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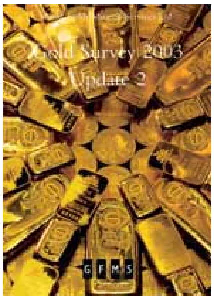
Publication of *Gold Survey 2003 - Update 2*

Surging Investment Raises Possibility of Gold over $450 by Mid Year



GFMS released *Gold Survey 2003 - Update 2* today, their latest report on the gold market. A summary of the findings of *Update 2,* a preliminary review of 2003 and a forecast for the first half of 2004, was given by Bruce Alway, GFMS' mine production and hedging specialist, at a seminar today in Toronto organised by the precious metals consultancy.

GFMS forecast gold prices to continue rallying over the first half of the new year, perhaps surpassing $450 before this period is out. The possibility of a correction prior to such a peak was, however, not entirely ruled out though this was only expected to be brief and comparatively limited in scale such that a first half average of $437 could be achieved.

One area that Alway singled out was the market's growing dependence over the coming months on investment to sustain prices, adding, "we may well see a pick up in producer de-hedging compared to the quiet end to last year. But it looks highly unlikely we'll return to the bumper levels seen early last year, let alone the record volumes seen in the second half of 2002." Alway continued, "this has nothing to do with hedging coming back into fashion. The majors seem as hostile to this as ever. It's merely a function of many of them having already restructured their books and higher prices."

Philip Klapwijk, GFMS' Managing Director, had also earlier stressed the importance of investment, both to the year just gone and the coming months. He noted, "last year saw a lot of hot money flow into gold, mainly as speculators saw some good opportunities with a war in Iraq and a dollar heading south. But what may be more interesting this year is whether gold can generate stronger interest from longer term players with larger sums to invest. Alternative investments certainly remain in vogue and we think gold will pick up from these portfolio diversification moves."

The consultancy saw little support for prices from jewellery fabrication demand. Not only was it estimated to have fallen in 2003 but it is forecast to drop by not that far off 10% in the first half of 2004. Alway noted, "the jewellery sector had a pretty grim 2003 thanks to higher prices, the Iraq war, SARS and so on. Some of those may now be behind us but high prices aren't. That looks like it's going to hit the price sensitive Asian markets."

The remaining components of gold's supply and demand fundamentals were seen as having had a lesser role behind last year's rally though the modest rise in official sector sales and larger increase in scrap were seen as having restrained the price move. For the first half of 2004, the contribution from these two, however, was viewed as more positive with central bank sales forecast to fall and scrap not expected to rise.

Supply Highlights:

- **Mine production** in 2003 is estimated to have risen a fraction year-on-year to just over 2,600 tonnes as gains in Australia, Peru, China and elsewhere outweighed losses, principally, in South Africa, the United States and Canada. Despite today's high prices, output in the first half of 2004, however, is forecast to slip back, in part as previous years' low expenditure on exploration has generated too few new projects to sustain current levels.
- **Cash costs** (western world) in the third quarter of 2003 rose to over $220/oz, or levels more than $40 higher than the same period in 2002. Currency appreciation, in particular for South Africa, accounted for much of the rise.
- Net **official sector sales** in 2003 are estimated to have risen by more than 5% to just over 590 tonnes - their highest since 1992. Much of the rise came from non-Central Bank Gold Agreement countries. First half 2004 sales are expected to drop back by over 60 tonnes year-on-year.
- Higher prices are thought to have driven **scrap** up 13% to almost 950 tonnes. Greater volumes from India accounted for much of the rise though there were also sizeable gains in Indonesia and Thailand. Despite a further rise in prices, volumes in first half 2004 are expected to be similar to second half 2003.

Demand Highlights:

- **Total fabrication** is estimated to have dropped by almost 5% in 2003 to only just over 3,000 tonnes as the 7% slump in the jewellery sector more than outweighed gains elsewhere such as in electronics.
- Lower **jewellery demand** was chiefly due to losses in Italy and East Asia and, to a lesser extent, the Arab Middle East and United States. The fall was largely attributable to higher prices, SARS and the Iraq war. The drop was more dramatic for jewellery fabrication *excluding* scrap, which fell by 12% to its lowest level since 1989. Jewellery fabrication in first half 2004 is forecast to fall by over 9%, mainly through the impact of high prices on India.
- **Producer de-hedging** is thought to have slowed sharply in 2003 to slightly over 300 tonnes. The drop was most marked in the second half, largely due to rising prices, which made buy backs more expensive. De-hedging in first half 2004, at over 100 tonnes, is forecast as greater than in second half 2003 but still well under last year's first half.
- **World Investment** almost doubled year-on-year to 875 tonnes in 2003. This was solely due to the hefty increase in **implied net investment** to over 650 tonnes, stemming chiefly from growth in institutional investment in response to political tensions (such as the Iraq war) and, especially, economic uncertainties (such as dollar instability). In contrast, both **coin** sales and (non-western) **bar hoarding** fell by 4% and a marked 38% respectively. Ongoing economic insecurities and the market's own momentum are expected to yield further year-on-year growth in gold investment during first half 2004 for both purely speculative and portfolio diversification purposes.

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Gold Survey 2003 – Update 2 provides an initial review of the gold market in 2003 and a forecast for the first half of 2004 with 30 pages of statistics, commentary and analysis on all aspects of world gold supply/demand and on gold prices in various currencies. The publication can be ordered from GFMS for £195 or US$295 / €290 per copy. For orders and to receive further product information please contact Ms L Perrard on Tel: +44 (0)20 7478 1777, Fax: +44 (0)20 7478 1779, Email: sales@gfms.co.uk, Web Site: www.gfms.co.uk

Note to Editors about GFMS Limited:

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

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