

PRESS RELEASE

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Publication of Gold Survey 2002

Prospects of increasing investor interest and declining producer hedge books continue to support gold price despite weak fabrication demand

The gold price could offer further upside in 2002 should the market continue to benefit from further investment demand and falls in producer hedging. These two factors were the main drivers that led to gold “turning the corner” back in May 2001, breaking a long established bear run, as they were sufficient to counter flagging fabrication demand which had been weak since mid-2001. These are some of the key conclusions in Gold Survey 2002 that GFMS (Gold Fields Mineral Services) released today. The independent precious metals research consultancy launched the 34th edition of their authoritative annual survey of the world gold market at events today in London, Toronto and Johannesburg, with another event planned for New York on Thursday 25th.

Gold Survey 2002 highlights how sentiment in the market has changed from early 2001 when the gold price seemed to be drifting ever lower, leaving the market dispirited. Now however, according to Philip Klapwijk, GFMS' Managing Director, “market participants are, justifiably in our view, generally upbeat about the future prospects for gold.”

GFMS note that, thus far, the price seems to be well supported by the ongoing decline in outstanding producer hedge positions as well as prevailing political and economic uncertainty which has encouraged renewed investor interest. These positive forces have been more than adequate to counter the impact of fabrication demand that has, with a few exceptions, remained weak during the first quarter of this year. A word of caution was nonetheless added by Klapwijk, “Much of the investment in gold we've seen recently is based on concerns as regards a wide range of issues: near-war in the Middle East, a shaky Japanese banking system and so on. But if political tensions ease and the world economy bounces back, it may be unrealistic to expect much more on the investor front.”

In its analysis of investment, GFMS point out that last year's higher investment levels were largely a result of short sellers being squeezed out of the market plus a sharp decline in the large scale physical disinvestment seen the previous year in Europe and North America. The report finds scant evidence for much new, buy-side interest thus far - other than in mining company equities, which have performed exceptionally well.

The Gold Survey identifies the emergence of producer hedging on the demand side, particularly in the final quarter, as a further factor that underpinned the price last year. GFMS' analysis shows that outstanding hedge positions fell significantly in 2001 and that a further contraction in producer hedge books could be seen this year. The report ascribes this phenomenon to a variety of factors, including the collapse in the contango and the perception that the outlook for the price was brightening.

The weakness of 2001 fabrication demand is another key area the report devotes much attention to. It chronicles how a fair first half turned into a bleak second half, a change most marked in the electronics sector's use of gold. GFMS see little prospect of a recovery in total fabrication at least until the second half of 2002 and then only if global GDP growth picks up strongly. This balance amongst the demand variables of investment, producer hedging and fabrication, the consultancy feels, introduces a degree of fragility to price prospects, given that investment and hedging tend to be more fluid than fabrication.

GFMS also believe the recent price rally was made possible by the lack of disruption from the supply side. Mine production, for example, saw very little change year-on-year but, as Klapwijk commented, “more important was the

stability and transparency of official sector sales. This has done a lot to underpin investor and producer confidence in the solidity of prices.”

Supply Highlights:

- **Mine production** in 2001 reached 2,604 tonnes. This was only marginally higher than in 2000, but there were no signs yet of the widely expected fall. Output did drop in the more mature industries such as South Africa but it rose sharply in Indonesia as well as in Mali and Tanzania, among others.
- **Production costs** in 2001 were the lowest recorded in at least 15 years. (Cash costs averaged only \$176/oz, \$11 lower than in 2000.) Much of the decline was due to currency weakness, especially in South Africa and Australia.
- **Scrap** rose significantly in 2001 to 706 tonnes, bringing its contribution to total supply to 18%. Much of the rise was due to higher local prices and periods of economic distress in countries such as Turkey, Egypt and Indonesia.
- Net **official sector sales** last year rose a modest 3% to 504 tonnes. Supply from this sector has been broadly stable for the last three years. More significant perhaps was the marked decline in official lending, the first such drop recorded since 1993.
- Implied **net disinvestment** fell dramatically to just 53 tonnes last year, largely as a result of a sharp decline in physical sales by private investors in Europe and North America and the absence of speculative short selling resulting from narrowing contangos.

Demand Highlights:

- Total **fabrication demand** fell to its lowest level for five years, chiefly as a result of the slowdown in world GDP growth.
- **Jewellery fabrication** fell by 5% year-on-year due to weak consumption in many East Asian markets, the Middle East and the United States. **Other fabrication** (largely industrial gold use) fell more sharply, down 14%, with the electronics sector suffering the most acutely.
- **Bar hoarding** rose a healthy 7% to 232 tonnes. Much of the increase was due to a pick-up in Japanese interest, mainly as a result of concerns over the stability of its banking system. Combined with a modest rise in bullion **coin sales** and the sharp fall in implied net disinvestment, this left total **World Investment** at 235 tonnes, a major turnaround from the net disinvestment seen in 2000.
- **Producer hedging** declined for a second consecutive year, generating a significant 147 tonnes of physical demand with the fall most pronounced in the fourth quarter. The two main reasons for the 2001 decline were the virtual disappearance of the gold price contango and greater optimism as regards future gold prices.

Gold Survey 2002 contains over 100 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 £245/US\$360/€95 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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