



**Embargoed for publication or distribution by wire  
until 18:00 hrs London time on Thursday 17<sup>th</sup> January 2002**

## **Publication of *Gold Survey 2001 - Update 2***

**Average gold prices are forecast to firm to \$282 for first half 2002 as expectations are for higher investment and a cut in producer hedging to outweigh a fall in fabrication. Further upside is thought a possibility, particularly if investment proves stronger.**

GFMS (Gold Fields Mineral Services) released *Gold Survey 2001 - Update 2* today, their latest report on the gold market. A summary of the findings of *Update 2* was given by Philip Klapwijk, Managing Director of GFMS, at a conference in Toronto organised by the precious metals consultancy.

GFMS forecast prices will firm from a second half 2001 average of \$276 to a first half 2002 average of \$282. Fabrication demand is expected to show further falls but this is expected to be more than matched by a rise in investment and a modest fall in producer hedging. The forecast range is \$270-\$295. They believe a sustained breakout is more likely to the upside but, as Philip Klapwijk commented, "this is going to need a much more positive outcome on the investment front – fabrication may not offer much fresh support until the second half."

In their initial review of the market in 2001, GFMS see the resilient \$260-\$280 range, rather than the short-lived price spikes in May and September, as last year's most significant price feature. They argue that key to this range were fabrication's increasing price elasticity and stronger scrap responses that pulled breakouts back towards the price equilibrium. Expectations were also singled out, with Klapwijk adding, "there weren't many people out there in the mood to short gold. The collapse in the contango was obviously important here. But it was economic and political uncertainties, 11<sup>th</sup> September most obviously, that were crucial."

GFMS believe that demand elasticity and scrap were in a position to keep prices range bound, in large part, through the relative weakness of the investment response, even after 11<sup>th</sup> September. A substantial change in investment during 2001 was noted but this was seen much more as a curtailment of (implied net) disinvestment rather than fresh investment. (The former is estimated to have dropped from 322 tonnes in 2000 to 46 tonnes last year). Total world investment, which includes coin sales and bar hoarding, was estimated to have swung to a strong positive 235 tonnes from 61 tonnes of disinvestment in 2000. Klapwijk commented, "people might have expected stronger prices on the back of these numbers but the gains here were almost all wiped out by the drop in fabrication." This GFMS estimate to have fallen 269 tonnes, or over 7%, to 3,483 tonnes.

Two other factors were seen to be operating in almost equal and opposite directions. Producer hedging appeared on the demand side for the second year running, with an estimated 101 tonne cut in the global hedge book. This was ascribed to such factors as the low contango, ongoing post-September 1999 caution and currency depreciation. Scrap volumes, on the other hand, surged by 87 tonnes, most notably in the Middle East and East Asia.

The relative stability and predictability of the other main fundamentals during 2001 were also singled out as important for the resilience of that year's price range. Mine production, for example, was estimated to have risen just 0.6% year-on-year. Similarly, net official sector sales were thought to be virtually unchanged on 2000 and this expected level of sales GFMS believe was already factored into the \$260-\$280 range.

Some of the statistical highlights of the report are outlined overleaf:

### Supply Side Highlights

- Global **mine production** rose less than 1% year-on-year in 2001 to 2,595 tonnes as the gains from a surprisingly strong first half (up 5% year-on-year) were whittled back by a weak second half (down 3%). The strongest rise was in Indonesia, where Grasberg alone added over 30 tonnes year-on-year. It is estimated that total mine production in the first half of 2002 will fall but only by three tonnes and the full year could see a slight rise of under 1% as output from new mines and expansions may exceed losses from mine closures.
- Total cash **costs** for the first nine months averaged \$178/oz, down 7% from the 2000 average. This was mainly the result of currency weakness, particularly in South Africa.
- **Official sector** net sales in 2001 totalled 468 tonnes or virtually unchanged on the figure for 2000. Of this total, signatories to the Central Bank Gold Agreement accounted for 420 tonnes. This picture is expected to remain stable for the first half of 2002, with net sales forecast to fall only 10 tonnes year-on-year.
- **Scrap** volumes surged 14% year-on-year to 695 tonnes due to high domestic prices and economic crises in several countries, in particular Turkey, Egypt and Indonesia.
- **Net disinvestment** (excluding bar hoarding and coin fabrication) shrunk dramatically to 46 tonnes in 2001 from 322 tonnes the year before. However, this was much more the result of a reduction in the volumes being sold back than a countervailing rise in fresh investment.

### Demand Side Highlights

- Total world **fabrication** in 2001 fell by an estimated 7% year-on-year to 3,483 tonnes. The greatest absolute losses were recorded for jewellery demand but the steepest proportionate fall was for electronics demand. This slumped 29%, with the largest losses occurring in Japan and the United States. The overall decline accelerated during the year and initial prospects for first half 2002 are for further losses, mainly in jewellery.
- World **jewellery** demand fell 6% year-on-year to 2,995 tonnes in 2001. Much of this was due to a slowdown in the world economy, which fed through, for example, to weak US consumption. A continuation to this poor macro-economic picture is forecast to bring about a 10% fall in first half 2002 jewellery fabrication.
- **Producer hedging** added to demand for the second consecutive year, with a net decline in outstanding positions of an estimated 101 tonnes from end-2000. The reasons for this included the virtual absence of a contango, widespread producer currency weakness and ongoing caution stemming from the September 1999 crisis. Hedging is expected to continue falling in the first half of 2002, by a modest 26 tonnes.
- **Bar hoarding** is estimated to have risen a modest 3% year-on-year to 220 tonnes, due mainly to gains in Japan, India and the Middle East.

**Gold Survey 2001 – Update 2** provides an initial review of the gold market in 2001 and a forecast for the first half of 2002 with 30 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 £150 or US\$245/•245 per copy.

**For orders** and to receive further product information please contact Ms L Perrard on:

Tel: +44 (0)20 7539 7820, Fax: +44 (0)20 7539 7818, Email: [gold@gfms.co.uk](mailto:gold@gfms.co.uk), Web Site: [www.gfms.co.uk](http://www.gfms.co.uk)

**Press Contacts:**

Philip Klapwijk, Paul Walker or Hester le Roux, GFMS, Goodwins House, 55-56 St Martin's Lane, London, WC2N,  
Tel: (+44) 20 7539 7820, Fax: (+44) 20 7539 7818, Email: [gold@gfms.co.uk](mailto:gold@gfms.co.uk)

**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. Its next gold market report, *Gold Survey 2002*, will be published on 24th April 2002.