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The Impact of the Financial Crisis on Gold Markets

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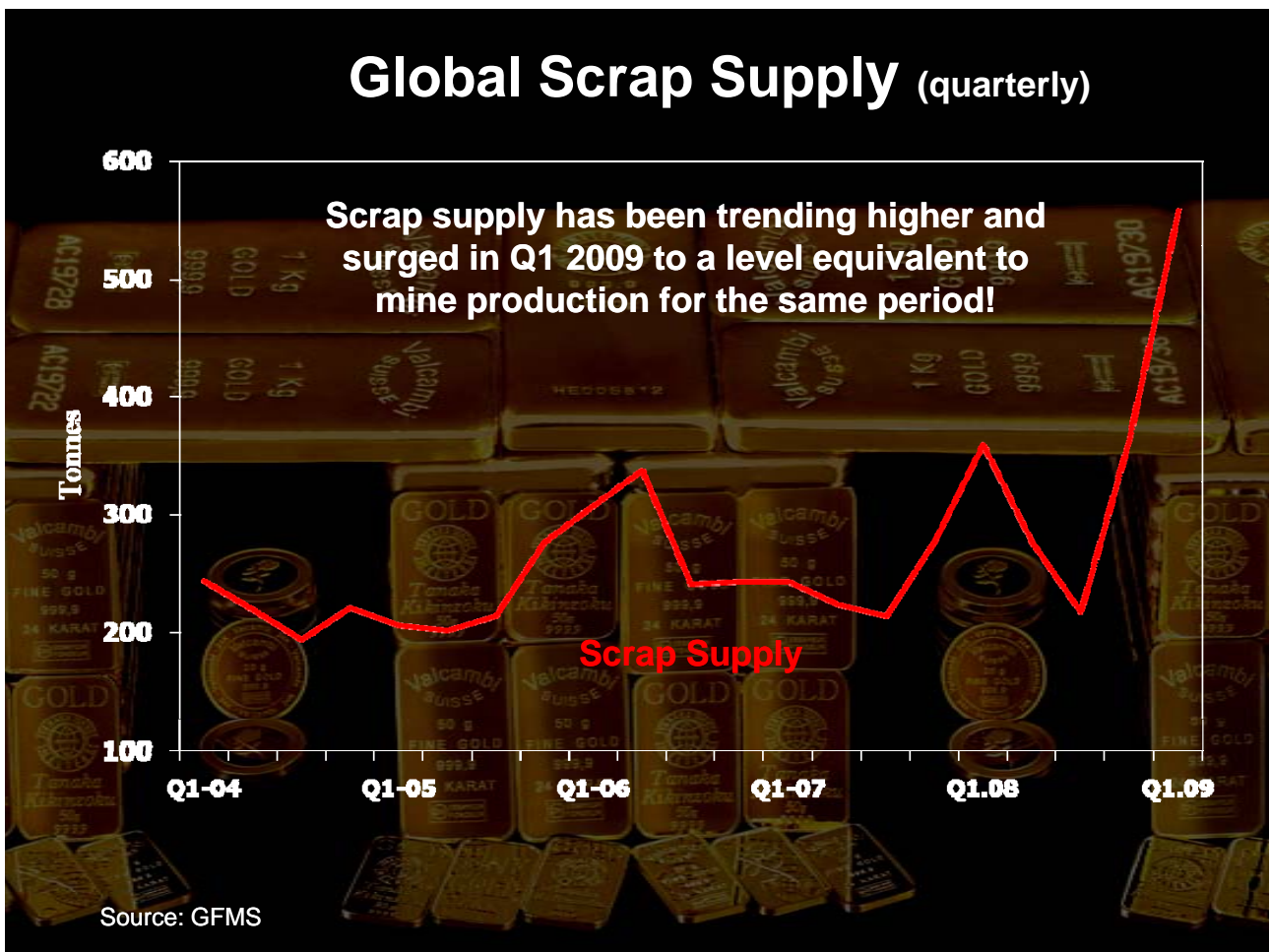
The Impact of the Financial Crisis on Gold Markets

The 'Crisis' is having an impact mainly on four areas:

- Scrap Supply
- Fabrication Demand
- Investment Demand
- The Official Sector

And, of course, the impact of the 'Crisis' can also be seen in the performance of the gold price.

Global Scrap Supply (quarterly)



Scrap Supply

The 'Crisis' is leading to more gold being recycled, mainly in the form of jewellery scrap:

- **Local gold prices in many countries forced much higher by rise in international bullion price plus currency devaluation against the US\$, e.g. Turkish Lira and Indian Rupee**
- **'Distressed selling' by those needing to raise cash in a hurry due to financial problems / losses / unemployment**
- **Jewellery trade melting stocks because it is less able to finance inventories (higher price plus credit crunch) and due to underlying drop in jewellery consumption**

Global Jewellery Demand (quarterly)



Jewellery demand was already on a trend decline prior to the 'crisis' due mainly to higher and volatile gold prices. Since Q4 2008 jewellery is being hit by the additional impact of the global economic downturn.

Source: GFMS

Fabrication Demand

- Fabrication demand, which is dominated by jewellery, (83% of total fabrication excluding coins in 2008) is being hard hit by reduced consumer spending on discretionary items as a result of the 'crisis'. This is compounding the existing problem of high and volatile gold prices.
- Electronics and industrial & decorative demand also suffering this year from the global economic downturn.

World Investment Demand (quarterly)



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

Value of world gold investment against gold price

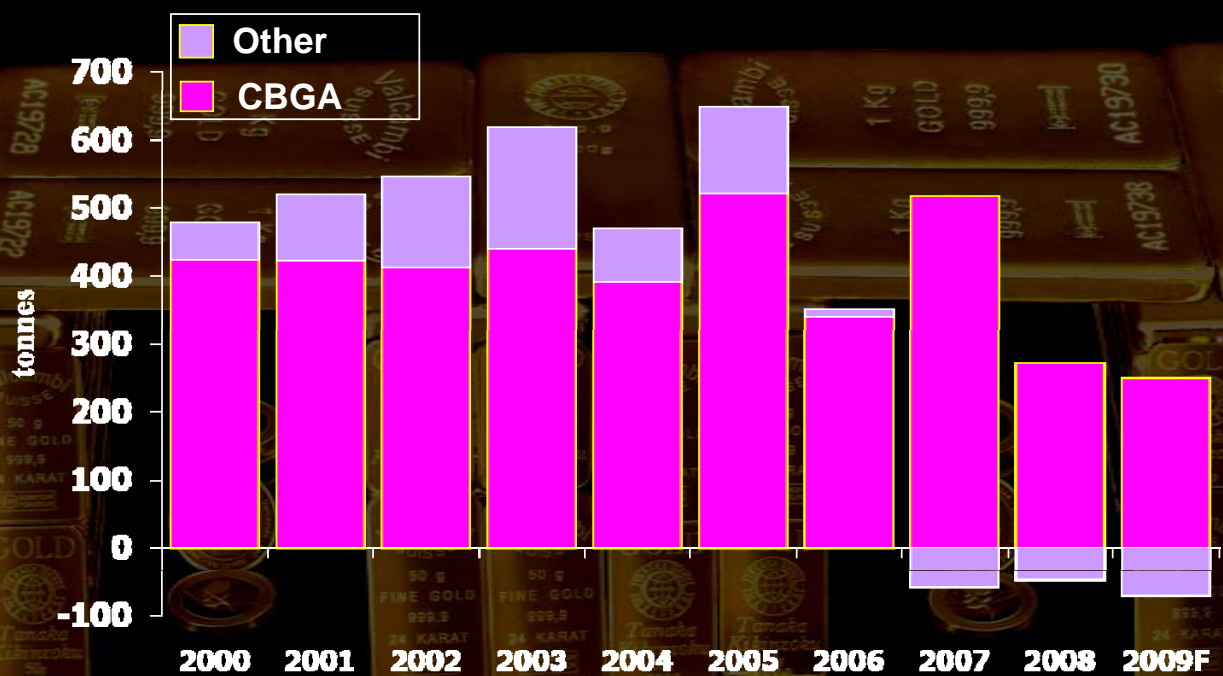


Source: GFMS, Thomson Reuters EcoWin

Investment Demand

- Gold investment has tended to increase since the 'crisis' began, especially in value terms.
- Cuts in short-term interest rates to zero or trivial levels and drop in prices of most assets providing stimulus for gold buying.
- Exception in Q3 2008 when the market saw two-way activity: Safe-haven purchases from some investors but 'forced' sales from others due to de-leveraging and losses in other markets.
- 2009-to date has seen a renewed wave of demand. Investors' focus shifting from concerns over financial stability and security of bank deposits to potential inflationary consequences of governments' and central banks' fiscal and monetary policies.

CBGA and Other Official Sector Gold Sales

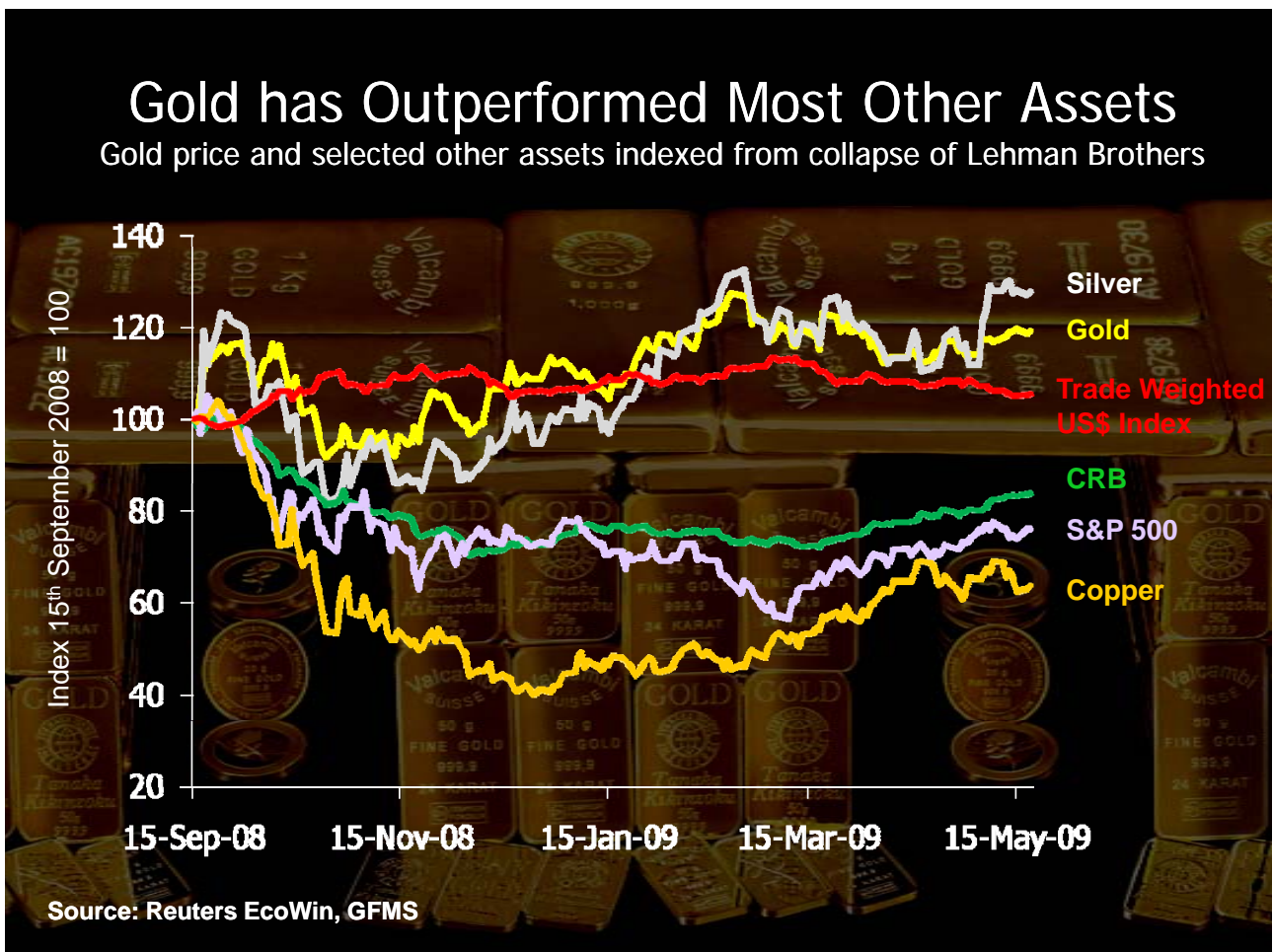


“CBGA” refers to signatories to the Central Bank Gold Agreement; “Other” refers to all other countries

Source: GFMS

Official Sector

- The 'crisis' has accelerated a trend in the international financial system away from dollar hegemony towards a more multilateral arrangement.
- US dollar has benefited in the short term from shift out of 'riskier' assets but it will inevitably lose ground in the long run, not least because of huge American budget deficits and explosion in government debt.
- This, plus gold's strong price performance, has led to some degree of 're-think' by Europeans over role of gold in foreign reserves. 'Crisis' has therefore contributed, at the margin, to a lower level of CBGA sales.
- Other countries such as China with large US dollar reserves may be encouraged by the greater threat of US dollar depreciation and inflation into more active diversification of reserves, including some degree of gold purchases.



Impact of the Crisis on the Gold Price?

- **Generally positive: Gold price has tended to increase. Major contrast with almost all other commodities.**
- **Growth in investment demand the most important driver.**
- **Investor-led rally in the price though has been blunted by weaker fabrication demand and higher scrap supply, both in part due to impact of the crisis on the economy and exchange rates.**
- **Crisis will continue on balance to be good for gold as long as it leads to a positive environment for investment demand to flourish.**

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