



Publication of *Gold Survey 2009*

Gold Prices "to Threaten \$1,100 Barrier" as Investment Boom Stemming from Financial Crisis Overcomes Weak Fundamentals

GFMS launched *Gold Survey 2009* today, the 42nd edition of their authoritative and comprehensive annual survey of the world gold market, at events 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.

A key feature of the report is the prospect for the gold price in the coming months and this the consultancy believes could easily re-attain the \$1,000 mark and may well push up towards and perhaps even through the \$1,100 barrier. As Klapwijk commented, "the price may have pulled back a fair bit from the February highs but that was largely just the market's reaction to jewellery demand crumbling and scrap booming. It's far from game over for investors and it will be that crowd which sets the price alight".

The report singles out the fiscal and monetary policies currently being enacted, especially by the US administration, as the root cause of gold's potential, through their ability to generate inflationary pressures. GFMS also expect central banks to be reluctant to raise interest rates whilst the prospects for economic growth are shaky and that the solidity of the US dollar has to be called into question, chiefly as a result of doubts over others' desire or ability to continue financing an explosion in US government debt.

Strength in investment will certainly be needed to overcome weakness in the fundamentals, with Klapwijk adding, "so far this year, we've seen times when major fabricating countries like Turkey have been exporting bullion because jewellery demand had collapsed and scrap was so strong. There's no way that's sustainable even in the medium term and I'd argue that's the main reason the rally this year failed in the \$980s".

The consultancy, however, cautioned that it may well not be a straight line rally as a summer lull or the need for inflationary pressures to build could mean sub-\$900 prices in the short term. The *Gold Survey* details a similar complex path last year as heavy net investment and record prices highs in the first quarter, on the back of surging oil prices, a weak dollar and financial turmoil such as the collapse of Bear Stearns, was followed by periods of heavy selling through into the fourth quarter. Much of this was ascribed to the general sell off in commodities as economic growth foundered, a turnaround in the dollar and, towards the end of this phase, funds being obliged to sell in order to cover losses elsewhere, to meet margin calls and so forth. In the final four months, GFMS noted a ground swell in investment in physical gold, reflecting distrust in financial institutions, especially after the collapse of Lehman Brothers, and a more general desire for wealth preservation, with this buying centred on western Europe and North America.

This desire for investment in physical form was illustrated in the 40% rise in official coin minting - the only area of fabrication to register an increase in 2008 according to *Gold Survey 2009*. In contrast, jewellery demand fell by just over 10% in response to high and volatile prices and the slowdown in economic growth. The year was far from uniform, however, with Klapwijk adding, "jewellery demand came back in force in the late summer as prices sank through the \$800 mark, and even more so as we headed for \$700. And if that buying hadn't appeared, we could have easily seen far lower prices than was the case".

Demand in other quarters was seen as mixed. Electronics offtake, for example, withered as the economic crisis developed and de-hedging by producers fell sharply in the second half, after a surprisingly buoyant first half. Klapwijk noted, "it's a concern for the stability of prices that we're entering a period in which for the first time in many years de-hedging will be running at trivial levels, although that's only a function of the much reduced hedge book. We're still seeing very limited interest in strategic hedging".

Actual mine production was reported to have continued its declining trend, with notable losses seen in South Africa and Indonesia. The scale of the drop came as something of a surprise but of far greater importance to the price was the surge in scrap to a record high. Much was driven by high prices in the developing world, especially the Middle East and in particular Turkey, although distress selling as a product of the economic crisis featured as a reason behind high levels of recycling in the industrialised world. A good part of the overall increase in scrap, however, was neutralised by the marked drop in net official sector sales. This was said to be chiefly the result of low levels of selling by the Central Bank Gold Agreement countries, although net buying by countries outside this grouping also featured, particularly in the fourth quarter.

The statistical highlights of the report are outlined overleaf.





Supply Highlights

- Global **mine production** fell by a moderate 3% in 2008 to the lowest level since 1996. The largest drop last year was seen in Indonesia, whilst much of the remaining losses were concentrated in South Africa and Australia. In contrast, gold production in the CIS (primarily in Russia) and Latin America (chiefly concentrated in Peru and Mexico) saw gains. China maintained its position as the leading gold producing country, while the United States moved into second place.
- Annual average global total **cash costs** in US dollar terms increased sharply by almost 20% year-on-year, as operations worldwide faced surging input costs. Australian operations posted the sharpest annual total cash cost increases for the second consecutive year.
- Net **official sector sales** plummeted by 49% year-on-year in 2008 to just 246 tonnes. The decline was the result of lower CBGA disposals and modest net purchases outside the group. Driven by low lease rates and, above all, growing concern over counterparty risk, central banks continued to exit from the lending market.
- Global **scrap** supply surged by 27% to over 1,200 tonnes in 2008 fuelled by rising gold prices and the economic downturn. Although growth in recycling was concentrated in the Middle East and East Asia, similar trends were also apparent in western markets.

Demand Highlights

- Total **fabrication** fell by 7% to 2,850 tonnes last year, its lowest level since 1988. The bulk of the loss was attributable to the **jewellery** sector, with its slump in the first half, followed by a slight recovery in the third quarter and near stability in the fourth. In terms excluding scrap, jewellery's decline in 2008 was yet steeper at almost 20%, with the first half loss ramping up to over a third. The principal reasons for this were high and volatile gold prices, together with the downturn in the global economy. The Indian market was the worst affected in terms of volumes while US jewellery consumption fell by nearly one-third last year to its lowest level in GFMS' 20-year series. The only bright spot was seen in China where investment-related demand contributed to a notable rise in jewellery offtake. The largest drop for **other fabrication** occurred in electronics, a result of the economic downturn leading to depressed orders and supply chain de-stocking.
- Implied **net investment** last year soared by nearly 76%, with a significant amount of support arising from record inflows into gold ETFs during the year. Overall, 2008 as a whole saw wide fluctuations in investment activity accompanied by an eventual divergence between 'paper' products and gold's physical investment markets. **Official coin** minting hit a two-decade high, climbing by over 40% on the back of stellar demand in North America and Europe. **Bar hoarding** took off by an impressive 62%, driven mainly by healthy demand in East Asia and to a lesser extent the Middle East.
- Producer **de-hedging** remained at an elevated level in 2008, generating almost 360 tonnes of physical demand. This was concentrated in the first half of the year, with producers actively seeking uncapped exposure to the gold price. This left the outstanding global producer hedge book at a year end level of below 500 tonnes in delta-adjusted terms.

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Gold Survey 2009 contains over 120 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 £325 or US\$595 / €440 per copy. For orders and to receive further product information please contact Elena Patimova - Tel: +44 (0)20 7478 1777, Fax: +44 (0)20 7478 1779, Email: sales@gfms.co.uk, Web Site: www.gfms.co.uk, Online Shop: <http://shop.gfms.co.uk>

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