



Publication of GFMS / Investec 2004 Q2 Hedging Report

Producer Dehedging Accelerates in Q2 to 3.4 Moz (106 t)

Outstanding producer hedge positions were slashed by 3.4 Moz (106 t) in the June quarter. The cut in the delta-adjusted position left the book at 64.2 Moz (1,997 t) - 77% of annual mine production. The main factor behind the marked decline in the hedge book was a reduction in nominal contract volumes. The delta affect in Q2 was minimal, although a rising delta against the sold calls and sold barrier calls, coupled with a modest reduction in the delta against the purchased puts, left the implied options delta 6% higher quarter-on-quarter. This offset the decline in nominal positions by an estimated 0.4 Moz (12 t).

Aside from the ongoing delivery into existing positions and buybacks, there were two major hedging events in Q2, namely the AngloGold Ashanti merger, which resulted in the integration of the industry's third and fifth biggest hedge books to create the world's second largest gold hedge book, and secondly, Newcrest's book restructure. Commenting on the latter, Senior Analyst Bruce Alway stated "the shift from options to forward sales is a strategy that we have seen on more than one occasion over the last 12 months". Last year, for instance, Barrick eliminated its options book, whilst in Q1 Buenaventura completed a major restructure, converting a large portion of its barrier products into forwards.

Realised prices (for all of the companies that report this data) averaged \$387/oz, or roughly \$6/oz lower than the period average spot price. Prices ranged from a low of \$322/oz to a high of \$447/oz with just over 60% of mine production delivered at prices lower than spot. Producers with hedge books achieved a weighted average price of \$385/oz, (close to \$8/oz lower than average spot) whilst their unhedged counterparts secured an average of \$394 (or \$1/oz higher than spot).

Included in the current quarterly report, GFMS has charted the sensitivities of the largest four hedge books (Barrick, AngloGold Ashanti, Placer Dome and Newcrest) against changes in the spot gold price. Alway added, "stress testing company hedge positions has generated some very interesting profiles. Barrick and Newcrest are flat lines, reflecting a delta of 1 for their forward books. On the other hand, AngloGold Ashanti's and Placer Dome's responses to changes in the spot price are predominantly driven by their volumes of sold calls and purchased puts respectively".

The seventh edition of the GFMS/Investec quarterly hedge analysis will be available for download on Wednesday 18th August at www.gfms.co.uk. The GFMS evaluation is carried out using the Brady Trinity™ (www.bradytrinity.com) Risk Management and Trading System, with a detailed trade-by-trade analysis of gold mining companies' hedging activity.

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Press Contacts: Paul Walker or Bruce Alway, GFMS Limited, Hedges House, 153-155 Regent Street, London, W1B 4JE, UK, tel: +44 (0)20 7478 1777, fax: +44 (0)20 7478 1779, email: gold@gfms.co.uk, web site: www.gfms.co.uk

