

G F M S

Is it game over for gold and silver
or has the bull market in these
metals still got legs?

Philip Klapwijk

Chairman, GFMS Ltd.

Hard Assets Conference, New York, 11th May 2009

The GFMS Group's Unique Research Capabilities & Programme

Large and experienced team of 19 Analysts + Consultants.

Not just desk-based: Over 300 companies and organisations in 39 countries visited by our personnel in the last 12 months.

Annual Gold, Silver and Platinum & Palladium Surveys.

Also, weekly, monthly, quarterly & bi-annual reports plus forecasts and a wide range of consultancy services across all the precious and base metals & steel.

For more information visit: www.gfms.co.uk
or email: charles.demeester@gfms.co.uk

Is it game over for gold and silver or has the bull market in these metals still got legs?

- **\$1,000+ Gold and \$20+ Silver: Did this mark the top in prices?**
- **Rallies are long in the tooth: Gold > 7 years (since 2001) and Silver > 5 years (since 2003)**



US Dollar Gold Price

Weekly Averages



Source: GFMS; Thomson Reuters EcoWin

US Dollar Silver Price

Weekly Averages

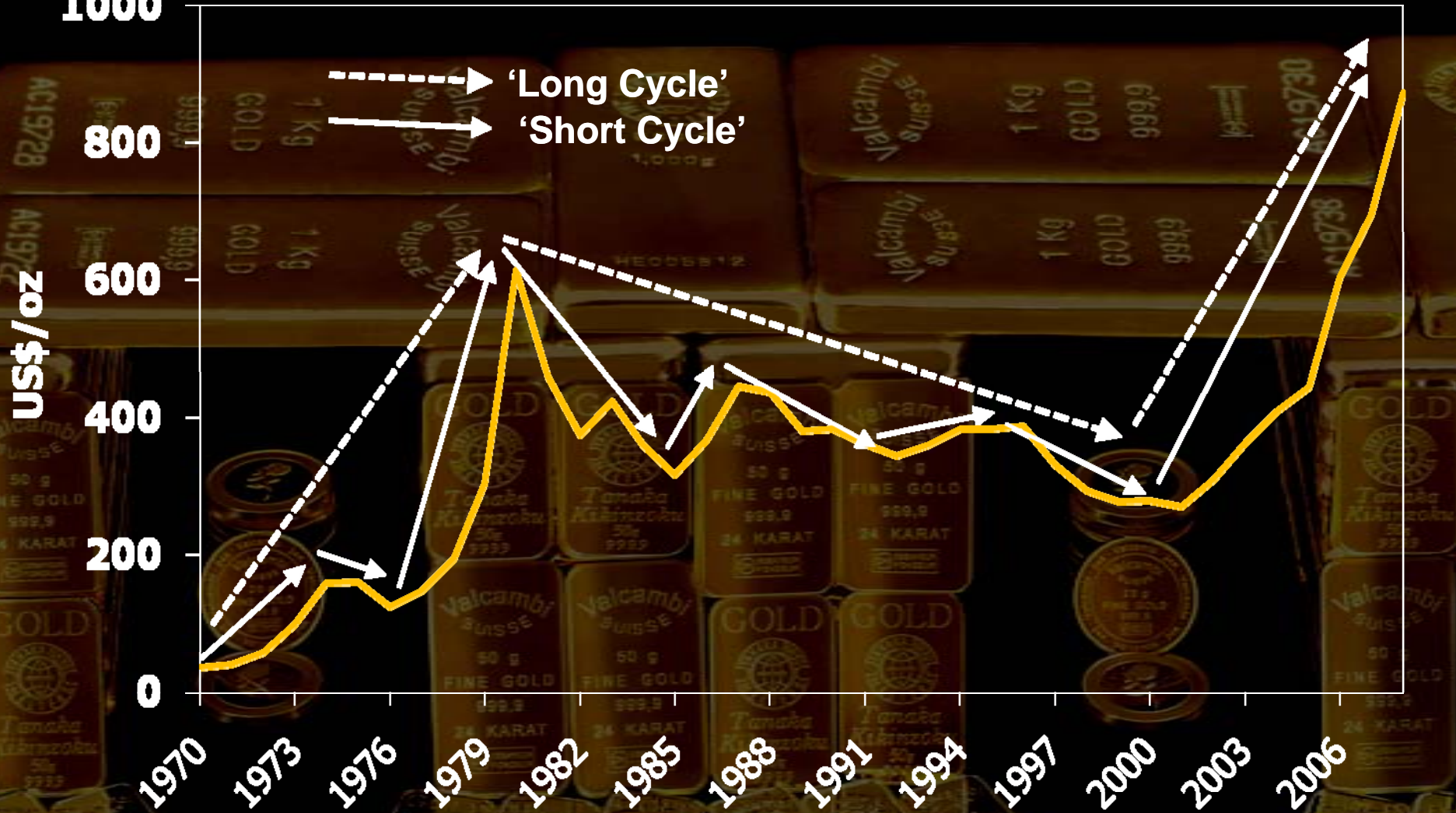


Source: GFMS; Thomson Reuters EcoWin

Gold Prices 1970-2008

Historical evidence 'mixed' but length of current cycle not unprecedented

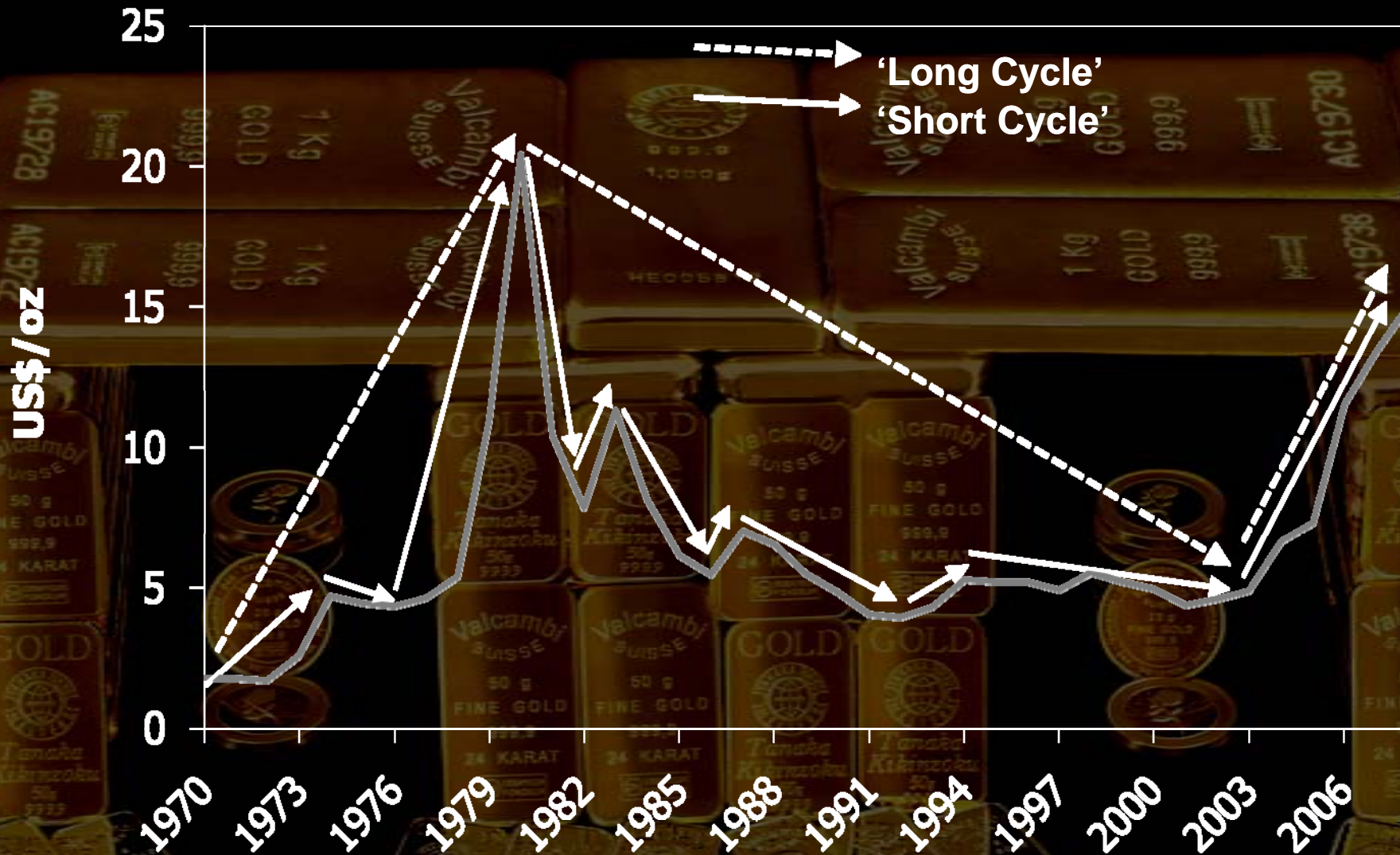
1000



Source: GFMS; Thomson Reuters EcoWin

Silver Prices 1970-2008

Historical evidence 'mixed' but length of current cycle not unprecedented



Source: GFMS; Thomson Reuters EcoWin

Real and Nominal Gold Prices (real US\$ price in constant 2008 terms)



Source: GFMS, Thomson Reuters EcoWin

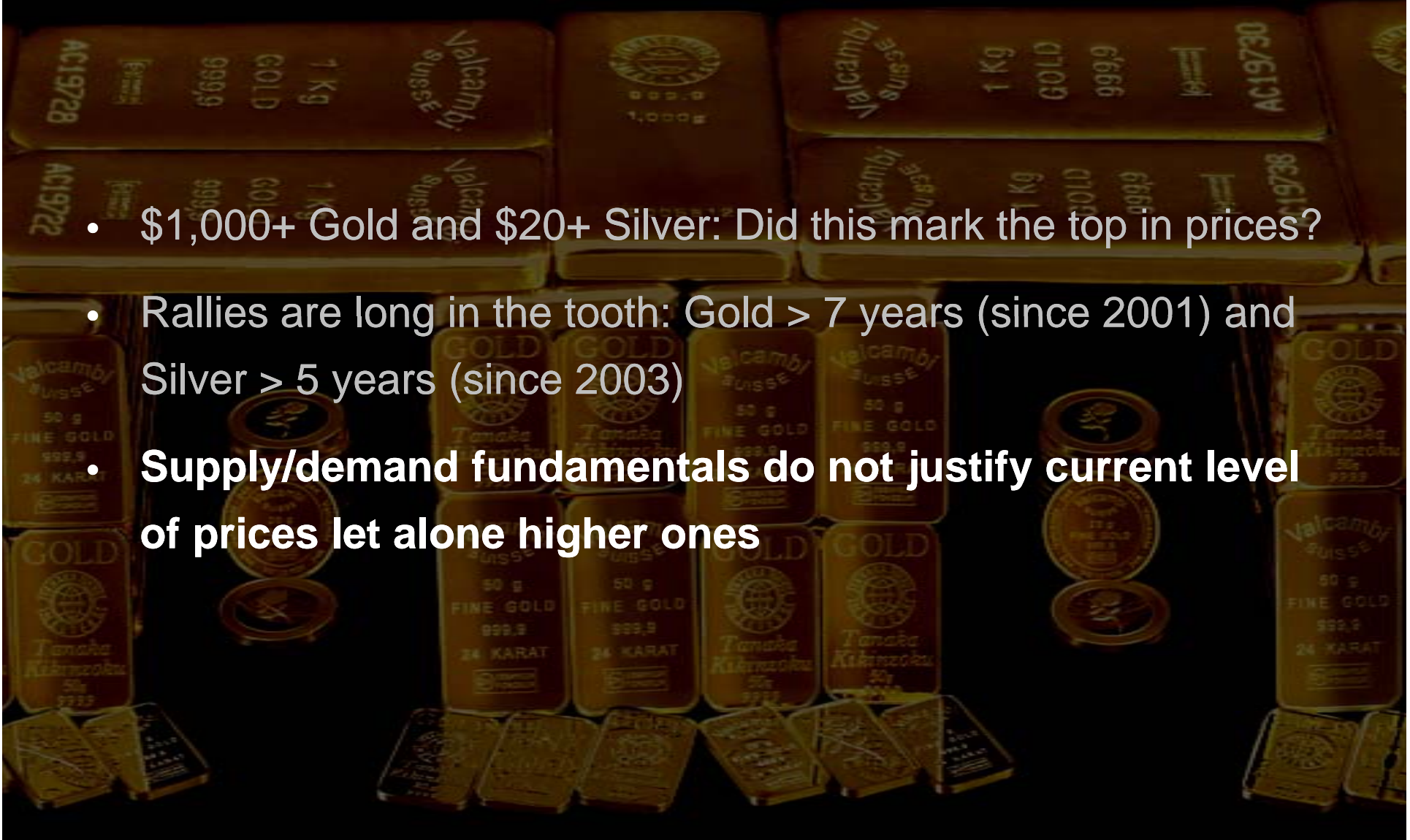
Real and Nominal Silver Prices (real US\$ price in constant 2008 terms)



Source: GFMS, Thomson Reuters EcoWin

Is it game over for gold and silver or has the bull market in these metals still got legs?

- \$1,000+ Gold and \$20+ Silver: Did this mark the top in prices?
- Rallies are long in the tooth: Gold > 7 years (since 2001) and Silver > 5 years (since 2003)
- **Supply/demand fundamentals do not justify current level of prices let alone higher ones**

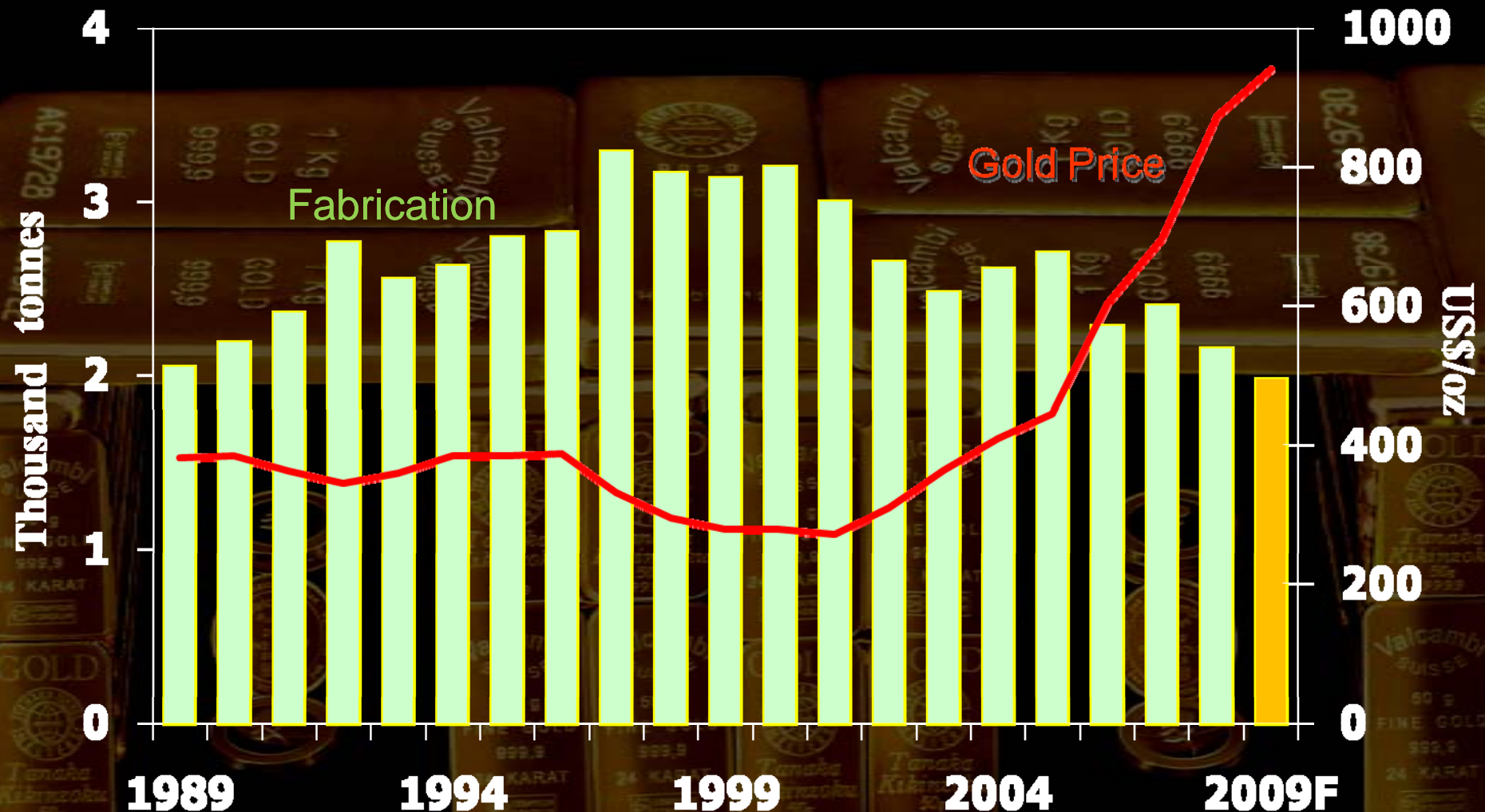


Supply/demand fundamentals do not justify current level of prices let alone higher ones?

GOLD

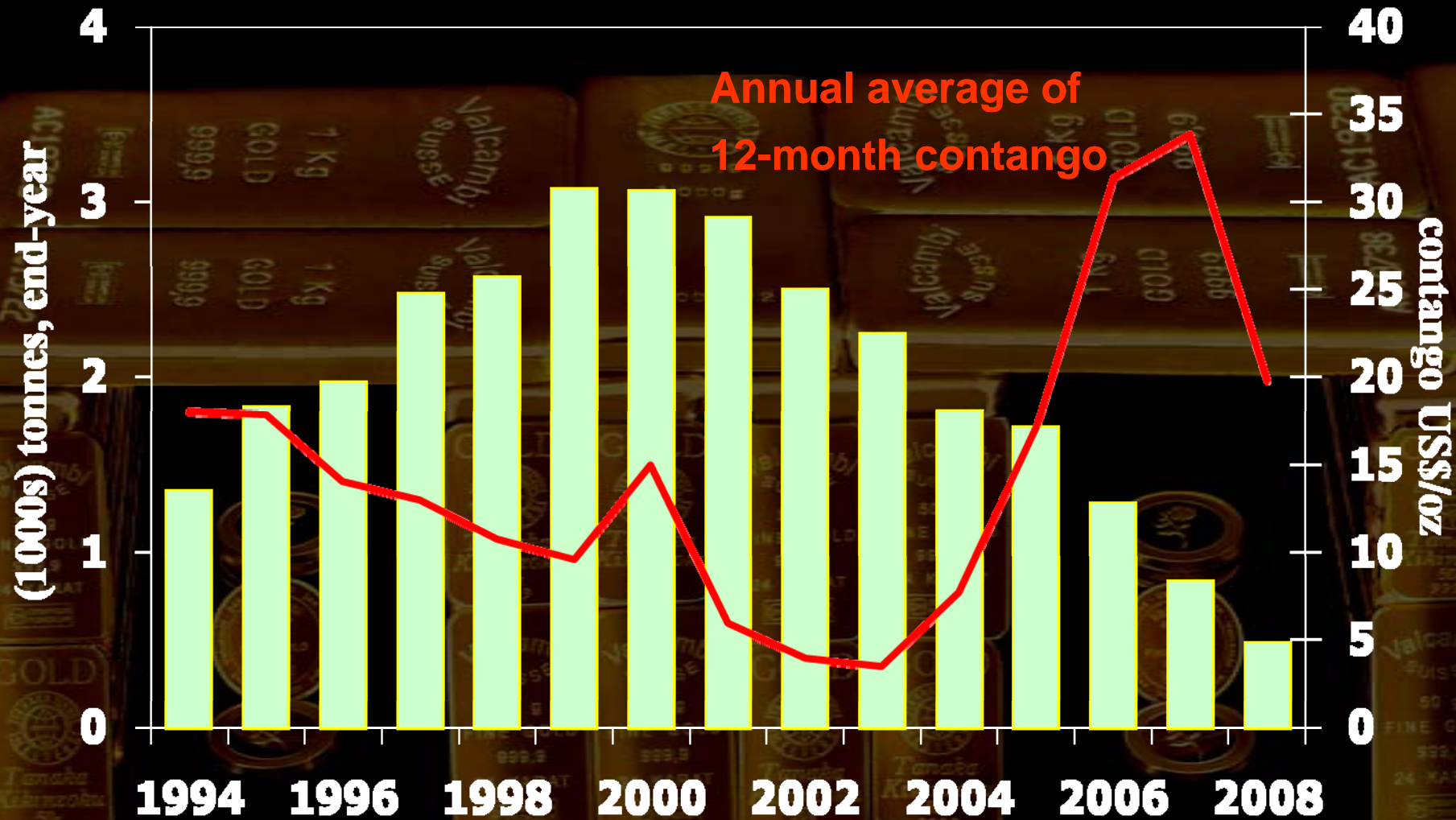
- **Fabrication demand has slumped and will weaken further in 2009; jewellery demand falling due to high/volatile prices and weak economy**
- **Support from producer de-hedging was considerable in 2001-08 and this is now ending**
- **Supply side pressure has grown, mainly from higher scrap; this blunted, for example, the rally in Q1 of this year**
- **Market has swung into a substantial 'surplus'.**

Gold Jewellery Fabrication and Gold Price



Source: GFMS, Thomson Reuters EcoWin

Total Accelerated Supply from Producer Hedging*



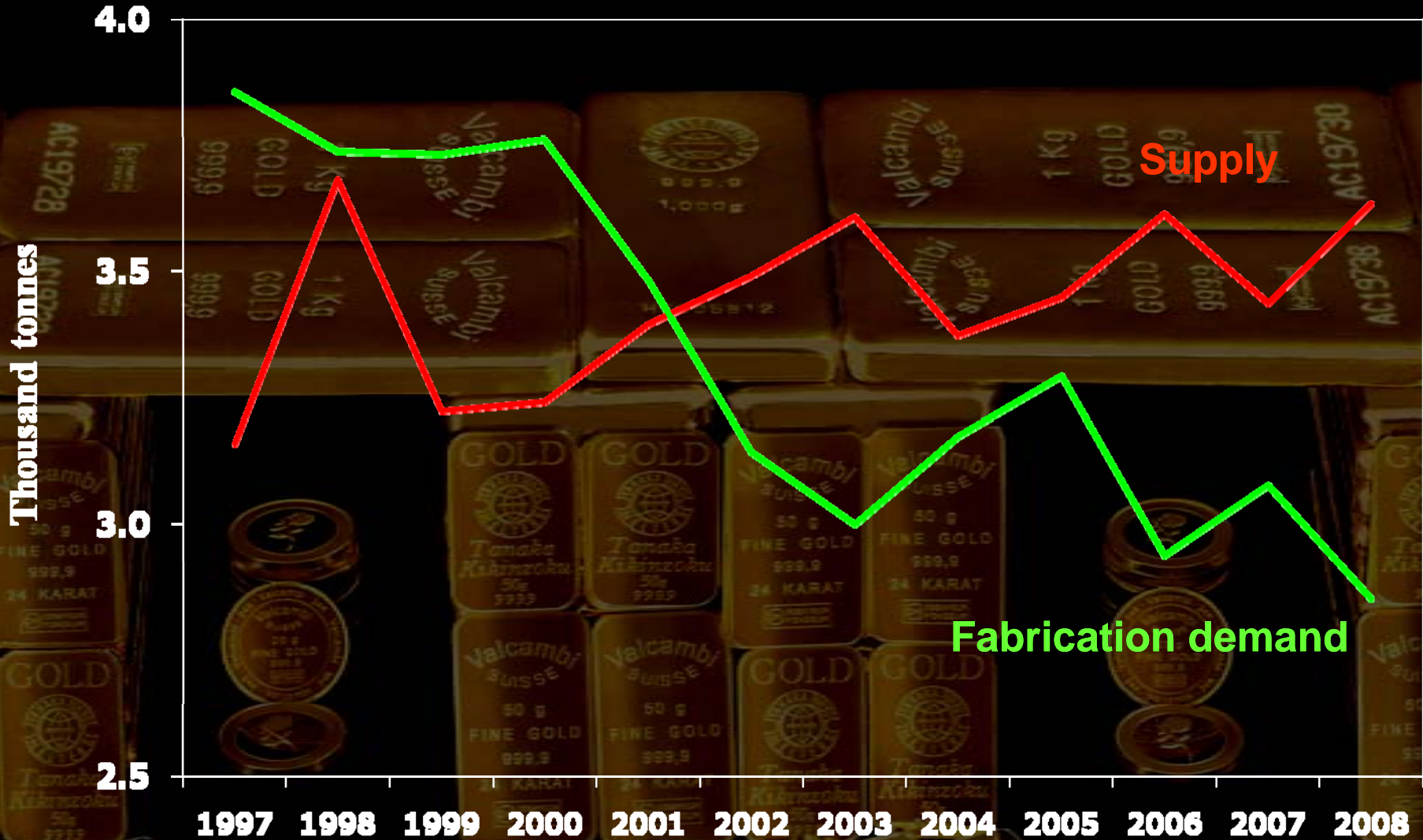
* outstanding forward sales, loans and net delta hedge against positions

Jewellery Fabrication and Scrap Supply



Source: GFMS

Gold Supply* and Fabrication Demand



*Supply = Mine Production + Scrap

Source: GFMS

Supply/demand fundamentals do not justify current level of prices let alone higher ones?

GOLD

- Fabrication demand has slumped and will weaken further in 2009; jewellery demand falling due to high/volatile prices and weak economy
- Support from producer de-hedging was considerable in 2001-08 and this is now ending
- Supply side pressure has grown, mainly from higher scrap; this blunted, for example, the rally in Q1 of this year
- Market has swung into a substantial 'surplus'.

SILVER

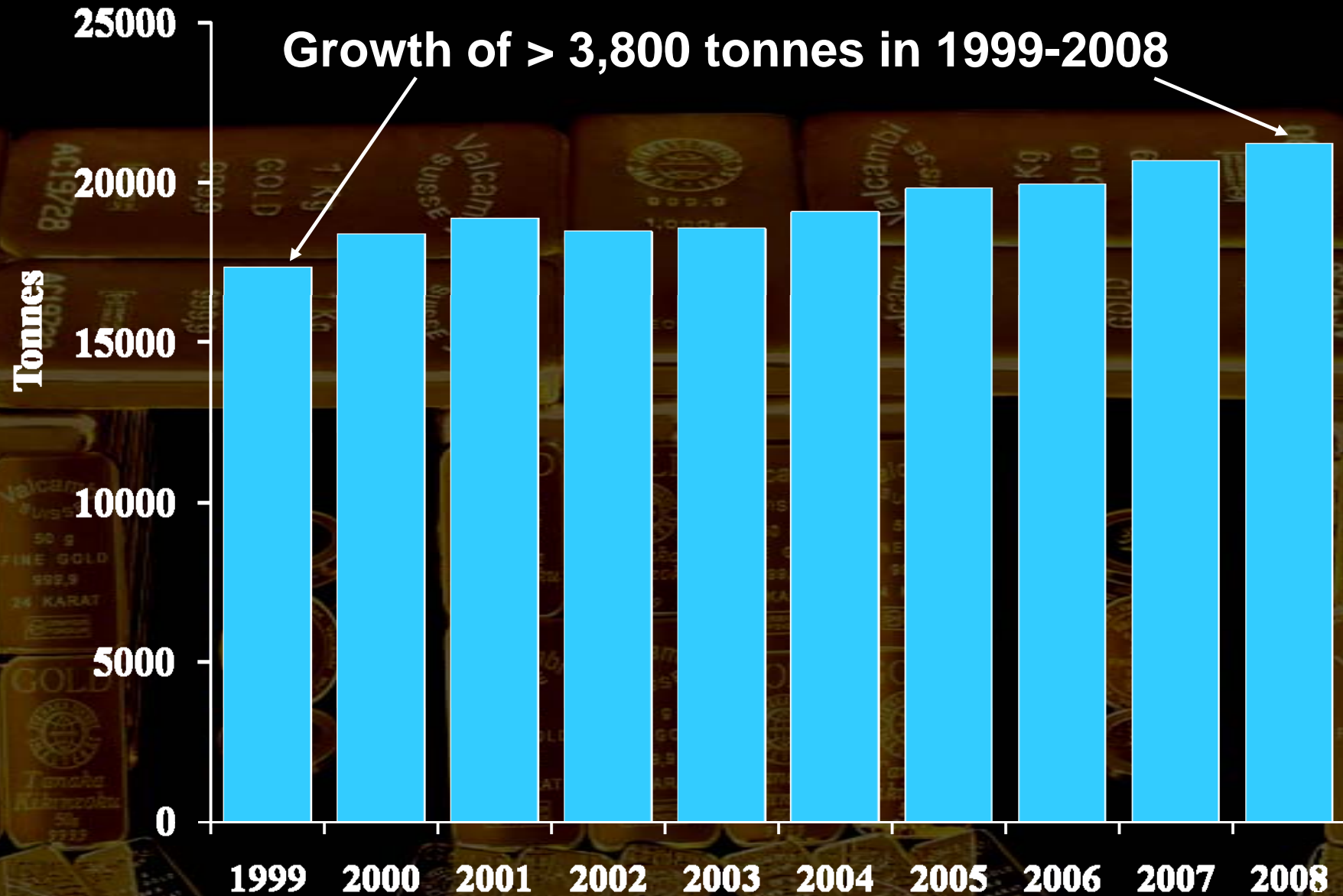
- **Industrial demand (50% total demand in 2008) is sliding in 2009**
- **Photography still losing ground**
- **Global mine production has tended to rise strongly**
- **Silver market has shifted from 'deficit' to a 'surplus'.**

Silver Industrial Fabrication and World GDP Growth



Source: GFMS; IMF

World Silver Mine Production



Source: GFMS Ltd.

Silver Supply* and Fabrication Demand



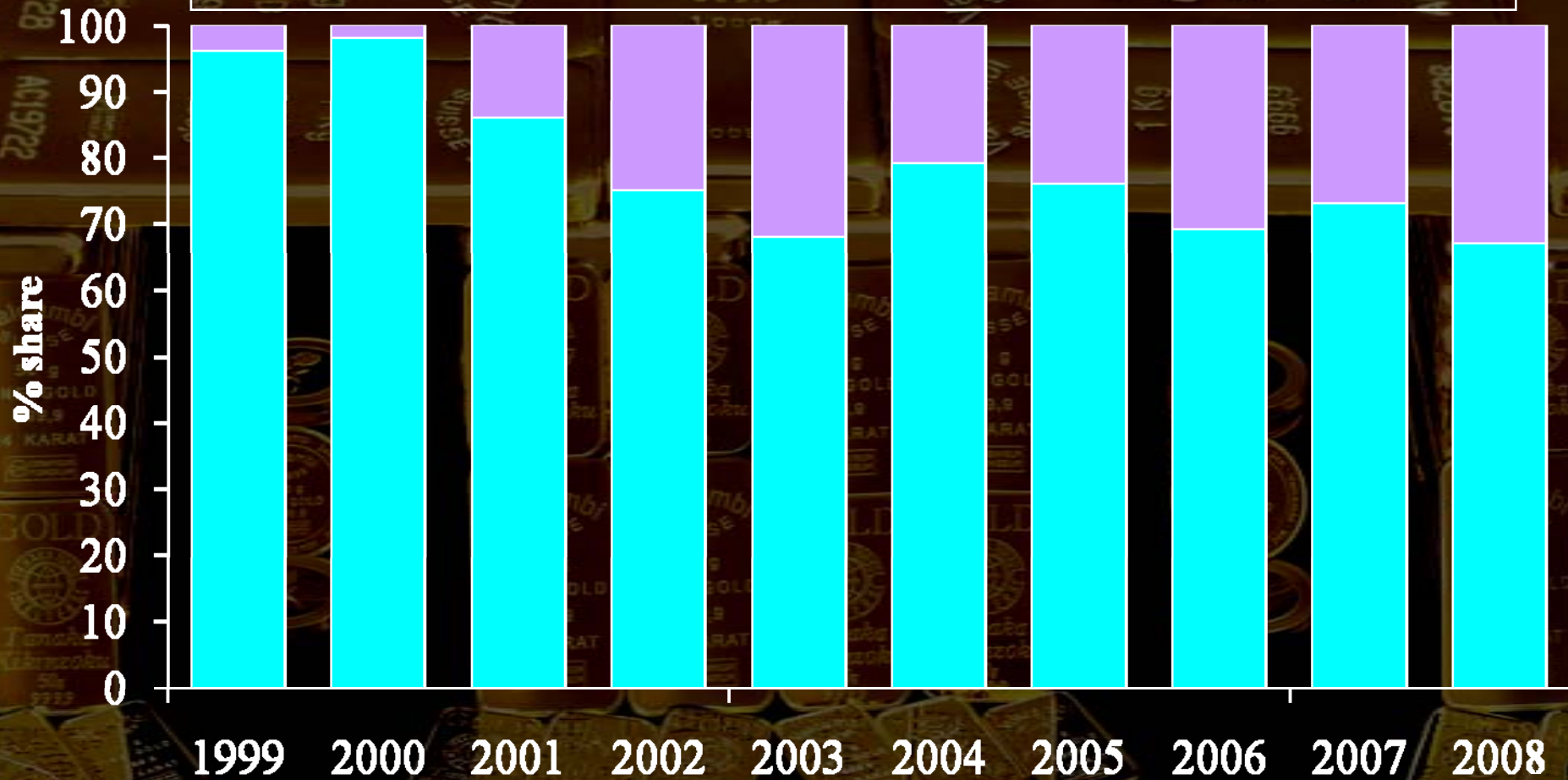
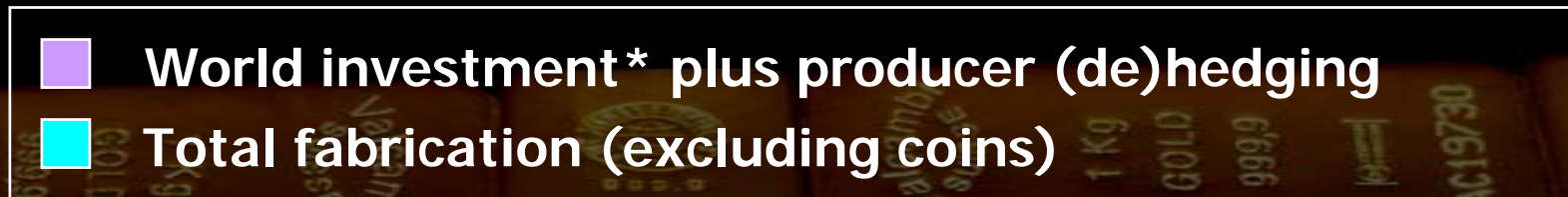
*Supply = Mine Production + Scrap

Source: GFMS

Is it game over for gold and silver or has the bull market in these metals still got legs?

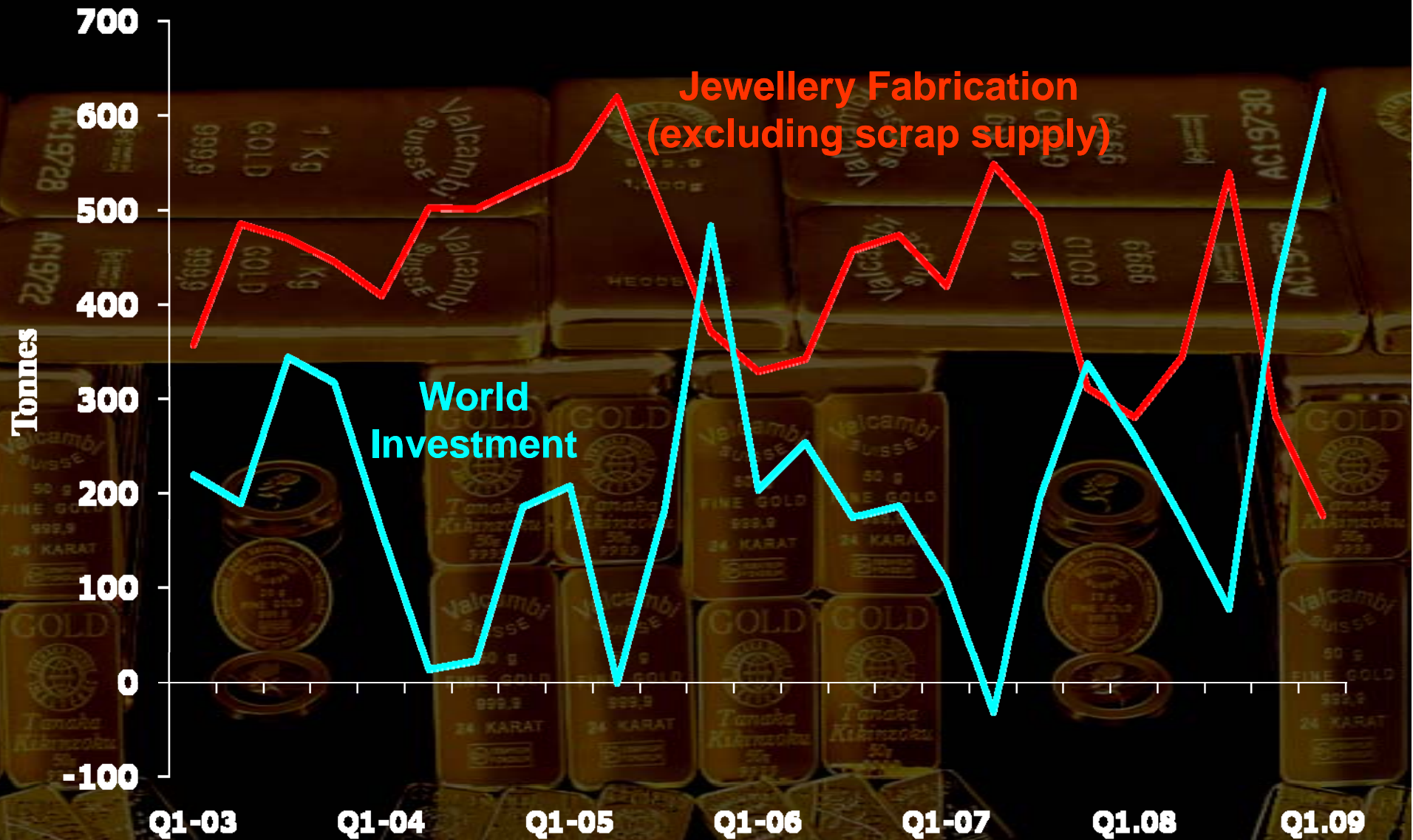
- \$1,000+ Gold and \$20+ Silver: Did this mark the top in prices?
- Rallies are long in the tooth: Gold > 7 years (since 2001) and Silver > 5 years (since 2003)
- Supply/demand fundamentals do not justify current level of prices let alone higher ones
- **Prices now only being supported by investment demand**
- **Investment in gold and silver has peaked / is peaking and will decline as economic backdrop becomes less favourable for these 'hard assets'**

Composition of Total Gold Demand



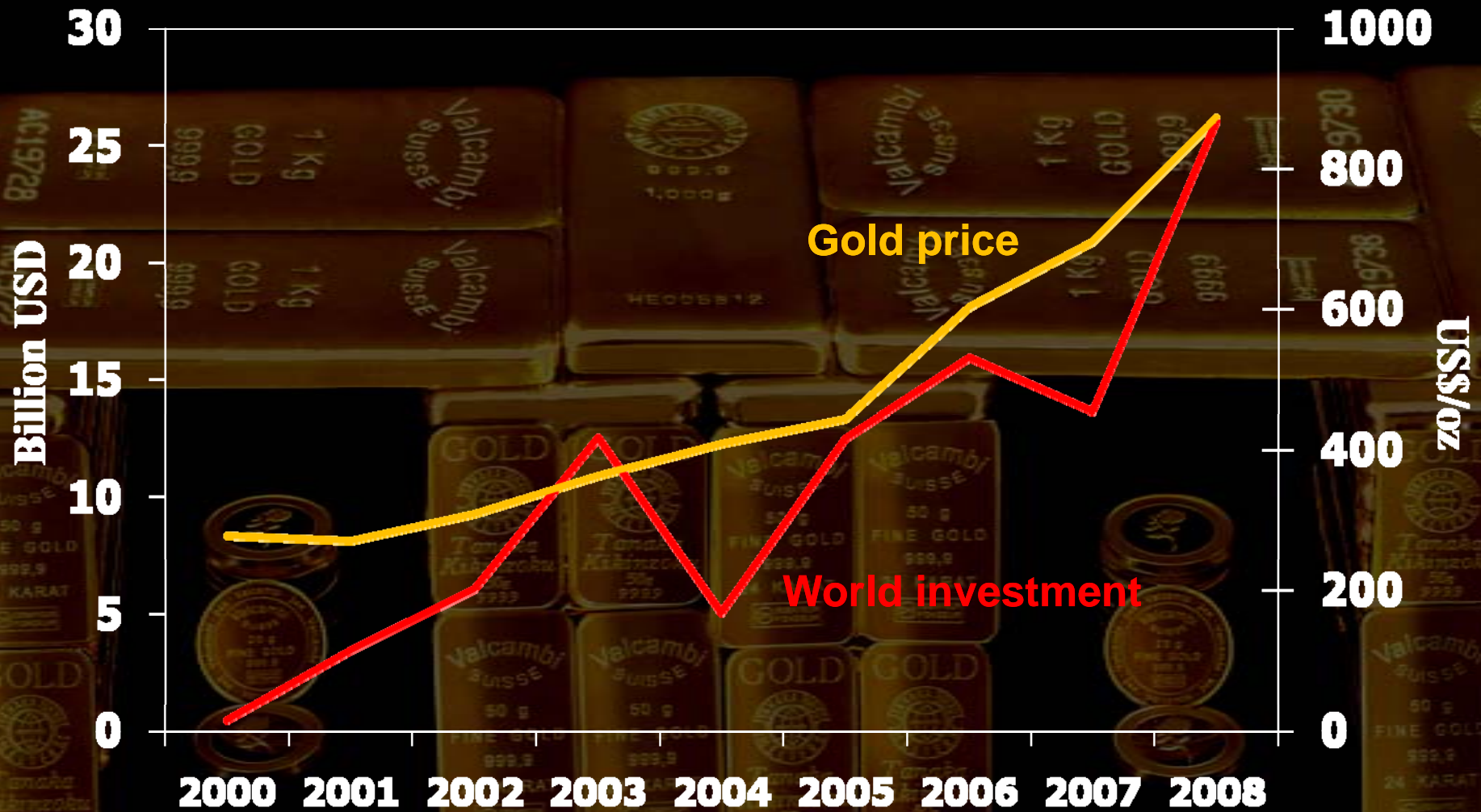
Source: GFMS; *implied investment, coins and bar hoarding

Jewellery Fabrication and World Investment Demand



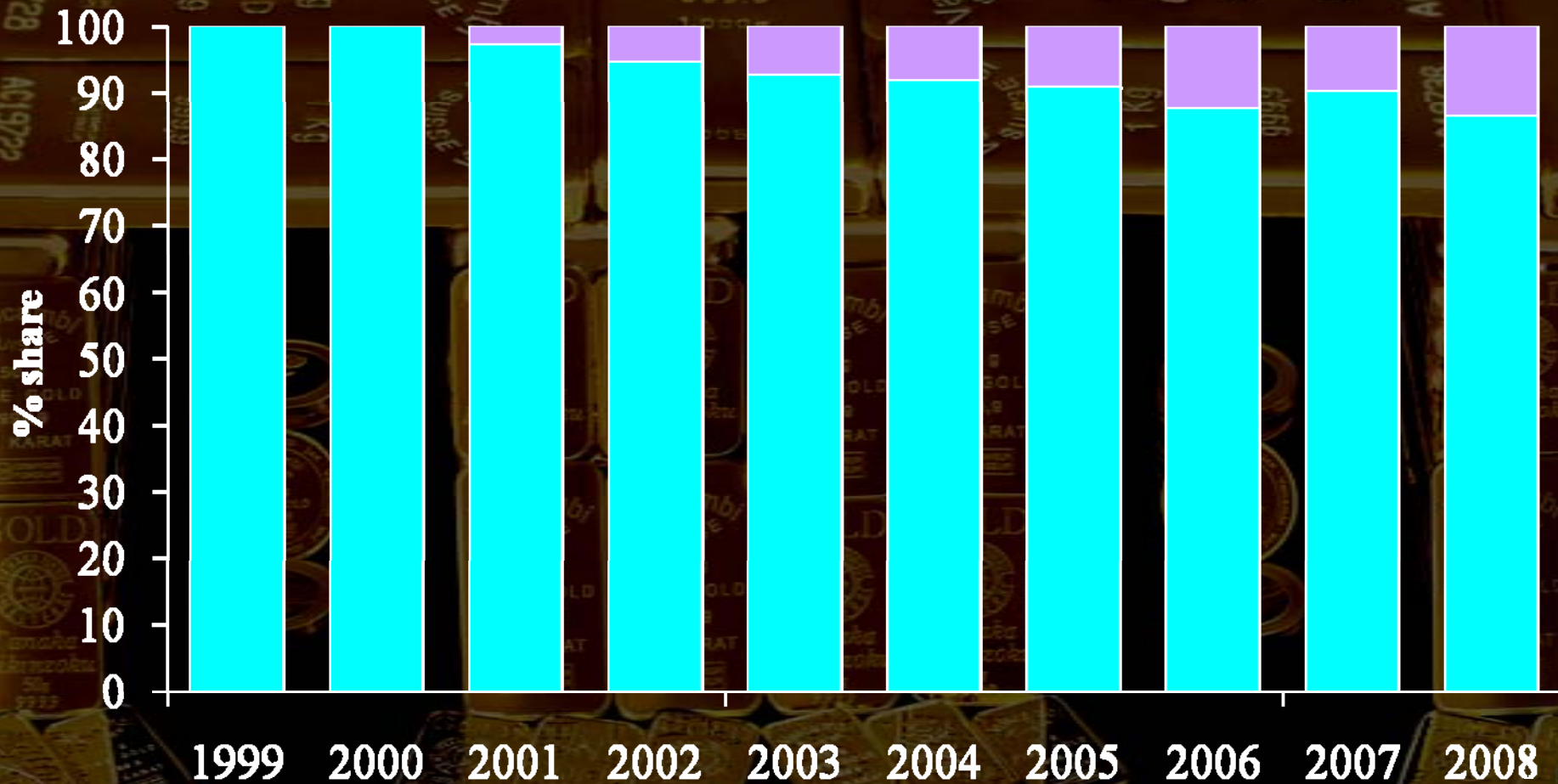
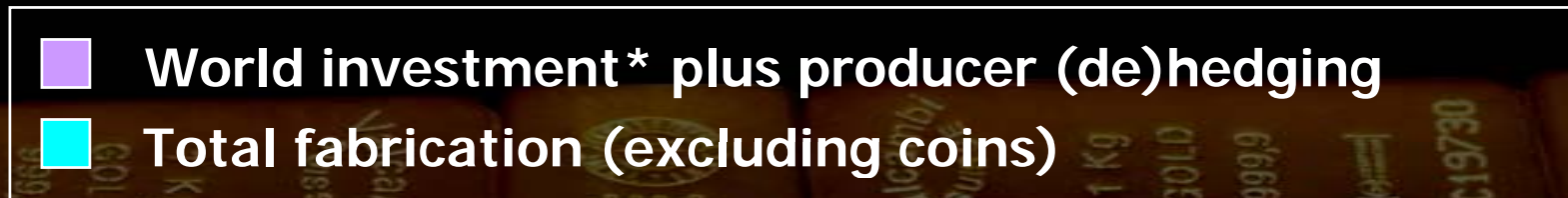
Source: GFMS; *the sum of implied investment, bar hoarding, all coins

Value of world gold investment against gold price



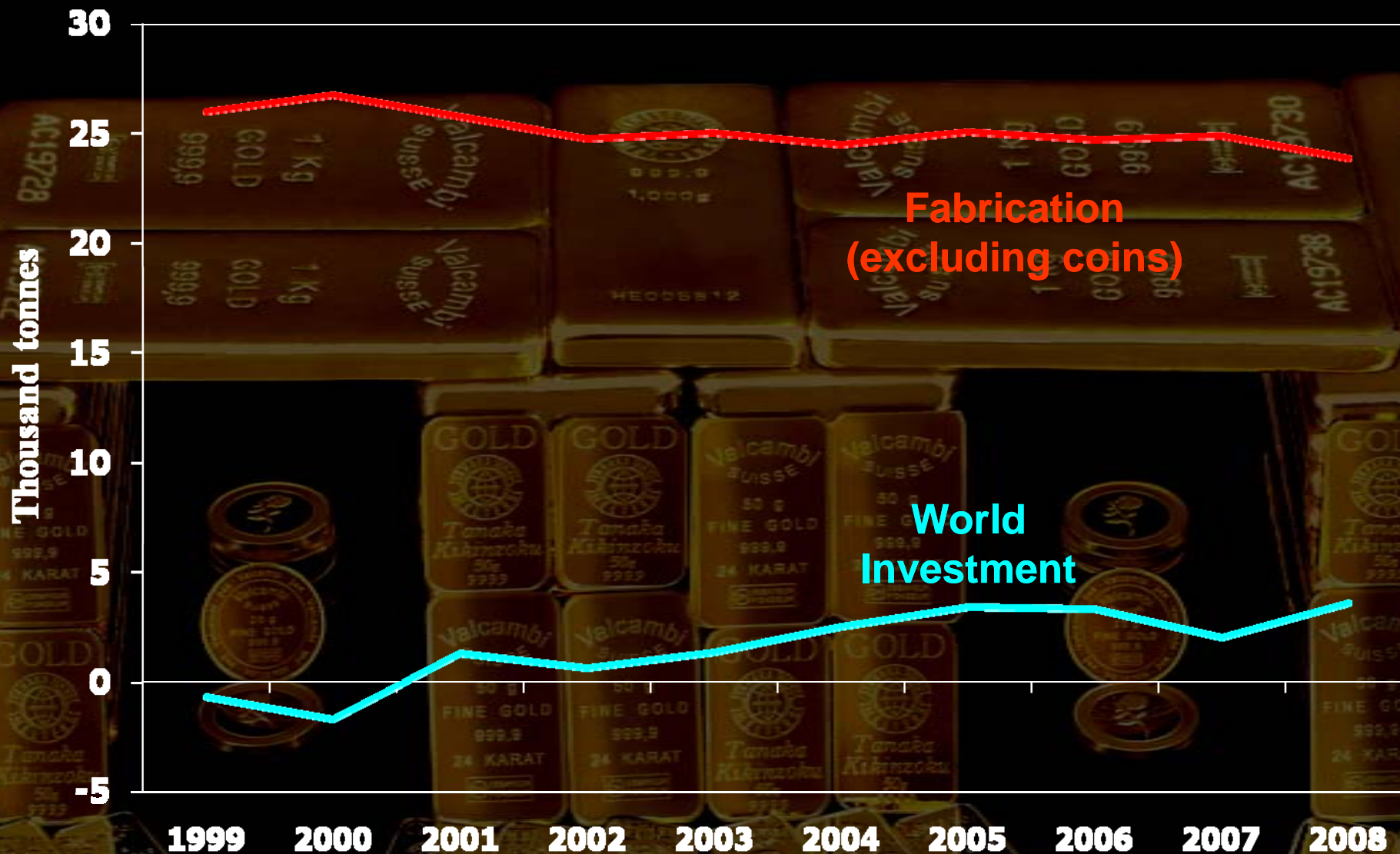
Source: GFMS, Thomson Reuters EcoWin

Composition of Total Silver Demand



Source: GFMS; *implied investment and coins

Silver Fabrication and World Investment* Demand



Source: GFMS; *the sum of implied investment plus all coins

Value of world silver investment against silver price



Source: GFMS, Thomson Reuters EcoWin

Is the economic backdrop set to become less favourable for 'hard assets' like gold and silver?

On the one hand...

- “Fear” has peaked and risk appetite returning
- Recessions bad for commodity prices, including gold and silver
- US dollar has ‘bottomed’ and set to appreciate against most other currencies?

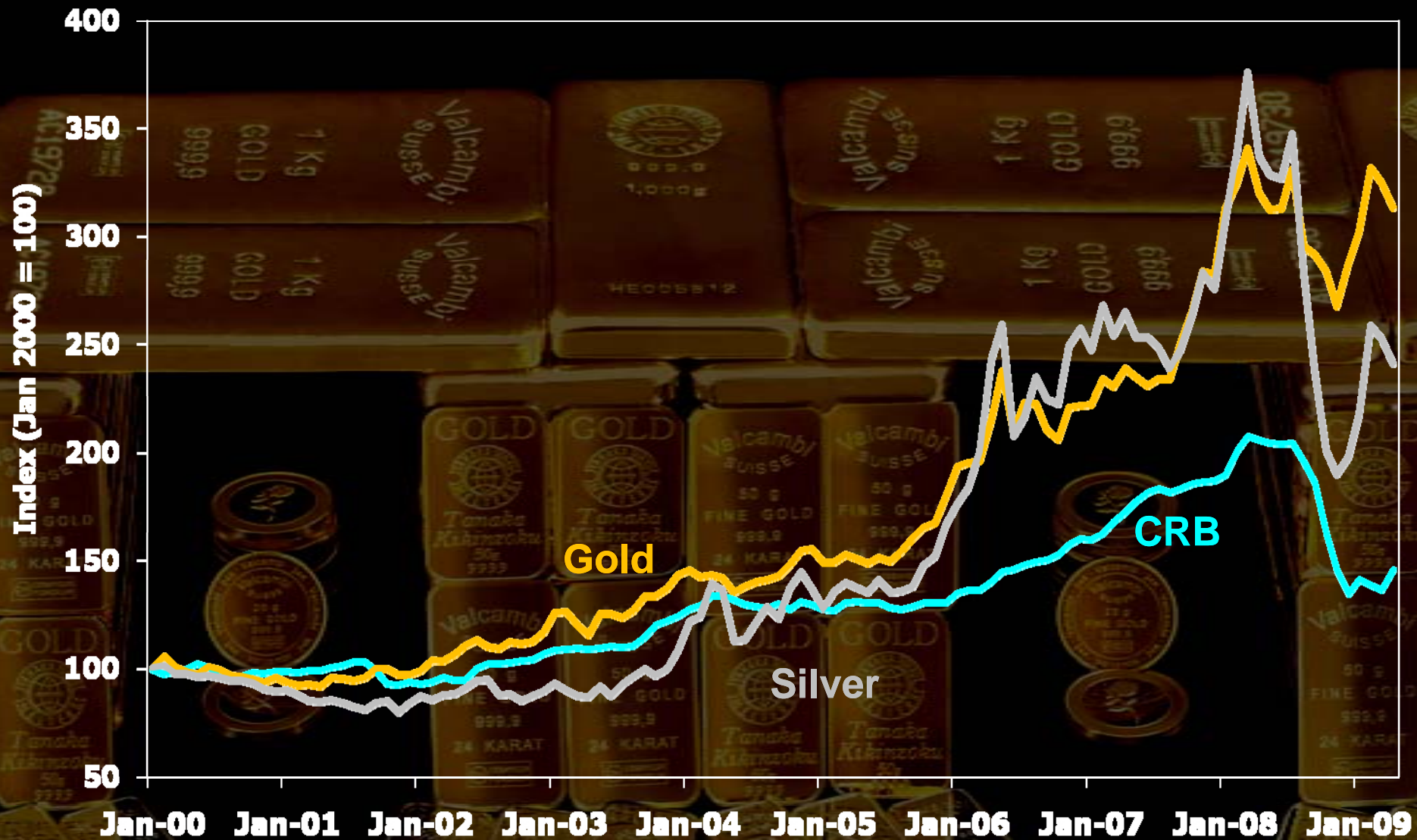


S&P 500 Index and Citibank Share Price



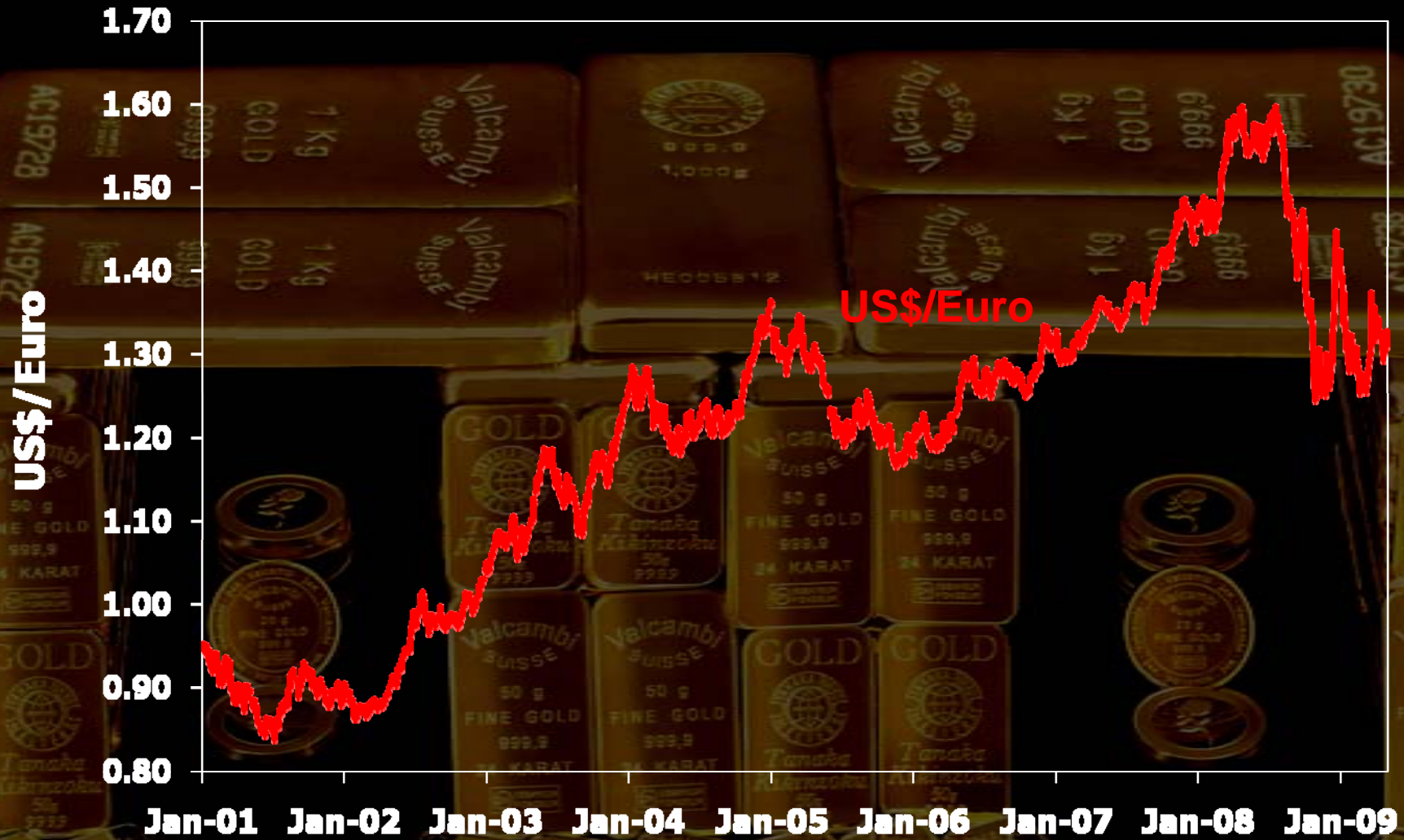
Source: Thomson Reuters EcoWin

CRB Index, gold and silver prices indexed to Jan 2000 = 100



Source: GFMS, Thomson Reuters EcoWin

US Dollar/Euro Exchange Rate



Source: Thomson Reuters EcoWin

Is the economic backdrop set to become less favourable for 'hard assets' like gold and silver?

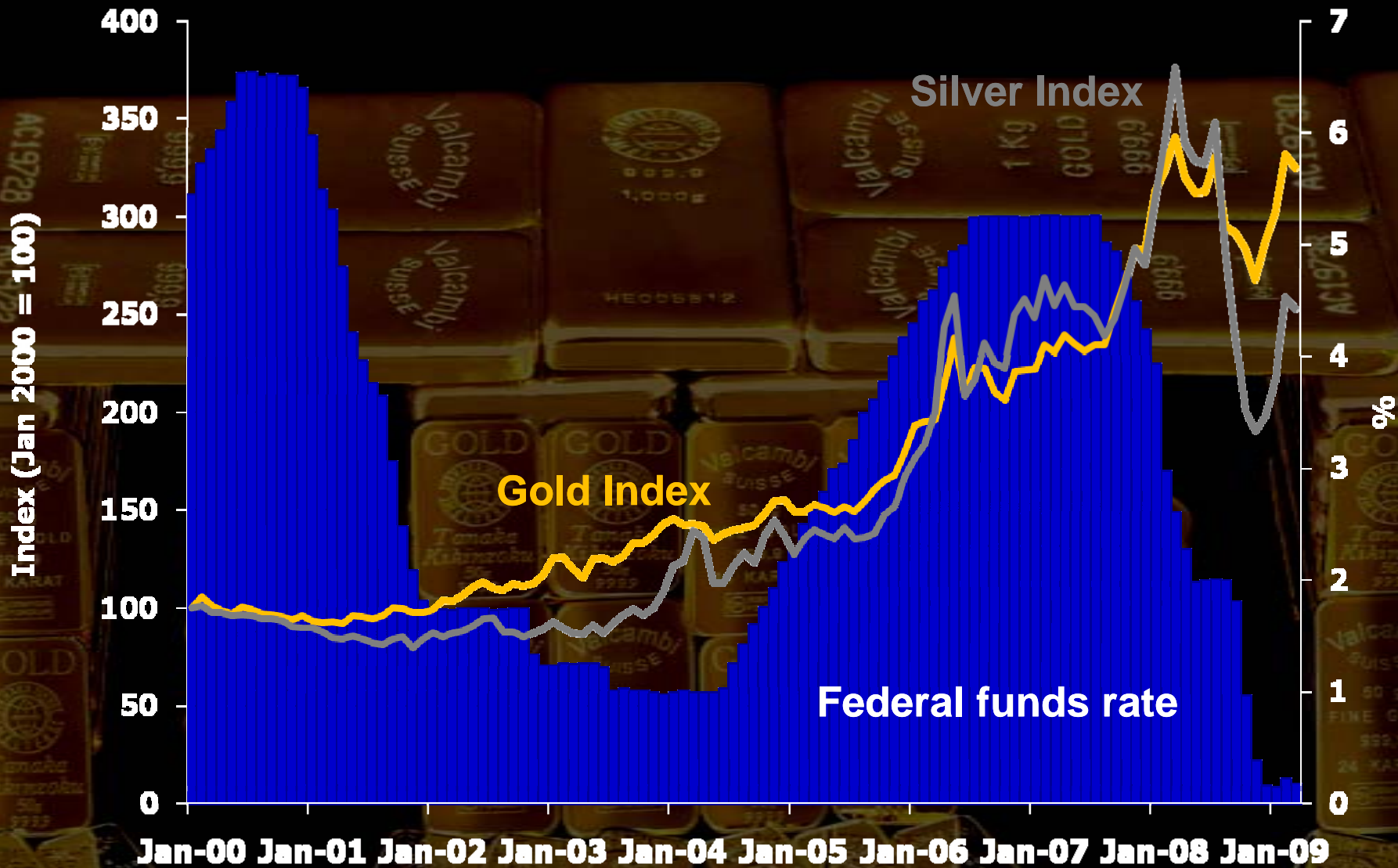
On the one hand...

- “Fear” has peaked and risk appetite returning
- Recessions bad for commodity prices, including gold and silver
- US dollar has ‘bottomed’ and set to appreciate against most other currencies?

But on the other...

- Short-term interest rates at record low levels in all major currencies
- Government budget deficits are exploding
- Money supply growth rapid
- Debt will be monetised
- Inflation likely to pick-up strongly in future

US federal funds rate against gold and silver price indices



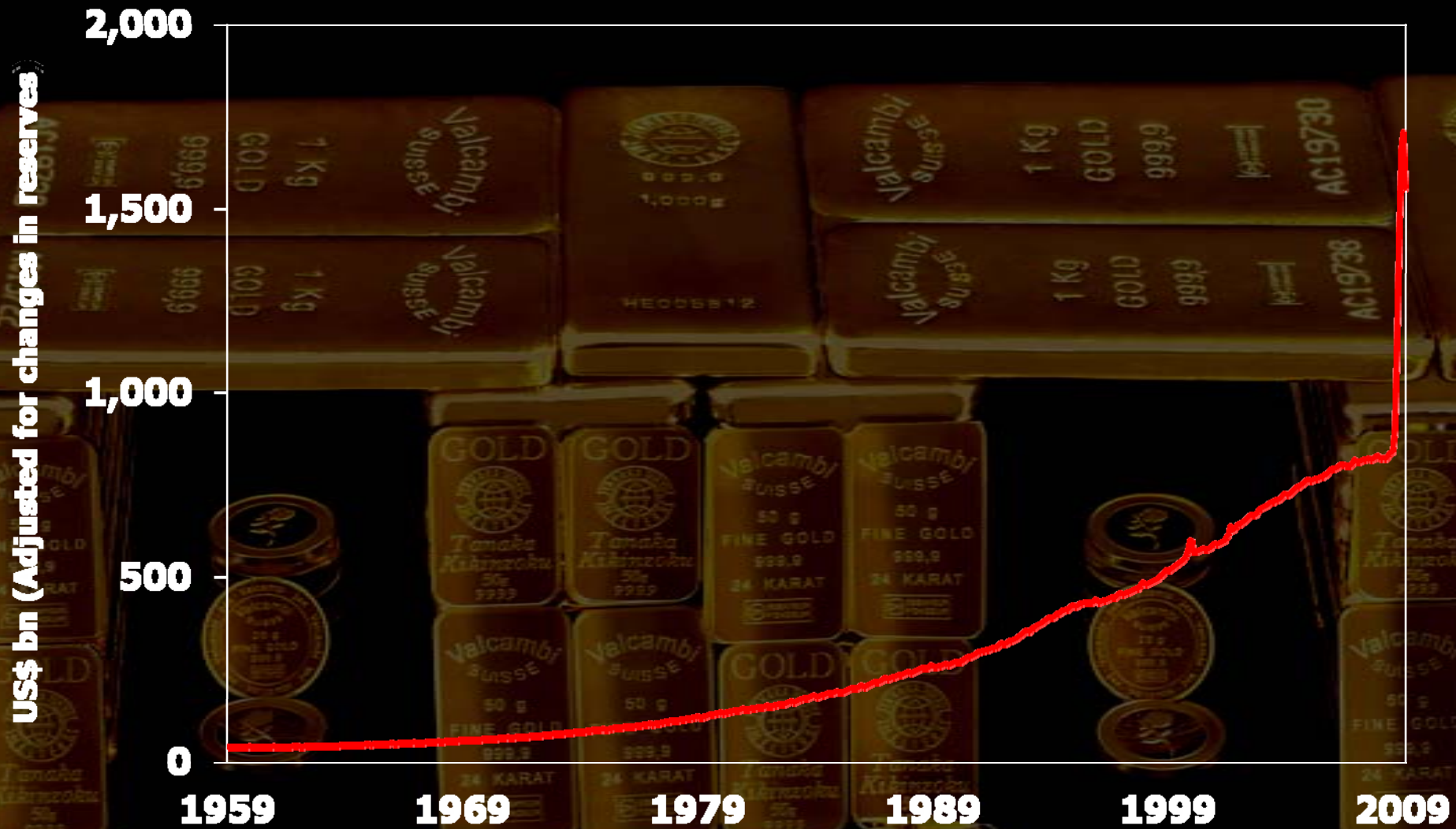
Source: GFMS, Thomson Reuters EcoWin; Federal Reserve Bank – St. Louis

US Federal Budget Deficit as a % of US GDP and in US\$ Billion



Source: IMF, GFMS, Thomson Reuters Ecwin

US Monetary Base



Source: Federal Reserve Bank – St. Louis

Is it game over for gold and silver or has the bull market in these metals still got legs?

- Bull markets in gold and silver beginning to look a little 'tired'
- Dependence on investors has grown, especially in gold's case
- Supply/demand fundamentals (excluding investment) pointing to much lower prices
- Under 'normal' circumstances we would certainly by now be in the final phase of the gold and silver bull markets
- Government and central bank policy responses to recession and exploding debt obligations could well prolong the bull markets in gold and silver and result in far higher prices than the peaks experienced over the rally to-date

Disclaimer

The information and opinions contained in this presentation have been obtained from sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete and it should not be relied upon as such. This presentation does not purport to make any recommendation or provide investment advice to the effect that any gold related transaction is appropriate for all investment objectives, financial situations or particular needs. Prior to making any investment decisions investors should seek advice from their advisers on whether any part of this presentation is appropriate to their specific circumstances. This presentation is not, and should not be construed as, an offer or solicitation to buy or sell gold or any gold related products. Expressions of opinion are those of GFMS Ltd only and are subject to change without notice.