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Publication of *Gold Survey 2008 - Update 2*

Investment Surge Stemming from US Centred Fiscal and Monetary Largesse Creates Potential for Fresh All Time Gold Price High in First Half 2009

GFMS released *Gold Survey 2008 - Update 2* today, their latest report on the gold market. A summary of the findings of the report was given by Philip Klapwijk, GFMS' executive chairman, at a presentation in Toronto organised by the precious metals consultancy.

A key feature of the report is GFMS' forecast that gold prices could achieve a fresh all time high in the first half of 2009 as net investment surges. The consultancy noted that there has already been several months of rocketing demand, chiefly in Europe and North America, from certain investors, primarily high net worth and retail, but this has been masked by heavy fund redemptions as cash has been sought to cover losses elsewhere, meet margin calls and so forth. Klapwijk added, "if it hadn't been for this fund selling, we'd be easily back over $1,000 by now and, as soon as it quietens down, I'm sure a strong rally is going to emerge".

GFMS believe that the main motivation behind this expected surge in investment is risk aversion and a desire to preserve wealth, as illustrated in its focus being physical bullion, often delivered, or allocated metal accounts. Gold was also seen as benefiting from concerns over the solidity of other assets, be that cash at a time of bank failures, equities as we head into a possibly deep recession or bonds as the threat of inflation looms. The latter was seen as particularly important, with Klapwijk commenting "we've seen some pretty extraordinary monetary and fiscal policies getting proposed by the US and other governments and this all has the potential in time to spark some serious, and maybe, sustained inflation. And nor can we ignore the likelihood of dollar weakness, perhaps even a dollar bust, as US creditworthiness gets called into question".

The consultancy sees gold's fundamentals as relatively neutral in the near term, with the damage from weak demand being largely neutralised by restrained supply. Scrap in the first half of this year, for example, is only forecast as broadly flat year-on-year and official sector disposals are expected to continue falling. The report still envisages that selling will be dominated by the signatories to the Central Bank Gold Agreement (CBGA) and that buying by banks outside this group will remain limited, with no hint made of any purchases by the big dollar holders in East Asia. On the demand side, high and volatile prices plus the slowdown in world GDP growth were forecast to cut jewellery demand by 11%. Klapwijk added, "An 11% drop may sound restrained to some but demand in the first half of last year was fairly feeble and the actual tonnage we're proposing for this year could easily be a 20-year low".

Jewellery offtake was also estimated to have declined by 11% in 2008, chiefly due to the damage from high and volatile prices, especially in the developing world, and the slide into recession in many countries, in particular the United States. GFMS also sees price expectations as important, with Klapwijk commenting, "in the third quarter last year, we saw a major bounce back in Indian offtake, even though the rupee price was little changed on earlier in the year, - but people thought some decent price gains were in the offing. And without that India-centred rebound, we could easily have seen dollar gold properly breaching the $700 barrier".

Update 2 also sets out the "often overlooked" contribution to demand in the first half of last year from producer de-hedging at an unexpectedly large volume of over 250 tonnes. There was also an unanticipated fall in mine output in the first half. Supply in total was in fact relatively restrained as central bank selling for the full year fell by a hefty 40% or so, while scrap rose by 'only' 13%, despite the price hike of 25%, reflecting earlier releases of near market supplies.

Despite the contribution from restrained supply and pockets of demand strength, GFMS still see investment as the chief driver of price action last year. The rally to an all time high over $1,000 in March, for example, was ascribed to a 'perfect storm' of such factors as dollar weakness, oil price gains and financial instability, both actual and feared following the collapse of Bear Stearns. The slump in prices, particularly after the July price spike, to around $700 by the fourth quarter was also attributed mainly to investors. This was initially said to be largely the product of selling inspired by dollar gains and a general exodus from commodities as world GDP growth estimates were cut. However, it was the later "forced" selling, noted above, by the funds that proved particularly undermining. The final 'chapter' in the price story was the emergence of heavy physical buying towards year end, the scale of which was said to have been sufficient to have swung implied investment activity from net selling in the third quarter to net inflows in the fourth and to have laid the bedrock for future price gains.

The statistical highlights of *Update 2* are contained overleaf.

Supply Highlights

- **Mine production** in 2008 fell by a provisional 88 tonnes, its third consecutive year of decline. Losses were recorded in a wide range of countries but much was attributable to Indonesia, South Africa and Australia. In contrast, gains were recorded for China and Russia. Output in the first half of 2009 is forecast to grow slightly, although that is in comparison to a weak first half in 2008. Producers' total **cash costs** rose by 22% year-on-year to an average over $470/oz for the nine months to end-September.

- Net **official sector sales** fell by over 40% to just under 280 tonnes in 2008. This was mainly due to lower sales by CBGA signatories, a change in turn largely driven by the disappearance of Spain as a seller, while central banks outside this group continued as small scale net purchasers. In the first half of 2009, total net sales are forecast to fall yet further year-on-year.

- Higher gold prices and more distress selling helped lift **scrap supply** by around 13% in 2008, although the total remained below the 2006 record, reflecting how much near-market supplies had emerged then. Much of 2008's rise was due to the Middle East, with increases in the other major regions a more modest 6-10%. First half 2009 volumes are forecast as roughly flat year-on-year.

Demand Highlights

- **Jewellery demand** fell by 11% in 2008 to its lowest level since 1989. The bulk of losses were in the first half, while third quarter demand even rose slightly. Much of the overall drop was due to high and volatile prices, although price expectations were also important, being largely responsible for a robust third quarter in India and thus in the global total. The slowdown in world GDP growth was also significant, explaining much of the slump of around a third in US jewellery consumption and double-digit losses in many EU countries. China, however, still managed growth, if much slower. **Other fabrication** rose by 2%, entirely as a result of a rise of over 40% for official coins as all the remaining areas saw losses, chiefly through economic malaise and high gold prices. Fabrication is forecast to fall in the first half of 2009 as economic sluggishness and gold price strength hits all areas except coins.

- **Implied net investment** grew by around 20% to a little over 200 tonnes in 2008. The first half accounted for the vast majority of this as investors then reacted strongly to bank failures, a weak dollar, rising oil prices and so forth. In contrast, the third quarter saw net selling, chiefly due to heavy fund redemptions stemming from such factors as the need to cover losses elsewhere. This was eventually overcome by an end year surge in demand centred on physical bullion and driven by risk aversion or wealth preservation. Such factors are forecast to drive the implied figure higher in the first half of 2009 to almost 400 tonnes. **Bar hoarding** also grew strongly in 2008, thanks to a robust second half, and further year-on-year gains are forecast in the first half of 2009.

- Producer **de-hedging** fell by a provisional 23% to just under 350 tonnes, cutting the outstanding global hedge book at year end to under 500 tonnes. The vast bulk of activity took place in the first half and was attributable to actions by Anglogold Ashanti and Barrick. De-hedging in the first half of this year is forecast to fall heavily, chiefly on account of the much smaller outstanding book.

About Gold Survey 2008 - Update 2: In just 40 pages, *Update 2* identifies the most important economic, sociopolitical and market-specific issues facing the gold market. The publication can be ordered from GFMS for £250 or US$460 / €350 per copy. For orders and to receive further product information please contact Ms Elena Patimova on: Tel: +44 (0)20 7478 1777, Fax: +44 (0)20 7478 1779, Email: sales@gfms.co.uk, Web Site: www.gfms.co.uk, Online Shop: http://shop.gfms.co.uk

Note to Editors about GFMS Limited:
GFMS Limited is the world's foremost precious metals consultancy, specialising in research into the global gold, silver, platinum and palladium markets. GFMS is based in London, UK, but has representation in Australia, India, Spain, France, Germany and Russia, and a vast range of contacts and associates across the world.

Press Contacts: Philip Klapwijk or Paul Walker, 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

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