

**Embargoed for publication or distribution by wire until
13.00 hrs London time on Thursday 16th January 2003**

Publication of *Gold Survey 2002 – Update 2*

Renewed investor interest and sustained de-hedging cited as chief factors behind gold's actual price rise in 2002 and forecast rise in first half 2003.

GFMS (Gold Fields Mineral Services) released *Gold Survey 2002 - 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 today in Toronto organised by the precious metals consultancy.

GFMS believe a marked rise in investment last year was crucial in explaining gold's 25% intra-year rise, the largest percentage gain since 1979. Klapwijk commented, "our current estimates show investment as having more than doubled but we are being cautious here – it's possible the actual figure would have been much larger still." Klapwijk did, however, point out, "the dollar value of the numbers we're talking is still tiny compared to what's available. Also much of it came from a small number of high-net-worth individuals and some speculative funds. That doesn't make for very firm foundations, which is critical when concerns are strong that recent gains aren't sustainable. The industry's challenge is to get more institutional investors on board who'll allocate investment to gold on long term considerations, not just to take advantage of a price spike."

The consultancy attributes last year's rise in investment to political uncertainties, most obviously the US-Iraq conflict, and to economic developments such as falling stock markets, corporate fraud, low interest rates and a weaker US dollar. Caution was urged over the significance of the greenback's strength; it was mainly thought important last year as people decided to trade the dollar/gold relationship.

Low interest rates were also thought to be behind the ongoing high level of producer de-hedging as this limits the advantage to be gained from forward sales. However, GFMS see producers' price expectations as arguably more important in explaining their readiness to cut back their hedge books, creating a self-fulfilling 'virtuous circle'. Klapwijk also added, "de-hedging could prove important this year for price support if investors prove as fickle as some fear and fabrication remains poor."

Fabrication itself was estimated to have fallen over 10% in 2002, with these losses blamed overwhelmingly on the price rise which hit offtake in the price sensitive markets such as India and the Middle East. In addition, the consultancy is expecting only a partial recovery of 4% in the first half of 2003 and this outlook rests on one major proviso, with Klapwijk noting, "if we don't see prices easing back to more like \$330 and instead they hold at over \$350, we could easily see first half fabrication slumping below last year's low levels."

GFMS see supply as having been less critical in determining price moves last year. Klapwijk commented, "mine production was down but by less than 60 tonnes. We'll probably have to wait until at least 2004 before falls in mine supply get more interesting." Official sector sales were also estimated as broadly flat last year though the consultancy does point out the possibility that sales in 2003, outside of Europe, could see an uptick in response to recent price gains.

The balance of these factors leads GFMS to forecast an average price for the first half of this year of \$330, down on current levels but up 4% on the second half 2002 average. However, Klapwijk warned of possible volatility; "if the Iraqi crisis blows up into a lengthy war, we could easily see the market over \$370. On the other hand, if the whole thing turns out to be a damp squib and investors bail out, below \$310 is on the cards."

The statistical highlights of the report are outlined overleaf:

Supply Highlights:

- World gold **mine production** fell a modest 2% year-on-year to 2,543 tonnes in 2002, the first fall in output since 1995. Lower grades at the world's largest gold producing mine, Grasberg in Indonesia, and at the Nevada operations in the United States contributed to the near 60 tonne drop. Output in the first half of 2003 is expected to show a slight 3% rise year-on-year though full year volumes should be broadly flat.
- **Cash costs** for the nine-months to September 2002 fell \$2/oz year-on-year to \$176/oz. The drop was chiefly due to weaker local currencies against the US dollar. Indeed, local currency costs rose for several producers.
- Net **official sector sales** last year are estimated at 549 tonnes, a 4% rise year-on-year. Sales were again dominated by Central Bank Gold Agreement signatories who accounted for 74% of net sales. First half 2003 sales are expected to show a double-digit rise to over 300 tonnes, in part through gold's recent price gains.
- **Scrap** rose by 14% year-on-year to 778 tonnes, chiefly as a result of the price rally, with the largest increase being seen in the Middle East. First half 2003 volumes are forecast to ease back to under 350 tonnes.

Demand Highlights:

- Total **fabrication** fell by over 10% in 2002, mainly as the price rise led to a slump in jewellery fabrication in price sensitive markets such as the Middle East and India. A recovery for the latter is expected to feed through to a 4% rise in global fabrication in the first half of 2003.
- **Jewellery fabrication** fell 12% to 2,704 tonnes with losses seen in all the major fabricating regions, especially India. A good recovery is forecast in India in first half 2003, if only in comparison to a poor first half 2002 and provided prices ease back below \$340. However, further falls in Europe, N America and the Middle East should constrain the extent of the global gain. **Other industrial and decorative** offtake fell to an 11-year low in 2002 whilst the **electronics** sector managed a 1% rise on 2001's very depressed levels.
- Net outstanding **producer hedge** positions declined by 352 tonnes last year. Much of the drop was due to producers' price expectations though the minimal contango and, to some extent, the consequences of corporate takeover activity also contributed. The scale of de-hedging is expected to decline in the first half of 2003 but still reach a significant 135 tonnes.
- **Implied net investment**, at 103 tonnes, returned to the demand side in 2002, chiefly as a result of renewed private investor and fund interest. This is expected to again contribute to demand in first half 2003.
- **Bar hoarding** rose 3% to 252 tonnes on the back of economic and political uncertainty last year. Levels are expected to slip back by 7% in first half 2003 as no repeat of Japan's exceptional first quarter in 2002 is likely.

© **Copyright Gold Fields Mineral Services Ltd January, 2003.** Whilst every effort has been made to ensure the accuracy of the information used in this document, Gold Fields Mineral Services Limited (GFMS) cannot guarantee such accuracy and GFMS does not accept responsibility for any losses or damages arising directly, or indirectly, from the use of this document.

Gold Survey 2002 – Update 2 provides an initial review of the gold market in 2002 and a forecast for the first half of 2003 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 £190 or US\$280/€295 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, Web Site: www.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.

Press Contacts:

Philip Klapwijk or Paul Walker
Tel: (+44) 20 7539 7820

Goodwins House
55-56 St Martin's Lane
London WC2N 4EA
Email: gold@gfms.co.uk
Fax: (+44) 20 7539 7818