



## **Could Gold Scrap Derail A Future Price Rally?**

GFMS have often felt that the fundamental elements of old scrap and jewellery fabrication can get unfairly ignored by market commentators who sometimes portray the gold price as solely a function of what is happening in the investment arena.

The consultancy believe this was amply demonstrated in the first quarter of this year when 'western' investment soared to over 700 tonnes, or more than four times volumes of the same period a year earlier, yet the price failed to breach the \$1,000 mark, let alone establish fresh record highs. The reason for this 'under-performance' GFMS believe is what happened in the physical market, with jewellery fabrication slumping and scrap soaring. This generated the unprecedented situation of major fabricating countries such as India, Turkey and Italy exporting surplus bullion onto the world market.

Provisional figures from GFMS for the second quarter show a very different situation for scrap, with this having fallen by over 40% from first quarter levels to around 350 tonnes. This might surprise some given that the dollar gold price was slightly higher in the second quarter than in the first and the consultancy points out that average prices in local currencies did not behave that differently. One reason for the retreat was said to be a large slice of near market supplies having already emerged. Tied in was the role of expectations - GFMS noted that many consumers in India believed the price had reached its peak in the first quarter and rushed to sell even though the second quarter rupee price actually rose in comparison to the first. Another important player was Turkey. Philip Newman, research director with responsibility for that market, commented, "we started seeing an outflow of material during the fourth quarter as prices began climbing. This then soared in the first quarter but in the past couple of months it's dried up".

Detail on these first half statistics and estimates for the second half will be published in GFMS' *Gold Survey 2009 - Update 1*, to be released on 14th September but Philip Klapwijk, chairman, noted now, "we could see a bit of a lull over the rest of the summer, but that still leaves us with plenty of potential for a fresh surge in scrap should the gold price start to get exciting again. And so it's difficult to see how another record year for scrap can be avoided - but quite whether it reaches levels big enough to derail any price rally is a hard one to call".

Klapwijk also added, "there are some interesting features to scrap looking further ahead - what role does the growing pool of product have? Will the shift from plain to gemset materially dent volumes? And what about scrap from non-jewellery sources?". Details on these and other issues that will affect the medium term outlook for gold can be found in GFMS' latest private client report, which was released earlier this week, the *Quarterly Three Year Gold Forecast*.

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**Gold Survey 2009 - Update 1:** In just 40 pages, *Update 1* identifies the most important economic, sociopolitical and market-specific issues facing the gold market. The publication can be ordered from GFMS for £250 or US\$460 / €350 per copy. For orders and to receive further product information please contact Elena Patimova - Tel: +44 (0)20 7478 1750, Fax: +44 (0)20 7478 1779, Email: sales@gfms.co.uk, Web Site: www.gfms.co.uk, Online Shop: <http://shop.gfms.co.uk>

**Quarterly Three Year Gold Forecast:** This 30 page report covers the period 2009-2011 and provides forecasts for the gold price and each element of the supply/demand balance, with explanatory text for all plus details of our macro-economic assumptions. The last edition was published on 29th July and the next is scheduled for release in October 2009. Similar forecasts are available for silver, platinum, palladium, aluminium, copper, nickel and zinc. To obtain further details on these products, please contact our Sales Director, Charles de Meester, on +44 (0) 20 7478 1763 or at [charles.demeester@gfms.co.uk](mailto:charles.demeester@gfms.co.uk).

### **Note to Editors about GFMS Limited:**

GFMS Limited is the world's foremost precious metals consultancy, specialising in research into the global gold, silver, platinum, palladium, base metals and steel markets. GFMS is based in London, UK, but has representation in Australia, China, India, Spain, France, Germany and Russia, and a vast range of contacts and associates across the world.

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