



Publication of GFMS Global Hedge Book Analysis Q3-2006

Q3 De-hedging slowed to 2.0 Moz; a more sustainable level going forward

De-hedging slowed in the three months to September with a provisional 2.0 Moz (62 tonne) cut from the delta-adjusted hedge book. Given that the elevated volumes of de-hedging in Q1 and Q2 were largely driven by Barrick's buy back of the Placer Dome legacy hedge book, a return to more "sustainable" levels of de-hedging had been widely anticipated.

Forward sales, as ever, bore the brunt of the decline with contracts scaled back by a hefty 1.7 Moz (53 tonnes). Scheduled deliveries explained the bulk of the decrease, although AngloGold Ashanti made an additional contribution to the decline with a reduction in its longer dated forward contracts. Concerning the options portion of the global hedge book, the non-vanilla contracts fell in both nominal and delta-adjusted terms. The net vanilla options book, meanwhile, was left essentially unchanged in nominal terms from the position reported at end-Q2. In delta-adjusted terms the picture was somewhat different, with the net delta vanilla options book registering a modest 240,000 oz (7 tonne) decline. The discrepancy, explained at greater depth in the full report, was partly due to the increase in the nominal volume of sold put contracts.

Producers realised an average price of \$590/oz in the third quarter. The decline of just \$3/oz against Q2, compares marginally favourably to the \$6/oz dip in the quarterly average spot price, which was \$622/oz in the third quarter.

The marked-to-market value of the global hedge book at end-Q3 contracted by a moderate 10% quarter-on-quarter but nevertheless, at negative \$10.2 billion, remained at levels that were unsurpassed prior to the 2006 price rally. Two key factors were in play to diminish the deficit of the hedge book marked-to-market. Firstly, the end-period gold price was \$14.25/oz lower than in the second quarter. Secondly, the absolute book volume was 2.0 Moz (62 tonnes) lower than the previous quarter in delta-adjusted terms.

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