

Publication of GFMS / Investec 2004 Q1 Hedging Report

Consultancy Sees Gold De-hedging Maintained at High Quarterly Rate of 2.7 Moz (85 t)

According to the GFMS/Investec report released today, the pace of de-hedging picked up in Q1 with an estimated 2.7 Moz (85 t) cut in the delta-adjusted position. The figure was more than double that measured in the previous quarter and left the adjusted book at 67.6 Moz (2,100 t), equivalent to 83% of annual mine production.

Commenting on the findings, made available to Investec clients last week, analyst Bruce Alway stated “the decline was largely concentrated in the options positions, which were cut by 2.1 Moz in delta-adjusted terms”. The balance of the fall was a result of a reduction in forwards, which were scaled back by 0.6 Moz (19 t) quarter-on-quarter.

Concerning the offset provided by new hedging Alway added that “in total, project hedging, contract deferrals and additions to hedge books added an estimated 0.6 Moz to the delta-adjusted gold book”. As for a possible return to hedging, Alway maintained that the overriding sentiment amongst the industry’s largest hedgers was to reduce positions still further. He pointed out that “the top 10 delta-adjusted hedge books account for over 80% of the global position”.

The commitments that the bulk of these (top 10) players have already made to unwinding cover mean that, even after taking into account higher levels of project hedging and some opportunistic protective hedging, the consultancy expects the global position to be cut by between 11 and 13 Moz (340 to 400 t) in 2004.

New Features in the Report:

GFMS added a further level of detail to its quarterly analysis of the global hedge book in a report released today on behalf of Investec, the international specialist banking group. New permanent features of the quarterly review include:

- 1) the main players - the identification of the top de-hedgers within the period
- 2) de-hedging outlook - an analysis of the delivery schedule of the outstanding producer position at the end of the each three month period, providing a basis for expected levels of de-hedging in the balance of the year and a base case level of de-hedging going out over three years.
- 3) sensitivity analysis - additional work on the sensitivity of the options book, which is now modelled on a product-by-product basis, has also been included in the latest edition - the delta response of the net vanilla contracts and barrier options to changes in the gold price are clearly illustrated providing an important insight to the main drivers behind changes in the delta-adjusted volume of the options portion of the hedge book.

The sixth edition of the GFMS-Investec quarterly hedge analysis (as well as back copies and the 2003 Annual edition) is now available for download at www.gfms.co.uk. The GFMS evaluation is carried out using the Brady TrinityTM (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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