



Publication of Gold Survey 2010 - Update 1

Gold Forecast To Rally Through The \$1,300 Barrier This Year As An Uncertain Economic And Financial Outlook Stokes Investor Interest

GFMS released *Gold Survey 2010 - Update 1* today, their latest report on the gold market, at a launch in London. The following details some of the highlights of the report from the briefing given at the launch by Philip Klapwijk, chairman of the independent metals research consultancy.

The report devotes much space to the critical area of investment demand, as the consultancy sees this as the prime driver of the gold price's rally during the first half of the year to record highs. Klapwijk noted here, "gold certainly lived up to its reputation as a safe haven in troubled times. Just look at the explosion in investor interest that followed the sovereign debt crisis unfurling in Europe. And it came as little surprise that we saw this interest strongest in arenas with a clear physical link, such as the ETFs, or in regions with memories of currency shock, such as German-speaking Europe".

Other factors cited in explaining investor interest included a shaky outlook for the industrialised world's economies, the maintenance of low interest rates and the still feared threat of future inflation. One traditional driver of gold strength, US dollar weakness, proved conspicuously contrary as that currency also benefited from a flight to quality and so frequently strengthened in tandem with gold.

Update 1 also highlights the critical importance of GFMS' unique coverage of *all* aspects of the gold market; despite all this bullish talk of buoyant investment demand, it was, in totality, considerably lower than in the first half of 2009, when financial markets were still reeling in the aftermath of the Lehman collapse. The consultancy feel that the ability of the gold price to manage record highs this year was to a large extent due to the firmer footing of falling scrap and recovering jewellery demand. Klapwijk added, "it's hard to see how price gains can be truly sustainable when major fabricators like India and Turkey are net exporters of bullion, the position we were in early last year. However, fast forward to 2010, when Indian offtake jumped by around 170 tonnes, and you can immediately see how investment had a far firmer base to build on".

Another factor that GFMS see as significant to the rally was the shift in the official sector to net purchasing in the first half, a development chiefly attributable to the collapse in selling by signatories to the Central Bank Gold Agreement. Klapwijk noted, "the material contribution from central banks' net buying of around 90 tonnes in the first half was itself useful. But arguably of more importance was the broader shift in sentiment - investors for instance could be more confident of solid price gains, knowing central banks were in a sense on their side".

A key element of the *Update* and the presentation is GFMS' views on where the gold market might be heading and, on that score, the consultancy remains relatively bullish, with Klapwijk adding, "I think we could easily see gold spike comfortably above \$1,300 before the year's out. We'll probably get a fair bit of profit taking as we head into the New Year but I wouldn't take that as a sign that the party's over - further gains in 2011 are far from out of the question".

GFMS feel that key to ongoing price strength are the extraordinary monetary and fiscal policies being enacted by the industrialised world's governments in the face of sluggish economic growth, the spectre of a double-dip recession and already uncomfortably high unemployment. Such developments were seen undermining the value of equities or other conventional assets, ensuring the maintenance of low interest rates and stoking potential future inflation. Klapwijk also added, "the US has so far managed to sidestep the sovereign debt crisis. But that could change in the future and that would undermine the dollar and boost gold".

Gold's fundamentals were also seen as being unlikely to hinder any rally as robust emerging market GDP growth meant jewellery demand would probably only fall appreciably and scrap rise if prices were to rally substantially. Furthermore, the interplay of these two and the price were seen providing a good floor to the market. This, plus further small scale gains in electronics demand, were seen as sufficient to broadly counter negatives such as the absence of substantial producer de-hedging, the slight rise in mine output and a return to modest net selling by the official sector. The consultancy also added that the risk to its forecast on central bank activity was firmly to the buy-side as it was far easier to envisage additional purchases than sales.

Please see overleaf for further details on *Gold Survey 2010 - Update 1* and for all contact information.





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Gold Survey 2010 - Update 1: In just 40 pages, *Update 1* identifies the most important economic, sociopolitical and market-specific issues facing the gold market. The publication can be ordered from GFMS for £250 / US\$460 / €350 per copy. For orders and to receive further product information please contact Emma Hastings - Tel: +44 (0)20 7478 1750, 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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