



China to Become the World's Largest Gold Market in 2008

by Philip Klapwijk, Chairman, GFMS Ltd.

China is set this year to become the world's largest physical market for gold. (As measured on the basis of local mine production plus fabrication and bar hoarding demand.) That is one of the principal conclusions we have drawn from two separate visits to the Asian giant in recent weeks. Although its growth rate has slipped, mine production will reach a

new record high in 2008, cementing the country's position as the world's number one producer. Meanwhile, on the demand front, China will produce in excess of 300 tonnes of jewellery this year, most of that in the form of 24 carat articles, sales of which have remained fairly buoyant recently, in contrast to some attrition in the formerly booming 'K-gold' or

18 carat segment. Jewellery remains the largest single source of demand in the country but in terms of growth it has been eclipsed lately by a boom in investment demand. Sales of gold bars to the public have soared this year and, in contrast to jewellery, which may tread water in 2009, the outlook for such bar hoarding next year is very positive.

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Although large parts of the country still lack a modern sales infrastructure, many Chinese investors now have access to bullion products that are competitively priced on both the bid and ask sides. Demand for gold as a hedge and as a speculative instrument has grown in the wake of the bursting of local property and stock market bubbles and the ensuing drop in renminbi interest rates as the authorities seek to ward off the threats to growth stemming from such domestic sources and also from the increasing weakness of export markets. It is possible that a combination of looser monetary policy (including an end to the steady revaluation of the renminbi) plus the massive fiscal programme recently announced will enable China to achieve a 'soft landing' and GDP growth around the 8% mark. Any undershooting of that level though would be likely to result in jewellery demand falling

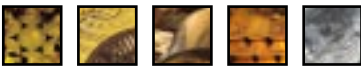
due to the impact of slower income growth, rising unemployment and, most probably, higher local gold prices outweighing any safe-haven purchases of high carat jewellery. Moreover, as intimated above, we expect such safe-haven buying increasingly to shift away from traditional 24 carat jewellery to lower margin bullion bars.

Overall, therefore, gold demand in China may hold up surprisingly well in 2009, although some shift in its composition looks probable.



Philip Klapwijk is the Executive Chairman of GFMS. In his capacity as an analyst, he continues to cover the official sector, investment and fabrication demand in

North America, Latin America and much of Europe. Philip holds degrees in economics from the London School of Economics and a Master's degree from the College of Europe in Bruges. Philip was appointed Group Economist at CGF in 1987, where he was responsible for developing the group's economic scenarios as well as participating in the work for the annual Gold Survey. He has worked for GFMS as part of the gold research team since 1989.



NEW AT GFMS

Quarterly 3-Year PGMs Forecast was Released on 17th November 2008

We are faced with a global slowdown in the automotive sector. To what extent will this impact demand for the PGMs and prices in future?

After years of decline, is demand for platinum in jewellery likely to recover and by how much? And what of palladium jewellery?

How is mine production likely to fare in the current low price environment? Will growth in South Africa be impacted and are we likely to see production cuts?

And crucially, are we likely to see deficits or surpluses for platinum and palladium?

GFMS are delighted to announce that the latest edition of the *Quarterly 3-Year PGMs Forecast* has been released.

Background

Published 4 times a year, the report gives GFMS' independent insight into the latest developments and trends and offers a 3-year forecast on supply, demand and the prices for platinum and palladium.

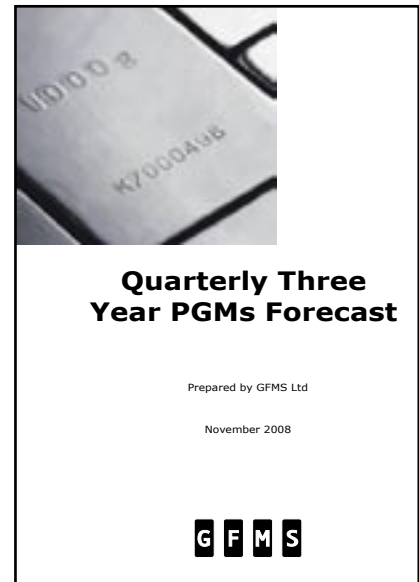
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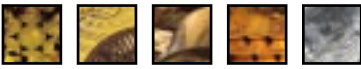
Annual Fees

The list price for 4 editions of this report is UK £5,450, however a special introductory price of UK £4,950 pa is offered on orders received in December 2008.

A package of the Gold, Silver and PGM forecasting quarterlies is available for a discounted price of UK £8,950 pa.



>> If you are interested in taking up a subscription to this new quarterly report or a package please contact Charles de Meester at charles.demeester@gfms.co.uk or tel. +44 (0)20 7478 1763



NEWS FROM THE FIELD

GFMS are unique in terms of time and effort spent on research worldwide. This section "News From the Field" has been included in the Newsletter in order to provide you with the latest updates and news from the GFMS' precious metals research trips.

Ban on Gold Imports in Vietnam Promotes a Rise in Unofficial Supply

by Cameron Alexander, Metals Analyst, GFMS Ltd.

The spectacular rise in investment demand witnessed in the first half of 2008, which saw Vietnam overtake India to lay claim to the world's largest bar hoarding market, has continued unabated for the remainder of the year. The strong local demand for physical gold has not slowed despite the ban on gold imports imposed by the Vietnamese government in June of this year.

The Vietnamese State Bank introduced the temporary ban in an attempt to reign in the spiralling trade deficit which had surged to \$14 billion in the first five months of 2008, from \$11 billion in all of 2007. Vietnamese customs authorities initially doubled the import tariff on gold grain in May in a bid to slow imports, however, this measure had little or no effect on gold flows as consumer appetite for gold bar remained at record levels. Finally, the total ban was introduced in early June in a last ditch effort to restrict the country's swelling trade shortfall.

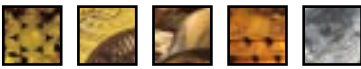
GFMS analyst Cam Alexander recently visited industry contacts in both Ho Chi Minh and Hanoi to investigate the impact this policy decision has had on local demand and was interested to find that sales volumes remain at elevated levels despite restriction on official imports. Demand for local tael gold bars remains at record levels due

largely to consumer concern about the spiralling inflation rate (currently over 25%), a weaker property market, and a stock market that is the worst performer in Asia this year, with the benchmark index tumbling by about 67%. This, coupled with a general lack of confidence in the financial sector, especially in rural areas, has seen the yellow metal again regarded as a safe haven in a time of crisis. It is little surprise then, given the climate for continued demand, that gold is now streaming into Vietnam unofficially from neighbouring countries to meet the supply shortfall.

Furthermore, with the local Vietnamese gold price often lagging behind the international spot price by several days, there are often significant arbitrage opportunities to be gained by risking unofficial importation. According to contacts in Vietnam, the price differential has been as large as at \$80 a tael at times (one tael is equivalent to 1.2 oz or 37.4 g) providing plenty of incentive for those involved. There is talk among traders that the ban on official imports may be lifted and a quota system introduced in early 2009, though for the time being at least, the supply from unofficial sources is set to continue to meet much of the local demand.



Cameron Alexander is an Australia based Analyst with GFMS and is responsible for research in South-east Asia, Australasia and the Gulf States in the Middle East. Prior to his joining GFMS in December 2005, Cameron worked for over seven years with precious metals refiner AGR Matthey.



PUBLICATIONS AND PRODUCTS

Nickel 3-Year Forecasting Quarterly has been Released

The peak to trough decline in the nickel price (80%) has been the most extreme of all the base metals. The industry is facing a period of massive change on both the demand and supply side. Consumption is being affected by the cyclical downturn and substitution factors triggered by the earlier hike in prices, which saw the cash quote briefly exceed \$50,000/tonne.

On the supply side, there is considerable uncertainty concerning the level of nickel pig iron production in China and the supply response to low nickel prices outside of China. In theory, there is a significant amount of new capacity in the pipeline. However, there is a massive political, price and technology risk associated with the next generation of Pressure Acid Leach (PAL) projects.

GFMS Metals Consulting's *Quarterly 3-Year Nickel Forecast* released recently addresses all the key drivers of the market at this critical point in the price cycle.

About the Nickel 3-Year Forecasting Quarterly

Published four times a year, the nickel quarterly gives GFMS Metals Consulting's independent insight into the latest developments and offers a 3-year forecast on supply, demand and the price for nickel. The report contains an executive summary offering the reader an overview of the outlook for the nickel industry and key developments.

As well as highlighting key trends within the nickel market, the Executive Summary addresses some of the wider issues that will affect the industry over the next three years. This includes factors such as competition from other materials, changes in ownership, political issues such as the rise of resource nationalism and general instability in some countries that are increasingly providing the next generation of mine and smelter projects. This section of the report also assesses non-fundamental issues such as the growth of base metals as an asset class.

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 - a) an assessment of investment funds, industry consolidation and currency movements and integration.
 - b) Scenario planning.



Three different scenarios will be outlined with ascribed probabilities of particular outcomes.

Support

The service we offer subscribers to the base metals quarterlies goes beyond just receiving a quarterly report - we also offer a full access to our base metals team through phone calls, emails and meetings.

The Annual Fees

The list price for this service is £3,450 pa, however we can offer a special discounted price of £2,950 pa on orders received in December 2008.

>> If you are interested in taking up a subscription to this new quarterly report, please contact Charles de Meester at charles.demeester@gfms.co.uk or tel. +44 (0)20 7478 1763



Gold Survey 2008 - Update 2 will be Released on 15th January 2009 during a Special Event in Toronto

Gold Survey 2008 - Update 2 will be launched during the joint event of GFMS and GFMS World Gold in Toronto at 9.30 on Thursday 15th January 2009.

About Gold Survey 2008 - Update 2

Update 2 to the annual Gold Survey will provide flash estimates of global gold supply and demand during 2008, with analysis of the most recent trends in every sector of the market. Update 2 will also set out GFMS' views on the outlook for the main supply and demand variables and the price for the first half of 2009 and identify the most important economic, socio-political and market-specific issues facing the industry in the short term.

Specifications

- Gold Survey 2008 - Update 2 will be published on 15th January 2009
- 40 pages
- Price: £250 / US\$460 / €350 (hard copy)
- Also available in pdf format (contact Elena Patimova on elena.patimova@gfms.co.uk for prices)

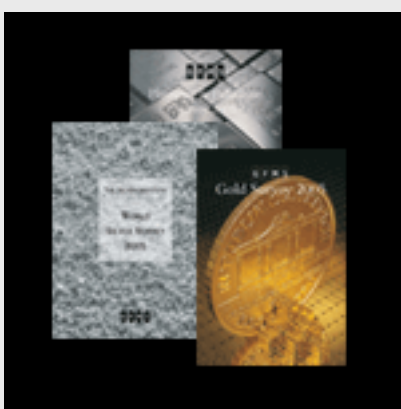
About the event

As in previous years, the event will feature a presentation by GFMS' Chairman Philip Klapwijk, highlighting the main findings of *Gold Survey 2008 - Update 2* and presenting GFMS' forecasts for supply, demand and the price in the first half of 2009.

Following this, GFMS' joint venture - GFMS World Gold will launch its latest regional gold & silver mining report, which features a review of gold and silver developments in Mexico, with detailed reports on a number of significant players. A number of important new gold mines have recently come into production or are reaching completion and we will feature presentations on three of them in the seminar: Capital Gold, Agnico-Eagle Mines and Minefinders will each present fresh information on their new gold mining projects.



>> Please check the event section of this newsletter to find out more comprehensive information on the event, organised by GFMS in Toronto.



Please contact Elena Patimova to purchase or to find out more information about *Gold Survey 2008 - Update 2*. The publication is available both as a hard copy and an electronic version.

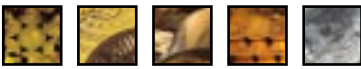
Email: elena.patimova@gfms.co.uk or phone +44 (0) 20 7478 1750*

Online: <http://shop.gfms.co.uk>

*Omit (0) when dialling from outside the United Kingdom.

Gold Survey 2008 - Update 2 can be ordered individually or as part of the following "discounted packages":

- Gold Package
- Precious Metals Package
- Precious Metals Package Plus



World Gold Analyst - Winter Issue 2008

The winter issue of the *World Gold Analyst* was released on 12th of December 2008.

In the Winter Issue of the *World Gold Analyst*

Q3 Review: Cash costs for Q3 recorded a massive 31% year-on-year increase, the highest year-on-year increase we have reported, to reach US\$474/oz, a record high. Q3 signifies the end of the by-product credit bonanza, at least for now, as at least three of the Canadian multi-mineral producers saw massive cost increases, turning around from negative to positive, as the prices of silver, copper, zinc and lead all plummeted.

Metals & Markets

Although the international gold price was static year-on-year, other gold prices have shown tremendous growth, especially in the main traditional producing countries. The South African gold price has risen 51% over the past year. The major gold indices have suffered large falls up to 48% year-on-year.

September 2008 Quarter Review

28 pages of comment and analysis on results for the Q3 for seventy of the world's top gold producers. Production, costs, earnings, market capitalisation, resources, project update.

Silver Producers

Review of results of some of the new breed of primary silver producers.

World Gold Explorer

This edition of *World Gold Explorer* focuses on the embattled junior sector. With the crisis of confidence in global financial markets biting deep into the coffers of the junior explorers we look at the impact on global exploration budgets. Then we examine the role of the investor in supporting the junior exploration sector through a summary of a paper presented at the Finex 08 conference held at the Geological Society, in London, in October. Finally, a 'good news' story as Australia's Avoca Resources moves from being an explorer to a producer.

Special Focus: Brazil

In the winter issue Special Focus: Brazil is South America's largest producer, behind Peru, and in 2007 posted a 14% increase in gold output to 1.8 Moz (60 tonnes), making it the twelfth largest gold producer on the world. This Special Focus reviews the status of the main gold exploration and development projects around the country.

Subscription and Support

The subscribers not only receive a hardcopy of *World Gold Analyst* each quarter, but also have an electronic access to *World Gold Analyst* via the website in advance of receiving it in the mail.

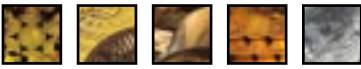
GFMS World Gold's website (www.gfmsworldgold.com) also has additional and exclusive material not available in the hardcopy, as well as an archive of past issues of *World Gold Analyst*. For access instructions and registration, please email subscriptions@gfmsworldgold.com



The Annual Fees

We would like to inform you that we have kept the prices for 2009 unchanged. The price for full subscription (hardcopy + PDF) is £375 and for PDF only is £245. The subscription period is one year, during which you will receive four issues of the report.

>> For further information on subscription or publication please contact Elena Patimova at elena.patimova@gfms.co.uk or tel. +44 (0)20 7478 1750



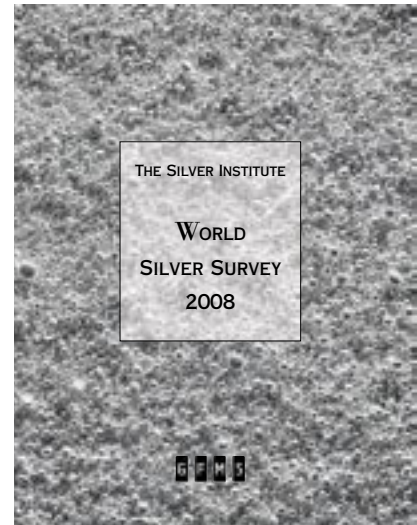
GFMS Release the Hindi Edition of the *World Silver Survey 2008*

GFMS have launched the 2nd Hindi edition of *World Silver Survey 2008*, in ongoing reflection of India's status as a critical component of the global silver market. This 2008 edition has been sponsored exclusively by Valcambi sa, a leading precious metals refinery in Switzerland.

Since the publication of the original *World Silver Survey* in May, silver's market dynamics have of course undergone a sea change. With reference to India, early estimates for 2008 suggest that all major areas of demand posted growth, partly as a result of local silver prices falling below 18,000 rupees/kg having peaked at nearly 27,000 rupees/kg earlier this year. This was reflected in the boom in silver bullion imports from August onwards.

In particular, GFMS research in India suggests that the price correction attracted immense investment interest in the metal. While it is perhaps a little early to give any hard estimates, it does appear that the country's investment demand this year will see an increase of well over 100 tonnes.

It is also worth mentioning that, despite a background of secular decline in the consumption of jewellery and silverware owing to such factors as under-carating, these areas of demand also have registered positive growth. However, GFMS caution that much of this buying was in the form of trade stocking rather than actual consumer demand, this having been constrained by the structural changes in Indian society.



>> As a reminder, GFMS, on behalf of The Silver Institute in Washington DC, have been producing the World Silver Survey since 1994. For a copy in the English language of this in-depth 100 page report on silver's global supply and demand, please contact Elena Patimova (info@gfms.co.uk). For a complimentary copy of the Hindi edition, please contact GFMS' analyst in India, Ms Gargi Shah (gargi.shah@gfms.co.uk).

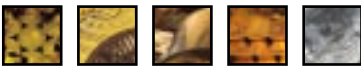
Valcambi sa

Valcambi is a leader in precious metals refining and operates one of the world's largest and most efficient integrated precious metals plants situated on a 33 hectare site at Balerna, Switzerland. We deliver a complete range of services, from refining through to the manufacture of cast and minted bars, assaying, the development of specialist semi-finished products for the watch industry, as well as design and manufacture of coins, medals, blanks and the manufacture of complex alloys. For over 40 years our reputation has been built on Quality and Reliability. Our corporate philosophy is simple: "We value our client's reputation as if it were our own". Large or small, whatever your precious metals need, Valcambi is committed to providing the quality assured, timely and cost efficient service you expect for your business.



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EVENTS

Launch Events in Toronto: GFMS Gold Survey 2008 - Update 2 and GFMS-World Gold Mexican Gold & Silver Mining Report

15th January 2009, Toronto

As in previous years, *Gold Survey 2008 - Update 2* will be launched in Toronto at 9.30 on Thursday 15th January 2009.

Update 2 to the annual *Gold Survey* will provide flash estimates of global gold supply and demand during 2008, with analysis of the most recent trends in every sector of the market. *Update 2* will also set out GFMS' views on the outlook for the main supply and demand variables and the price for the first half of 2009 and identify the most important economic, socio-political and market-specific issues facing the industry in the short term.

It was decided to enlarge the extent of the event in 2009. As in previous years, the event will feature a presentation by GFMS' Chairman Philip Klapwijk, highlighting the main findings of *Gold Survey 2008 - Update 2* and presenting GFMS' forecasts for supply, demand and the price in the first half of 2009.

Following this, GFMS' joint venture - GFMS World Gold will launch its latest regional gold & silver mining report, which features a review of gold and silver developments in Mexico, with detailed reports on a number of significant players.

A number of important new gold mines have recently come into production or are reaching completion and we will feature presentations on three of them in the seminar: Capital Gold, Agnico-Eagle Mines and Minefinders will each present fresh information on their new gold mining projects.

**>> If you would like to register or get further information on this event please contact
Elena Patimova at
elena.patimova@gfms.co.uk or
tel. +44 (0)20 7478 1750**

REGISTER NOW!

Please click here in order to download the electronic registration form.

Date and Venue

The event will be held in the St. Andrew's Club & Conference Centre, 150 King Street West, 27th Floor, Toronto, ON M5H 1J9 on 15th January 2009.

Timing of the event

- 9.00 - 09.30 Registration (tea and coffee)
- 09.30 - 10.20 "*Gold Survey 2008 - Update 2*" presentation by Philip Klapwijk, Chairman, GFMS
- 10.20 - 10.40 "*Gold and Silver Developments in Mexico*" by Paul Burton, Managing Director, GFMS-World Gold
- 10.40 - 11.10 Presentation by Minefinders
- 11.10 - 11.40 Presentation by Capital Gold
- 11.40 - 12.10 Presentation by Agnico-Eagle
- 12.10 - 13.10 Networking lunch

Attendance Fees

- US\$95* per person
- US\$90* per person if you block a table for 8 people
(THERE IS ONLY ONE LAST TABLE FOR 8 LEFT!)

*Price includes a complimentary copy per person of *Gold Survey 2008 - Update 2* and a complimentary copy of *World Gold Analyst - special report on Mexico*.



The Silver Institute's Annual Silver Dinner in New York

by Philip Newman, Research Director, GFMS Ltd

On 20th November, The Silver Institute hosted its annual Silver Dinner in New York, which was attended by over 100 leading participants from the world silver market. During the dinner, Philip Klapwijk, GFMS' Executive Chairman, presented the consultancy's latest findings on the state of the global silver market in 2008, together with projections for the following year.

Looking first at world silver demand, Philip noted that GFMS expected the 2008 total to rise by 1% compared with a year ago. This apparently sedate performance hid some notable changes within the main categories. For example, the presentation highlighted the continued growth in industrial demand, in spite of the deteriorating economic backdrop. As Philip commented, this was largely due to a strong first half, which offset a fourth quarter slump. In addition, coin minting was forecast to rise by around two-thirds, on the back of a surge in investment demand. The growth in these categories was therefore predicted to offset continued weakness in photography and, to a lesser extent, jewellery and silverware. This last comment may appear surprising, given the recent strength of Indian demand, but Philip highlighted the weakness in many other key fabricating markets, including Europe, North America and East Asia.

Moving onto supply, global mine production was forecast to rise by just 1% in 2008, against earlier expectations of a 3% lift. The downward revision owed much to the impact of weaker silver and

particularly base metal prices on the prospects for both current and forthcoming operations. The modest rise forecast for this year is largely the product of growth in Bolivia, Mexico and Russia which, together, GFMS expect to offset weakness in the United States, Australia and Chile. In contrast, the presentation highlighted falls in other areas of supply, scrap supply and government sales. The former owed much to a lower contribution from photographic scrap recycling, while the sharp drop in government disposals was due to the absence of any Indian or Chinese official sales in 2008.

With regards to the overall supply/demand balance for this year, Philip drew the audience's attention to GFMS' balancing item, which suggested only a modest level of net investment in 2008. As Philip noted, this reflected quite varied trends among different investor groups. In particular, large scale redemptions by the funds had precipitated a sharp fall in long positions on the Comex. In contrast, physical retail investment had grown markedly, especially during the second half of the year.

The final part of the presentation encompassed some comments on the outlook for 2009. Fabrication demand was forecast to post a material decline, not least because of the impact of growing recessionary conditions on industrial fabrication. Turning to supply, mine production was forecast to advance towards 700 million ounces in 2009 although, in keeping with the revision to the 2008 total, this projection had also been cut. As a result, at the Silver

Dinner, GFMS forecast that next year will see a return to what may be a substantial market surplus, although this metal is expected to be absorbed by investors. In this context, Philip offered some final comments on the silver price outlook for next year. In essence, he noted that GFMS are forecasting an average price in the region of US\$13/ounce although, given anticipated strength in gold, this may actually be somewhat conservative.

>> In May, GFMS will publish updated and final statistics for 2008 covering every major category of world silver supply and demand. Please contact Elena Patimova on elena.patimova@gfms.co.uk in order to get further information on the World Silver Survey 2009.



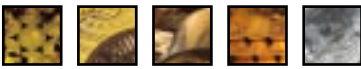
GFMS DIARY

Launch Events : GFMS Gold Survey 2008 - Update 2 and GFMS-World Gold Mexican Gold & Silver Mining Report
Toronto
January 2009

Gold Survey 2009 Launch
London, Toronto, Johannesburg
7th April 2009

Platinum and Palladium Survey 2009 Launch
London, Johannesburg
24th April 2009

World Silver Survey 2009 Launch
New York
13th May 2009
Mexico City
14th May 2009



MARKET COMMENTARY

The US Auto Industry: Still Waiting

by Rhona O'Connell, Managing Director, GFMS Analytics

The failure of the negotiations between Congress and representatives of the "Big Three" in the auto industry with a view to a support package has led to platinum trading at a discount to gold for the first time in fifteen years, with each metal hovering in mid-December between \$830 and \$850/ounce. Until late on Thursday 11th December it looked as if the Bill might just scrape through, but it failed when Senators notionally representing United Auto Workers leaders reportedly refused to accept a 2009 deadline for UAW members to accept reduced wages that would be in line with non-unionised workers at import-brand factories. GM, Ford and Chrysler currently have an historic wage-reduction accord in place with the UAW, which lasts until 2011 and the union has sought to delay the wage cuts until then.

All is not lost, however. Legislators are arguing that laws have been in place since the Great Depression that allow the Federal Reserve to make emergency loans to virtually any important entity that has run out of options for obtaining credit and so it is possible that the Bush Administration could legally provide bridging finance. The Bill would have provided short term funding of approximately \$15 billion, with the possibility of longer-term financing. The companies had originally been looking for a combined total of loans/credit lines of \$34 billion. As things stand now, Chrysler and General Motors are looking for a combined \$11 billion to see them through the recession. Ford has said that it does

not need immediate help, but that it might need a \$9 billion line of credit if the position should weaken further. The Chief Financial Officer of Chrysler has said that it is nearing its minimal viable cash position and will run into problems with respect to paying bills next year. Bills to suppliers amount to \$7 billion every 45 days. General Motors has also said that it may not have enough operating cash by year-end.

The President has said in response to questions that he has signalled that the White House will consider releasing TARP (Troubled Asset Relief Program) funds in order to help the industry, but as of 15th December "we're not quite ready to announce that yet". The Treasury is apparently in discussion with all of the Big Three, while the leader of the UAW has said that the Union is in discussion with the Administration, but that there has been no indication about any timing.

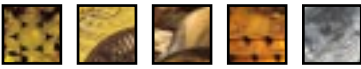
The markets are now, therefore extremely nervous once more and it remains to be seen if and how the situation can be, if not resolved, then at least given some breathing space.



Rhona O'Connell

is a recognised authority in the metals markets, with over 20 years' experience as an analyst in the metals

sector. Rhona is the managing director of GFMS Analytics and ROC Consultancy, an independent consultancy specialising in metals markets analysis and comment. The specialist areas constitute gold, silver, platinum and palladium, looking at the markets themselves in the context of the economic, political and financial environments while considering also the performance of other asset classes and related mining equities.



Gold Equities Hit Hard

by Paul Burton, Managing Director, GFMS World Gold

It has been a difficult time of late for investors in gold shares, whether producers or explorers. Earlier this year we saw a fairly dramatic decline in share prices but it was nothing to what the market witnessed from September onwards when share values were slashed in a dramatic sell off. In late November there was something of a recovery from the insanely low levels of trading but it was not enough to change what has been a disastrous year for most gold producer stocks.

The following table shows how the major gold indices performed in comparison to the gold price (early December figures).

Index	1 year change
Gold	-1%
FTSE Gold Mines	-44%
TSX Gold	-28%
XAU	-48%

It is not just the badly performing companies who have had a rough ride. The major gold producers have also been hit hard. The following table shows how dramatic the downturn has been for the majors.

Company	Share price change 1 year
Freeport-McMoRan	-81%
Zijin Mining	-74%
OJSC Polyus Gold	-54%
Buenaventura	-43%
Newmont Mining	-40%
Gold Fields	-31%
AngloGold Ashanti	-27%
Newcrest Mining	-23%
Barrick Gold	-18%
Goldcorp	-10%

But there are a few companies that have weathered the storm and proved to be sound investments over the past year despite the general sell off. Prime amongst those is London-listed Randgold Resources, which posted a return of 42% after a dramatic surge from late October. The only other producers to show a positive return were Royal Gold (not a producer), Harmony, Alamos Gold, Semafo and Eldorado Gold as the table below indicates.

Company	Share price change 1 year
Randgold Resources	42%
Royal Gold	22%
Harmony	20%
Alamos Gold	14%
Semafo	10%
Eldorado Gold	2%

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- The subscription-only quarterly, *World Gold Analyst*, has proved to be an indispensable tool for busy mining executives, analysts, investment bankers and private and institutional investors around the world for over 50 years.
- An occasional series of investment reports into gold exploration and development in specific regions of the world.
- We also undertake independent research into companies producing or exploring for precious metals worldwide.

World Gold Analyst is a subscription-only publication. Annual subscription rates are £375 (US\$750) for the combined hardcopy and PDF and £245 (US\$490) for the PDF alone.

For more details or to request an invoice, please contact Elena Patimova at elena.patimova@gfmsworldgold.com or +44 (0)20 7478 1777.

Value in the Ground

As one would expect, given the market downturn, the value of ounces held in the ground by most companies has fallen significantly over the course of the year. Four of the biggest majors show the downward trend this year.

Company	Adj Mkt Cap per oz (US\$)		
	Apr 08	Oct 08	Dec 08
Barrick	235	192	141
Goldcorp	441	332	256
Kinross	236	198	168
Newmont	233	190	131

The South African majors have not been so badly hit but they are still valued an order of magnitude lower than their North American peers. At the beginning of December, AngloGold Ashanti was valued at US\$54/oz and Gold Fields and Harmony were lower at US\$27/oz.



Paul Burton

graduated as a mining engineer from the Camborne School of Mines in 1975 and spent almost twenty years working in the

South African gold mining industry. He has been editor of World Gold Analyst since early in 1996. He is an established speaker on the international conference scene and is Chairman of the FTSE Gold Mines Index Committee. He holds an MSc in Mineral Economics and an MBA from the University of the Witwatersrand. Recently Paul Burton took the position of Managing Director of newly established GFMS sister company - GFMS World Gold.



The Base Metals Supercycle - No More Boom and Bust?

by Neil Buxton, Managing Director, GFMS Metals Consulting

The phrase the “base metals supercycle” was conjured up by Alan Heap, commodity analyst with the Citigroup, and, in many respects the last five years have been a true supercycle, even if it does not much feel like it at the moment. The phrase “no more boom and bust” is attributed to Gordon Brown in 2006, when he was still the UK Chancellor of the Exchequer. His pedigree in the commodity markets is not quite so well established as it was he who took the decision in 1999 to sell off a significant portion of the UK’s gold reserves at what turned out to be very close to the bottom of the market.

The global economy and industrial commodities are now firmly in “bust” mode. GFMS Metals Consulting’s base metal index, which gives equal weighting to all the individual metals rather than being skewed heavily towards copper and aluminium as is the case with LME, in mid-December stands at 142 compared to the bull market peak of 392 in March 2008 and 100 in October 2003.

Decoupling debunked

One reason for the earlier optimism, which lasted up until the end of the summer, was the fast growth in the emerging (and importantly highly populous) nations. The belief was that such was the internal momentum generated by industrialisation and urbanisation that this group would somehow be

able to decouple. Recent events have well and truly discredited this theory. The final nail in the coffin was the release of the Chinese IP number for November, which showed growth at 5.4%, down from 8.2% y-o-y in October. In the first half of this year, production was typically registering growth of over 15% y-o-y. Exports in November declined 2.2% y-o-y reflecting weaker global conditions, while the 18% decline in imports suggests an easing of domestic demand.

Given manufacturing accounts for about 40% of China’s GDP, the substantial slowdown in output growth suggests the overall economy is losing momentum. This data followed confirmation of the end to India’s boom as its factory output fell for the first time in 15 years in October, as the global financial crisis began to bite in one of the world’s fastest-growing economies.

Farewell to the BRICs

For base metals, it was never really a BRIC story, it was a China story. China’s growth has dwarfed the expansion seen in Brazil, India and Russia. The country has typically lifted its share of global consumption from 12% in 2006 to over 30% in 2007, while the other three countries’ combined share has risen from around 6% to 8% over the same period.

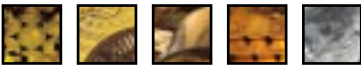
In the short-term, the markets could be faced with the prospects of

lower imports of base metals into China, but with higher exports if the Chinese government proceeds with lifting export duties on base metals as part of a wider attempt to maintain industrial production growth. Therefore the “bust” leg of the cycle still has some way to run.

>> GFMS Metals Consulting will provide its latest supply-demand and price projections in the January issue of The Base Metals Market Briefing. In order to get a copy of this detailed report contact Charles De Meester: charles.demeester@gfms.co.uk

GFMS Metals Consulting has launched a series of Quarterly 3-Year Forecasts on each of the base metals, which analyse their prospects over the next three years.

Please contact Charles De Meester at charles.demeester@gfms.co.uk for further information.



Supply Response Begins to Pay Dividends

by Neil Buxton, Managing Director, GFMS Metals Consulting

One of the themes of our analysis on the base metals, particularly for aluminium, has been the inadequate supply response. The response of the steel industry has been much more swift. Although this has not stopped prices from falling sharply over the last six months, there are signs that prices are bottoming out, despite the still weak demand conditions.

In the US market, most deals for the benchmark HR coil in December have been concluded just under \$550/tonne ex-works and there now appears to be some stability in the market, with large discounts no longer available. Part of the reason is a pick-up in scrap prices – now above \$250/l.ton for shredded, which is putting pressure on minimills to up prices for January.

US steel mill utilisation rates have slumped to under 50%, which has precluded a large inventory build despite weak demand. The minimills given their flexibility will be the first to boost output in response to orders, while the integrations are likely to wait for a backlog of orders to appear before firing up again. Expectations of a weak market through 2009 have resulted in ArcelorMittal permanently shutting some capacity rather than just idling it. The facilities were active in supplying the automotive and white goods markets.

ArcelorMittal is also trying to “draw a line in sand” in Europe as far as prices are concerned. It has set its Q1 HR coil base price at €500/

tonne ex-works, with CR coil at €560/tonne and the HDG base price at €570/tonne. Our assessment is that this will hold in most northern European markets, but will continue to be undercut in southern and central European markets, where competitively-priced imports have more impact.

In our article on the base metals sector, we note the possibility of higher exports as the Chinese producers continue to lift output. For the steel industry, Chinese mills have reduced operating rates with output down 9% m-o-m and 17% y-o-y in October. As such, Chinese mills remain effectively out of the international market with their quotes for HR coil prices typically above \$500/tonne fob. Lower output has also led to an improvement in domestic prices, and there is substantially less discounting taking place, with mills firmly rejecting lower-priced bids. This means that the major suppliers to the Asian region are the CIS mills that are seeking about \$470-490/tonne cif SE Asia, although there are only few buyers, and the Ukrainians are selling at up to \$30/tonne below this on some deals.

It is clear that from a demand perspective that 2009 is going to be a very difficult year as consumption is dominated by construction and, to a lesser extent, autos. However, the mills are showing much more leadership than their base metal counterparts, which could provide some support to prices next year.

>> GFMS Metals Consulting provides monthly average price forecasts for the next year for the key benchmark products in its two services the Steel Market Forecast Briefing (flat products) and the Steel Market Futures Briefing (long products). To get our latest forecasts please contact Charles de Meester at: charles.demeester@gfms.co.uk

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