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GOLD FIELDS MINERAL SERVICES LTD

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Publication of *Gold Survey 2003 – Update 1*

Higher Investment Makes Gold over $400 a Possibility in 2003

GFMS (Gold Fields Mineral Services) released *Gold Survey 2003 - Update 1* today, their latest report on the gold market. A summary of the findings of *Update 1* was given by Philip Klapwijk, Managing Director of GFMS, at a seminar in London organised by the precious metals consultancy.

GFMS forecast that gold prices could well post a high in the mid-$390s and possibly breach the $400 mark before the year is out. The consultancy, however, did warn that a retreat could occur after or even before the assault on these levels is made but they do not expect the correction to push prices through the $350s. This was forecast to generate an average price of $368/oz for the second half of 2003.

Philip Klapwijk commented, "to get into the $390s or even higher, investment's going to have to live up to its potential. But the grounds for this seem good; stocks are still looking shaky, the dollar's probably heading south and the political situation doesn't seem to show much sign of calming down. Of course, a lot of recent interest has just come from trend following speculators. But underlying that, there's a definite, if still modest, pick up in longer term interest from people seeking a hedge against current insecurities."

A note of caution, however, was added as to the sustainability of these levels. Klapwijk continued, "in the $390s, let alone north of $400, we'll see offtake dry up in India and the like. Then the market could see yet higher volumes of scrap coming back onto the market. We're forecasting a modest rise in this over the second half but things don't have to change that much for scrap to hit the 1,000 tonne mark this year."

The consultancy also notes that higher sales by the central banks, mainly from outside of the signatories to the European Central Bank Gold Agreement, are a possibility if prices were to reach such levels.

GFMS forecast a substantial drop in producer de-hedging in the second half of the year from the higher than expected and record levels seen in the first half. Klapwijk added, "a drop of 88 tonnes from the first half may sound disappointing but that still puts de-hedging at over 200 tonnes, which isn't a bad contribution to demand. But hedging is well worth keeping an eye on – we're now looking at forward prices last achievable in early 1997 and it wouldn't come as that much of a shock if some miners decided to get on with some new hedging."

Fabrication is forecast to decline in the second half but the consultancy sees strong untapped potential in the price sensitive markets such as India and the Middle East. Their demand was seen as being likely to respond well to prices in the $360s and even more so in the $350s which, on top of reduced scrap flows, would help defend the downside.

GFMS forecast that full year mine production will rise 0.7%. However, the reduction in pipeline projects and currently scheduled mine closures are expected to bring about a fall in output over the next few years.

The statistical highlights of the report are outlined overleaf:

Supply Highlights:

Mine production in the first half of 2003 rose a modest 1.8% year-on-year, largely as a result of a jump in Indonesian output plus healthy rises for Australia, China and Peru. Second half production, however, is forecast to fall a fraction such that the full year may see output only rise 0.7% to just over 2,600 tonnes.

Higher global energy charges and a stronger rand partly explained the $38/oz rise in average first half unit **cash costs** to $214/oz.

Net **official sector sales** in January-June are estimated to have risen by 3.5% year-on-year to a little over 290 tonnes. Sales by the European Central Bank Gold Agreement countries amounted to 226 tonnes. The first half also saw a further decline in central bank lending. Full year net global sales are estimated to fall slightly to below 550 tonnes.

Higher local gold prices saw **scrap** flows jump by 26% year-on-year to 513 tonnes in the first half. Much of the rise came from the price sensitive markets of the Middle East, especially Egypt, East Asia and India. However, higher volumes were also received from much of the industrialised world.

Demand Highlights:

World **fabrication** fell by a modest 1.8% in the first half of 2003 to 1,509 tonnes, its lowest level since 1994. Much of the decline was attributable to a weaker jewellery sector as some other forms of fabrication such as **electronics** or other **industrial and decorative** saw increases.

Jewellery fabrication fell by more than 4% year-on-year in the first half to 1,240 tonnes though the decline in output *excluding* scrap was that much steeper at 11% down. The overall fall was mainly due to a slump in East Asia and Italy whose exports suffered at the hands of the Iraq war and SARS on top of sluggish world GDP growth. In contrast, India and Turkey saw gains.

Net outstanding **producer hedge positions** in the first half declined by a record 308 tonnes though the pace of this de-hedging is forecast to slow considerably to 220 tonnes in the second half. Buy backs, a major component of the first half, are not expected to feature as strongly in the second.

World Investment in the first of half of 2003 fell by 3% as a result of the 43% slump in **bar hoarding.** The latter was chiefly due to Japan where hoarding levels returned to ‘normal’ after the banking scare of early 2002. Bullion **coin sales** were flat year-on-year at 36 tonnes. In contrast, **implied net investment** (a residual that captures ‘western’ investment) saw a jump of over 55% to 140 tonnes. A strong implied figure for the second half plus a smaller fall for bar hoarding means World Investment is forecast to rise over 40% year-on-year to 280 tonnes in the second half, or 60 tonnes more than producer de-hedging.

Gold Survey 2003 – Update 1 provides a review of the gold market in the first half of 2003 and a forecast for the full year 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.

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Note to Editors: GFMS (Gold Fields Mineral Services) is an independent London-based commodity research and consulting company, specialising in the analysis of the precious metals markets.

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