



Publication of *Gold Survey 2005*

Further Upside Forecast for the Gold Price due to Investment's Potential and a Base of Robust Physical Offtake

GFMS launched *Gold Survey 2005* today, the 37th edition of their authoritative annual survey of the world gold market, at events today in London, Toronto and Johannesburg. The following details some of the highlights of the Gold Survey from the briefing given at the London launch by Philip Klapwijk, chairman of the independent precious metals research consultancy.

GFMS forecast in the report that there is clear upside for the gold price, chiefly stemming from investment's potential. Klapwijk noted, "with the twin US deficits marching forward unchecked, dollar weakness and, eventually, a sharp slowdown in the US economy are distinct possibilities. Alty that with an event driven rally in the oil price, then gold heading for the \$500 mark no longer looks fanciful". Furthermore, the consultancy believe that the down side is quite restrained, given the robust nature of physical demand and its ability to respond to a dip in the price.

The report also sets out how a combination of these two factors explained much of last year's price behaviour. Klapwijk added, "it may seem odd to claim investment was a key driver when we had implied net *disinvestment* and a price rise. But timing was crucial. The selling we saw early/mid year was in large measure just a bout of modest profit taking on the huge position built in 2003 and early 2004. As we approached the end of the year, investment swung strongly to the positive, in part due to the successful launch of new gold investment vehicles".

Perhaps the best indicator of the real contribution from jewellery fabrication is that excluding scrap, a measure which represents its true call on the bullion market, and this rose by 10% in 2004. The consultancy attributes this to such factors as growing acceptance of prices above \$400 as fair and sustainable and higher global GDP growth. In assessing its importance for the price, GFMS believe that overall buoyant fabrication levels and the mid-year pick up at a time of lower prices were critical in preventing the market from sinking any lower and stopping profit taking snowballing into a more generalised exit from the long side of the market.

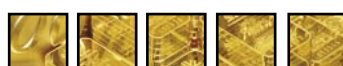
Klapwijk continued, "fabrication may not have actively driven the market higher but it was certainly no drag on prices, as it had been in the past. There's also the issue of sentiment to consider. If someone had forecast a year back that the all important Indian jewellery industry would see its offtake grow by 16% in the face of a 9% rise in the rupee price, most people would have dismissed that as hopelessly optimistic. Yet that's what came to pass".

The report proceeds to point out that several other factors were important in generating the 13% rise that the 2004 price average saw. Of these, one of the most significant was the rise in producer de-hedging to record levels. The importance of this was again magnified by its timing, in that GFMS believe the bulk was carried out in the second and third quarters of the year when the price was looking weak, largely as a result of shaky investor interest.

Gold Survey 2005 also notes significant support for the price from the supply side of the balance. Net official sector sales, for example, fell by almost 140 tonnes, reaching their lowest point in the second and third quarters, just as the price was under pressure. The consultancy report that a considerable surge in selling took place during the fourth quarter. Much was ascribed to the start of the new Central Bank Gold Agreement, though some opportunistic selling to take advantage of higher gold prices was also in evidence. This factor could also prove supportive for 2005, with Klapwijk adding, "we're forecasting an increase in official sector sales this year, to something like 500, maybe 550 tonnes. But, it looks like 250 or so tonnes have already been sold in the first quarter and that'll take a huge amount of pressure off prices moving forward".

Mine production was reported to have declined significantly last year. This was chiefly due to temporary factors at a handful of important producers such as Indonesia, Australia and the United States, plus a further decline for South Africa, in part linked to adverse movements in the rand:dollar rate. Lastly, scrap was seen to have fallen substantially, a decline the consultancy attribute mainly to consumers in the price sensitive countries becoming accustomed to levels over \$400.

The statistical highlights of the report are outlined overleaf.





Supply Highlights:

- Global **mine production** fell by a noteworthy 5% in 2004, taking output to an eight year low of 2,464 tonnes. The largest drop was seen in Indonesia, whilst much of the remaining losses were concentrated in South Africa, Australia, the United States and Canada. There was in contrast a modest contribution from new capacity in such countries as Suriname and Uzbekistan.
- Weighted average **cash costs** increased by 13% in US dollar terms to \$253/oz, chiefly through currency effects.
- Despite a marked pick up in the fourth quarter, net **official sector sales** last year dropped by 23% to a five year low. The decline was chiefly the result of lower sales within the Central Bank Gold Agreement and a modest increase in purchases from outside the Agreement. Official sector lending also fell sharply, largely due to leasing rates reaching historically low levels.
- **Scrap** supply fell heavily to 828 tonnes, a three year low, despite the strong rise in the dollar price. Much of the decline was centred on the Middle East (in particular Egypt and Saudi Arabia), India and south-east Asia (chiefly Thailand and Indonesia).
- **Implied net disinvestment** returned after a two year absence, with a modest contribution to supply of 81 tonnes. Much was attributed to a spate of mid-year selling linked to disappointment over the inability of the price to progress higher and a dollar recovery. The market swung back to implied investment in a tentative fashion during the third quarter and strongly so in the fourth.

Demand Highlights

- **Total fabrication** rose to a three year high of 3,164 tonnes, with all sectors posting gains. **Electronics** demand, for example, rose by a buoyant 11%, whilst **other industrial and decorative** offtake rose a modest 3%.
- **Jewellery** fabrication saw the largest absolute gain in 2004 at 129 tonnes, representing a gain of just over 5%. The increase in terms of fabrication **excluding scrap**, however, was yet greater at 10%. The largest gains were seen for India, Turkey and China, whilst Italy and the United States accounted for much of any losses.
- Producer **de-hedging** rose to record levels of just over 440 tonnes last year. This cut the end-year delta-adjusted hedge book to under 1,800 tonnes. The drop was the product of deliveries into scheduled commitments, one-off buy backs of longer dated positions and forced events such as the closure of the hedge book following the financial collapse of Sons of Gwalia.
- **World Investment** slumped from 982 tonnes in 2003 to under 300 tonnes last year. This was entirely due to the switch in implied net investment to disinvestment (see above) as the other two components of World Investment, namely **coin fabrication** and **bar hoarding**, both rose (by 7% and 38% respectively).

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Gold Survey 2005 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 £265 or US\$495 / €395 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

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

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