

# MEDIA ADVISORY

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until 10:00 hrs London time on Thursday, 15th September 2011**

## **Publication of Thomson Reuters GFMS Gold Survey 2011 - Update 1**

### **Gold Prices Forecast To Break the \$2,000 Barrier Before Year-End As Investment Demand Continues To Surge**

Thomson Reuters GFMS launched its Gold Survey 2011 - Update 1 today, their latest report on the gold market at twin events in London and Hong Kong. This represents the first major product offering from the precious and base metals research consultancy since its acquisition by Thomson Reuters. The following details some of the highlights from the briefing given at the Hong Kong launch by Philip Klapwijk, Global Head of Metals Analytics at Thomson Reuters GFMS.

One of the report's key elements is the forecast that, although prices might first encounter a soft patch, gold could rally through the \$2,000 mark by year-end. This, the consultancy believes, to mainly arise through further growth in investment. The critical statistic here is investment in all forms combined in the second half being forecast to reach a new record of just over 1,000 tonnes, which equates to a value figure of over \$60bn (basis a forecast period average price of \$1,815). This compares to the Update's figure for the first half of 624 tonnes (or \$29bn).

Klapwijk added, "some may think our first half figure sounds a little conservative but we should remember that early 2011 saw a wave of profit taking as the prior rally ran out of steam, and equities were still enjoying a nice bull run". The report then notes a sea change in investor behaviour, which was chiefly felt due to the intensification of the sovereign debt crisis. Klapwijk noted, "not only did we have the threatened contagion from peripheral to core Eurozone countries but it also crossed the Atlantic in the form of the US credit rating being downgraded. And both of these were critical to the surge in investment witnessed recently".

Other factors felt to be significant included the deterioration in prospects for the world economy over August, the maintenance of low interest rates (frequently negative in real terms), fears over the emergence of inflation in the industrialised world, a continuation of high levels of inflation in many emerging markets and the outbreak of conflict in North Africa and the Middle East. Klapwijk continued, "in some ways, the confluence of events created almost the 'perfect storm' for gold investment and so, in the light of these developments the price spike to over \$1,900 intraday becomes readily understandable. The lack of resolution to sovereign debt matters and ongoing gloomy news on the economic front also make it likely that this pro-gold environment will continue, and it's this that forms the basis for the assault on \$2,000".

The Update, however, does spell out that some aspects of gold's fundamentals were also supportive of the price. Perhaps the most interesting was the surge in net official sector purchases to over 200 tonnes in the first half from just 77 tonnes for 2010 as a whole. Klapwijk noted, "we are in essence in chapter three of the central bank story - we've left behind a period of heavy net sales, then a short period of neutrality and we're now in a new environment of heavy buying". This was felt doubly important as it did much to lift investor sentiment too.

Gold prices were also felt to have benefited greatly from resilient jewellery purchases; the consultancy reports that in the first half they grew by 7.5% year-on-year despite a 25% rise in the period average price. Much of these gains were attributable to India and China and were in turn thought mainly the result of buoyant economies, bullish price expectations and troubling domestic inflation. On the flip side of this area, scrap supply was also relatively restrained, falling by just over 7%, due again to optimism over imminent price gains, plus near market stock depletion in some countries.

There was less support from the producer side. Hedging for instance swung back to the supply side, although the net contribution was a modest 12 tonnes and signs of a return to substantial fresh hedging are absent. Perhaps more importantly, mine production rose by 4.9% in the first half and the consultancy expects this to continue growing for the next year or two.

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Growth in that area of supply acts as a useful reminder that elevated prices may not be sustainable in the medium to long term, although the report notes that the main cause of any possible turnaround in the market would be the investment case for gold unwinding. This was felt likely to trigger an uncomfortable slide in prices as a result of a rush to sell scrap before the price sinks too far and as jewellery buyers have become increasingly investment-focused, meaning their typical support on dips could be weak.

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**Gold Survey 2011 - 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 Thomson Reuters GFMS for £250 / US\$460 / €350 per copy. For orders and to receive further product information please contact Emma Hastings - email: [emma.hastings@thomsonreuters.com](mailto:emma.hastings@thomsonreuters.com), tel: +44 (0)20 7369 7996, fax: +44 (0)20 7369 7015, web site: [www.gfms.co.uk](http://www.gfms.co.uk), online shop: <http://shop.gfms.co.uk>

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