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## **Publication of *Gold Survey 2003***

### **Price Rally Back Over \$350 Expected in Second Half 2003 as Investor Activity Returns on Economic Grounds**

GFMS (Gold Fields Mineral Services) launched *Gold Survey 2003* today, the 35<sup>th</sup> edition of their authoritative annual survey of the world gold market, at simultaneous 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, Managing Director of the independent precious metals research consultancy.

GFMS believe the recent correction in the gold price from its early February high could at least be partially reversed, probably in the second half of the year, as investment demand begins to pick up again, though on this occasion probably more on economic rather than political grounds.

Klapwijk commented, “the war premium may have imploded as some uncertainty lifted and on euphoria over what looks like a relatively easy victory for the US led forces in Iraq. But that’s not done too much to change the economic outlook which remains pro-gold”. The consultancy see further stock market weakness, especially in the US, as a strong possibility, chiefly on the basis of disappointment over poor economic growth for the near future triggering a slump in equities. This, in conjunction with a still weak US dollar and low interest rates, was seen as a framework within which investors could return to gold to drive the price back over \$350. Klapwijk also added, “a return of the rally would be all the more likely and that much stronger if the US decides to extend its war on terror post-Iraq”.

GFMS see investor interest as having been crucial last year with Klapwijk noting, “if we hadn’t seen investor interest pick up, and the hefty cut in producer hedge books, we could have easily seen prices stuck below \$300. Instead, we saw gold rally 25% over the course of the year”. *Gold Survey 2003* attributes much of the rise in investment to growing political tensions, such as the Iraqi crisis, which encouraged investors to seek ‘safe haven’ asset classes. GFMS believe economic issues, such as stock market falls, were also important here.

The report devotes much attention to the large cut in producer hedge books last year. GFMS note caution, however, on the price impact of this as much of the de-hedging was believed to be passive (delivering into contracts rather than actively buying back). But as Klapwijk added, “its timing was at least useful, for example being strong in the third quarter when investor interest was flagging. Without de-hedging, prices may well have gone sub-\$300 last summer”.

The importance of de-hedging and investment becomes apparent when viewed in comparison to fabrication, which GFMS estimate to have fallen by almost 350 tonnes or 10%. Much of this was attributed to gold’s rally, which hit demand in price sensitive markets such as India, and the global economic slowdown.

The price sensitive markets were also seen as important through their boost to the global scrap number, which rose over 100 tonnes last year. The *Gold Survey*, however, notes that the main component of supply, mine production, had only a modest impact on prices last year in that its change, a fall of 36 tonnes or 1%, was slight. Official sector sales in contrast were seen as having perhaps a greater impact. GFMS point out that, whilst largely predictable, net sales were still estimated to have risen by 5% and they reached their highest level since 1992. But as Klapwijk noted, “central banks’ timing was more interesting – they held back in the third quarter when prices were soft but got more active in the fourth when the rally was going great guns”.

The statistical highlights of the report are outlined overleaf:

## Supply Highlights:

- World gold **mine production** in 2002 fell by a modest 36 tonnes year-on-year to 2,587 tonnes, the first decline since 1994. The drop was mainly due to heavy falls in the United States and Indonesia, which countered gains elsewhere, for example, in Africa, South America (chiefly Peru), China and Russia.
- Total **cash costs** in 2002 rose by \$4/oz to \$180/oz – their first rise in five years. Lower production, higher power costs and currency appreciation were the main factors behind this change. South Africa was an important exception here as its costs fell, making it the world's lowest cost gold producer.
- Net **official sector sales** in 2002 increased by 5% to 556 tonnes with heavy selling seen during the fourth quarter when prices reached their highs. Signatories to the Central Bank Gold Agreement accounted for 74% of total net sales. Lending in contrast fell by 266 tonnes largely due to low lease rates.
- **Scrap** volumes jumped 18% to 835 tonnes, chiefly as a result of the gold price rise though currency issues at times also played their part. Much of the increase came from the Middle East and then India.

## Demand Highlights:

- Total **fabrication** declined almost 10% year-on-year to 3,175 tonnes, mainly due to the 11% slump in **jewellery** offtake. Many of the other minor areas of fabrication saw modest gains, for example the **dental** and **electronics** sectors, or even a major rise, in the case of **official coins** (up over 22%). The chief exception was **other industrial & decorative** which fell more steeply than jewellery, slipping 19%.
- **Jewellery fabrication** in 2002 fell 11% to 2,689 tonnes, its lowest level since 1994. The decline was yet steeper at 17% on the basis of fabrication excluding scrap. The chief causes of this slump included gold's price rally, slowing global economic growth, political and economic uncertainties, such as the Iraqi crisis, and changing consumer expenditure patterns.
- The decline in net outstanding **producer hedge** positions accelerated sharply last year to 423 tonnes from 151 tonnes in 2001 as miners' price expectations rose, shareholders pressured company boards to reduce their hedge books and as the contango stayed weak.
- Economic and political concerns led to an important swing to **implied net investment** of 128 tonnes last year from net disinvestment of 61 tonnes in 2001. In contrast, **bar hoarding** only rose a modest 2% to 252 tonnes. The broader **World Investment** (which comprises the implied net figure, bar hoarding and official coins) nearly doubled to 449 tonnes in 2002, a tonnage whose value equivalent is approximately \$4.5 billion.

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*Gold Survey 2003* 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 £255/US\$395/€90 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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