by commodities analyst, researchers, and journalists; and by derivatives traders to price contracts. When "ninja miners' in Mongolia talk about the gold rush (High, 2013), and when activist in Peru mobilize to block the Yanacocha gold mine (Li, 2015), "the high price of gold" to which they respond is the prices expressed in the LGF.

Over the past several years the Gold Fix and the other precious metal price benchmark (silver and platinum/palladium) came under much increased scrutiny, in part in response to the emphasis on transparency in financial institutions and practices more broadly. In March 2014 two lawsuits were filed against the five participating banks for price manipulation. The second lawsuit charged that the banks "combined, conspired, and agreed with one another and unnamed co-conspirators to manipulate the prices of gold and gold derivatives contracts." The lawsuits follow on both the notorious lawsuits against banks for manipulated the LIBOR rate (rates at which London banks lend to each other) and lawsuits against JPMorgan Chase and HSBC for manipulating the gold and silver markets through the shorting of futures contracts. Though,as noted above, these are different price mechanisms in different markets, their legal troubles indicate a more general trend towards looking closely at the closed-door behaviors and actions of financial participants.

The shift in the precious metal fixes was finally precipitated by Deustchebank's announcement that they planned to give up their seat on the silver fix. Since this would leave only two banks as participants in the fix, the London Bullion Market Association stepped in to help broker a new process for establishing these prices, and eventually those of gold and the platinum group metals. The name has been changed to the London Gold Price, presumably to avoid the somewhat unfortunate connotations of the word "fix" in a time of widespread concern over market manipulation. Other changes have included the administration by an independent benchmark administrator (ICE Benchmark Administration or IBA), a Code of Conduct and Oversight Committee, and a web interface (WebICE) with fee-based access. In the words of Finbarr Hutcheson, president of IBA, "we designed the commercials [the fee structure] to promote direct participation and broad usage of the benchmark in order to further raise global confidence in the LBMA Gold Price and the London gold market." (Hutcheson, 2015: 22). These stated goals follow in a direct trajectory from concerns in the 1950s and 1960s noted by Harvey.

The fact that the auction is now held electronically, in 45-second rounds, and can be observed by all participants (who pay the fees) makes the LBMA gold price into a new kind of actor one that can be both, as its proponents suggest, more transparent and accountable, and potentially more powerful. The material form and circulation of these new price makes it into a new kind of actor, bringing people into new relations with each other and with gold, in a shift reminiscent of that between open outcry and online commodity trading described (in far more ethnographic detail than in this opinion piece) by Zaloom (2003; see also MacKenzie et al., 2012; Pardo-Guerra, 2010).

3. Conclusion—why should we care?

A reasonable person whose commitments lie in the study of mining localities might say at this point, "But I already knew that financial markets were complex. Even if I do not know all the details, if the net effect is the setting of a price in London or Chicago, why does this matter for what's happening around the mine?" However, the processes I am sketching out are more closely tied to the mines and in more ways than it may appear; they circulate and intervene in unseen ways, or in ways only visible from certain angles and by certain actors. I'll name several instances, well known but often not considered carefully: mining companies typically use commodities markets as producers have traditionally have done by engaging in forward selling (the sale of all or part of their future production at an agreed upon future price). In addition, they hedge volatility, currency and other risk by taking opposing positions to these forward sales. Investment and hedge funds focused on mining bring capital to mining projects, of course, often based on intensive research on and sometimes partnership with mining corporations. For instance, the website for Tocqueville Asset Management Gold Fund states that managers "Employ a bottom-up selection process and fundamental, proprietary research to identify companies that are considered undervalued, based on growth potential and the portfolio manager's assessment of the company's relative value" www.tocquevillefunds.com/mutual-funds/tocqueville-gold-fund. This "fundamental, proprietary research" includes extensive personal contact between investment managers and company executives (sometimes in ways that seem eerily to resemble ethnographic fieldwork—one person I have interviewed said "I do research on companies by walking around having beers with people."). And the calculation of reserves for planning mining production depends on current and project metals prices, so that in mining planning, reserves actually grow or diminish as prices do.

The world of gold prices operating as material-social actors in intertwined markets extends to corporate community relations. In April 2013, just to name one example, GoldCorp was forced to shut down its Los Filos gold mine in Guerrero when it failed to negotiate a renewal of its lease with the ejido (land collective) that owns the land. One of the points at issue was the future price of a 3.5 ounce of gold per hectare bonus. All these are, of course, instances of the much broader phenomenon of the increasing penetration of finance capital into areas formerly dominated by productive capital.

Gold prices are assemblages and like all assemblages, they appear most unitary and least cobbled together when they are most successful; they become black boxes (Latour, 1988). Furthermore, they tend to appear more unitary at mining production sites than they do in London, New York or Geneva, and social scientists have contributed to this effect with our invocations of the "price of x" at the beginnings of our accounts. Understanding the processes by which this stability is made and unmade, its pragmatics and its performative effects, can tell us a lot about how mines themselves come to be and cease to be, and how

they engage miners, community members, state and corporate actors and others in their orbits.

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