GFMS

# Gold Survey 2011

Philip Klapwijk

Executive Chairman, GFMS Ltd.

*London, 13th April 2011*

GFMS

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GFMS Limited

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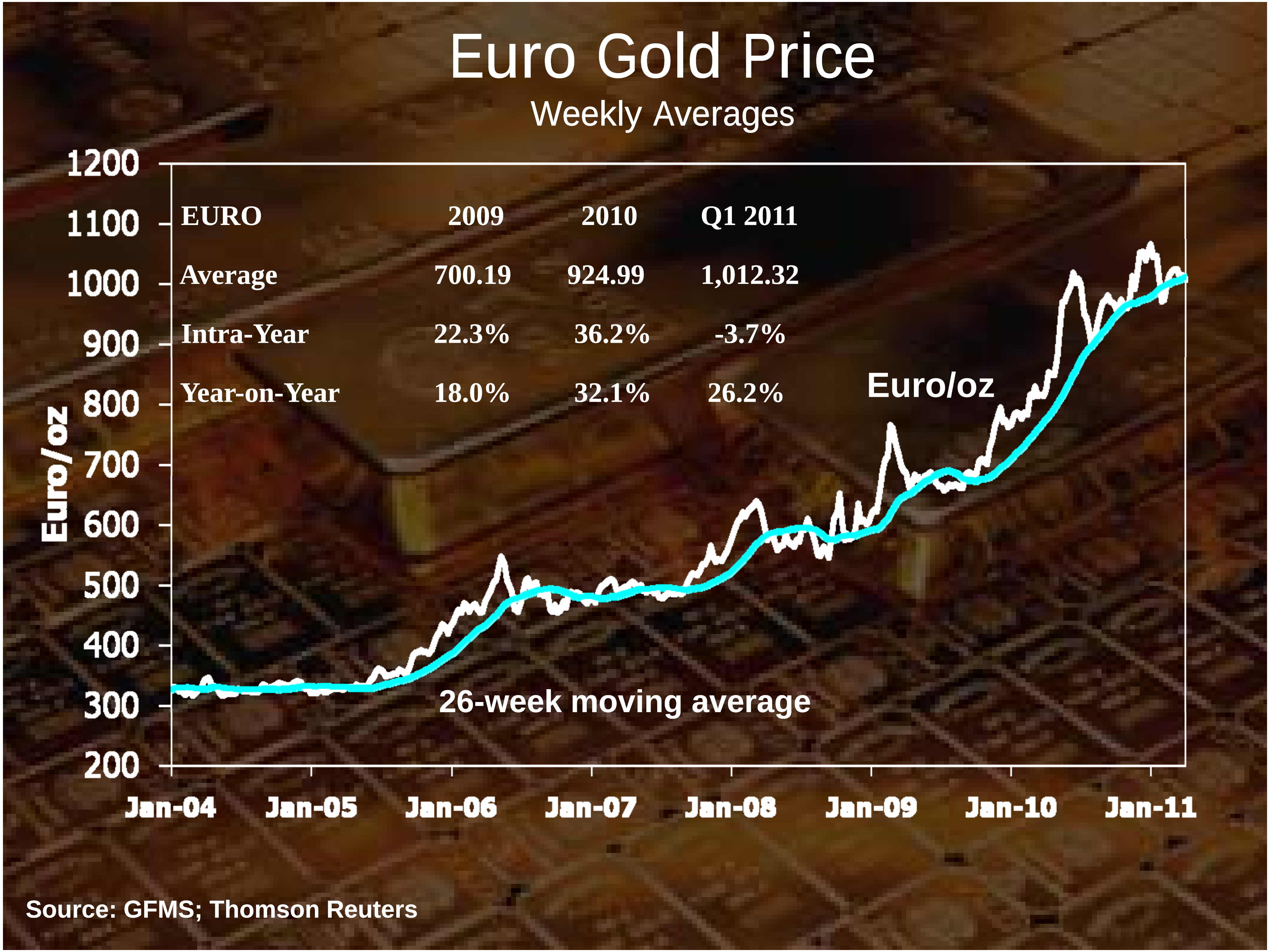
or email: **charles.demeester@gfms.co.uk**

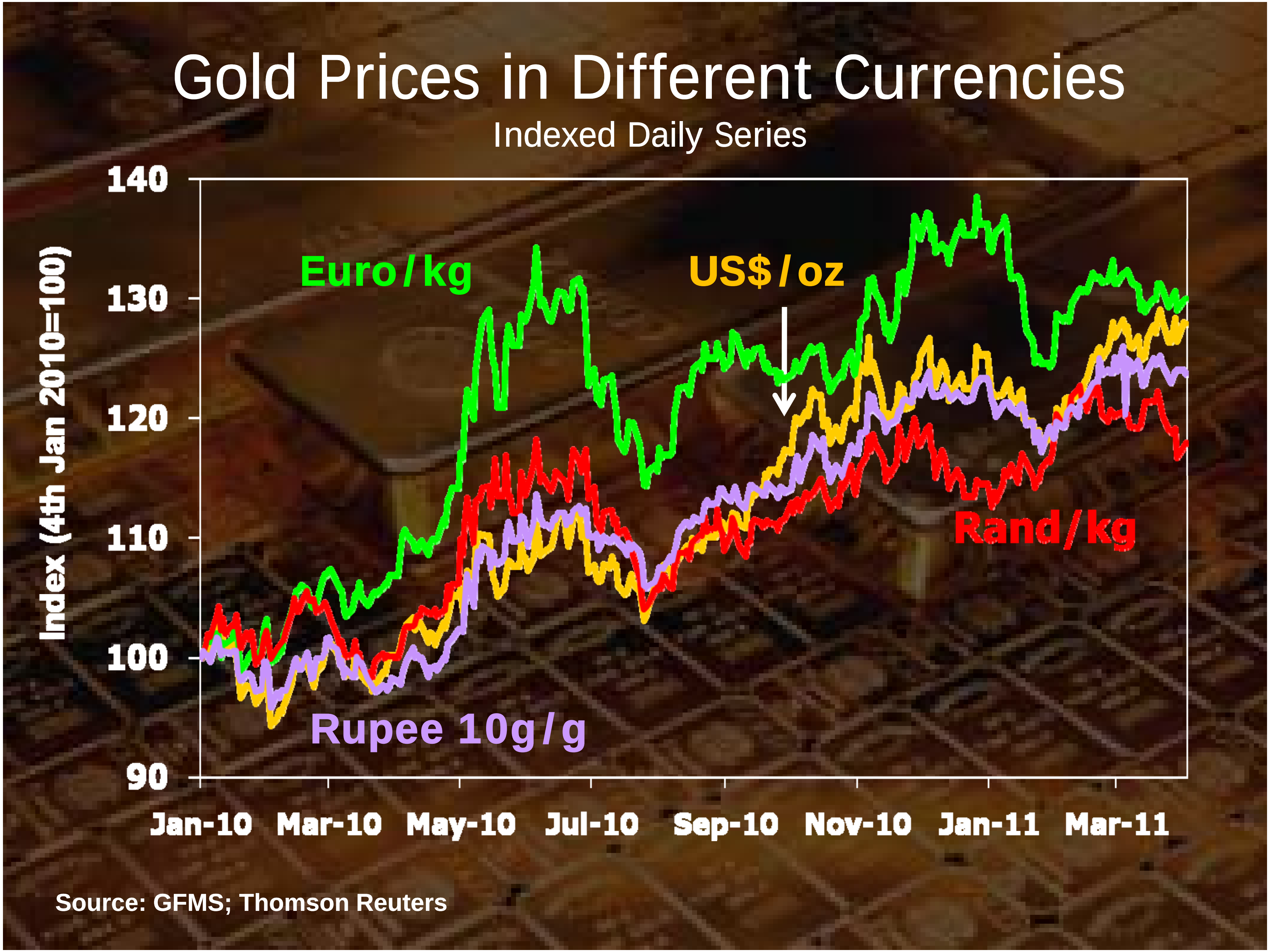
# Presentation Outline

- Gold Prices
- Supply
- Demand
- Outlook

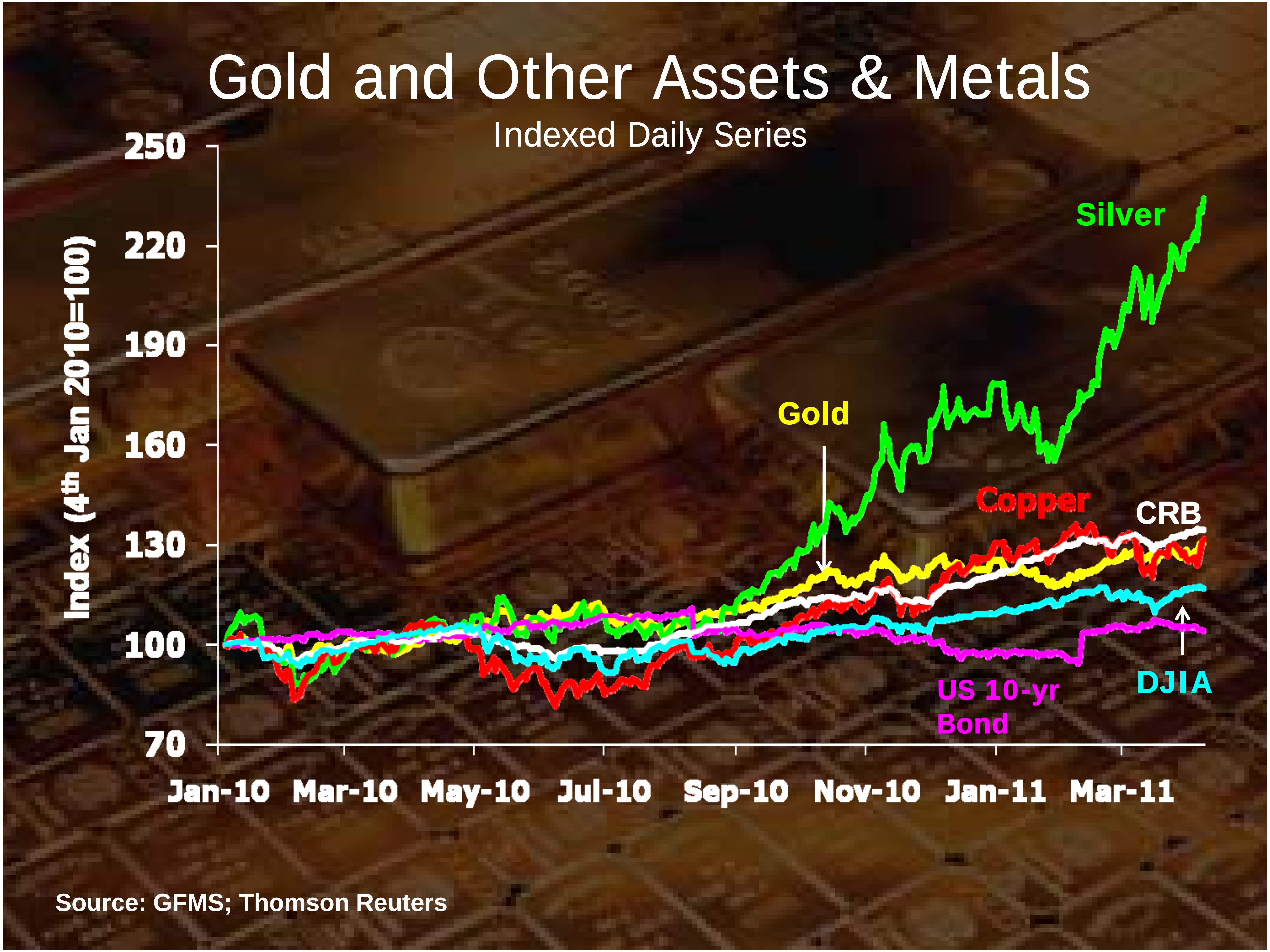

US Dollar Gold Price
Weekly Averages
DOLLAR 2009 2010 Q1 2011
Average 972.35 1,224.52 1,386.27
Intra-Year 24.4% 25.3% 3.6%
Year-on-Year 11.5% 25.9% 25.0%
US$/oz
1500
1300
1100
900
700
500
300
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
US$/oz
26-week moving average
Source: GFMS; Thomson Reuters

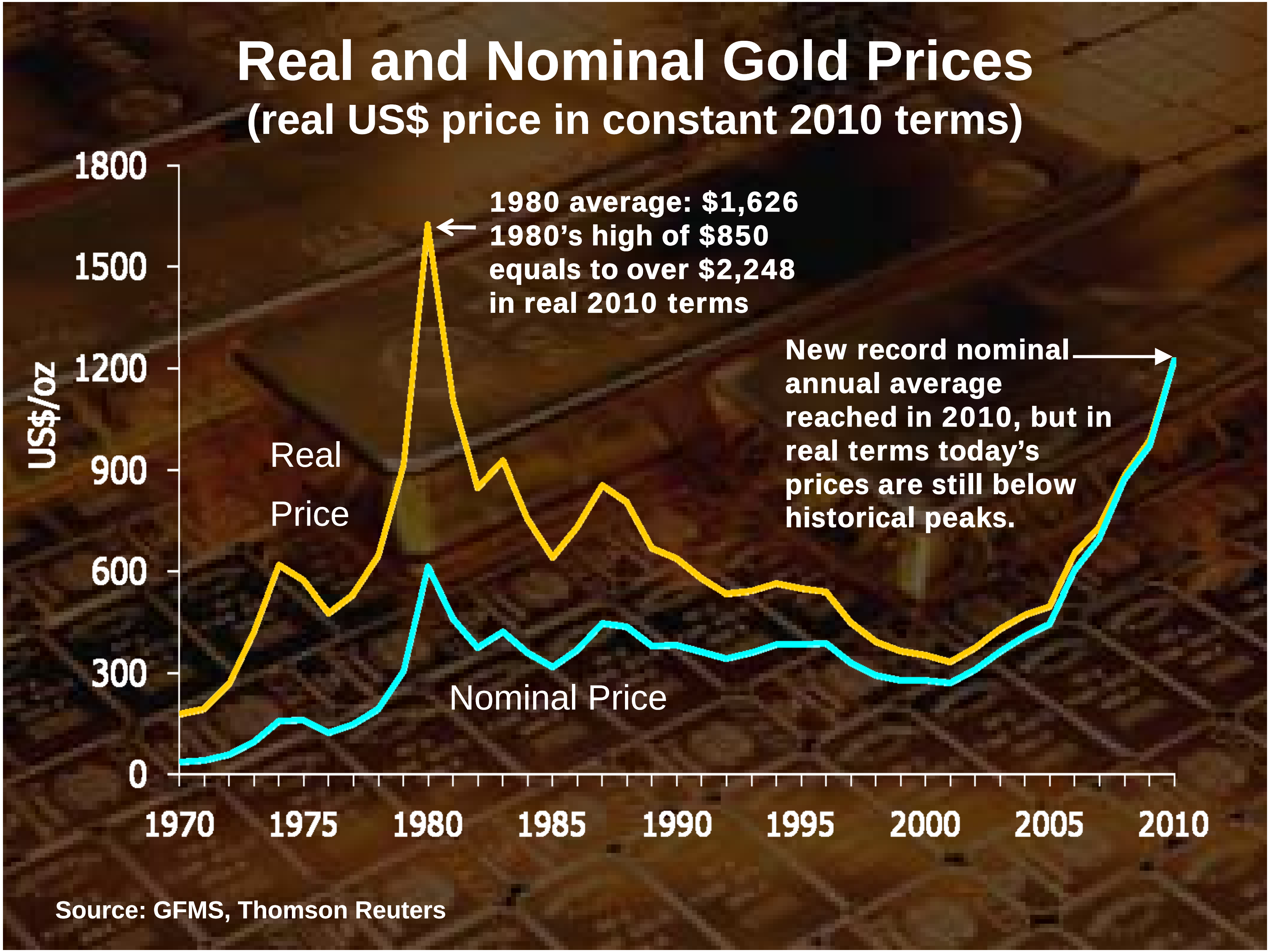


Euro Gold Price
Weekly Averages
EURO 2009 2010 Q1 2011
Average 700.19 924.99 1,012.32
Intra-Year 22.3% 36.2% -3.7%
Year-on-Year 18.0% 32.1% 26.2%
Euro/oz
26-week moving average
Euro/oz
1200
1100
1000
900
800
700
600
500
400
300
200
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Source: GFMS; Thomson Reuters



Gold Prices in Different Currencies
Indexed Daily Series
Index (4th Jan 2010=100)
140
130
120
110
100
90
Euro/kg
US$/oz
Rand/kg
Rupee 10g/g
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
Source: GFMS; Thomson Reuters


Gold and Other Assets & Metals
Indexed Daily Series
Index (4th Jan 2010=100)
250
220
190
160
130
100
70
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
Silver
Gold
Copper
CRB
DJIA
US 10-yr Bond
Source: GFMS; Thomson Reuters

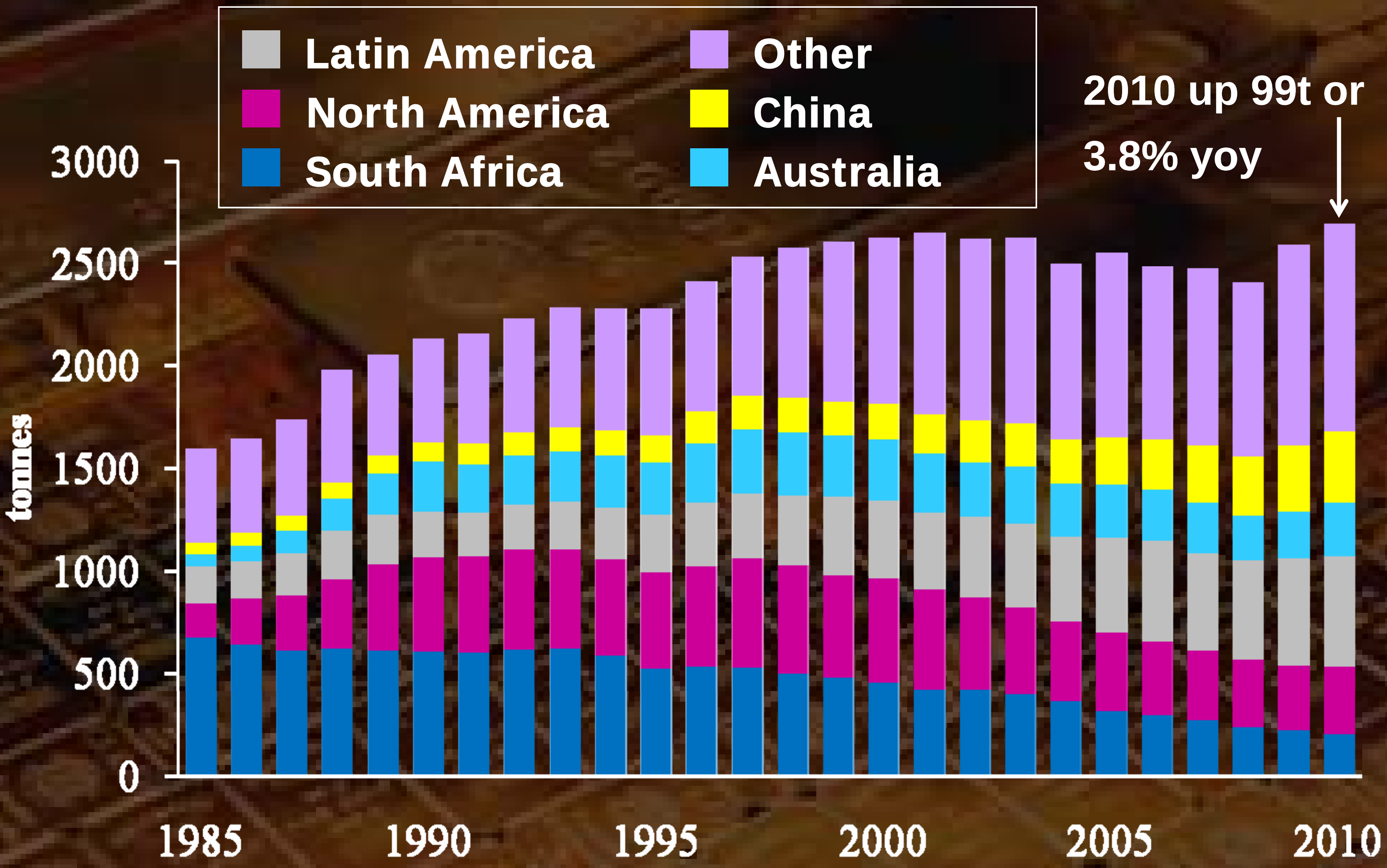

Real and Nominal Gold Prices
(real US$ price in constant 2010 terms)
1800
1500
1200
900
600
300
0
US$/oz
1980 average: $1,626
1980's high of $850
equals to over $2,248
in real 2010 terms
New record nominal annual average reached in 2010, but in real terms today's prices are still below historical peaks.
Real
Price
Nominal Price
1970
1975
1980
1985
1990
1995
2000
2005
2010
Source: GFMS, Thomson Reuters

# Supply

# GFMS' Mine Supply Database

- Over 100 companies analysed on a quarterly basis – production/costs/corporate activity
- Over 300 mines recorded on an annual basis – production/costs/reserves/grade
- Over 320 projects – projected production profile, start-up date, capex, reserves, resources
- Informal mine production measured on a country-by-country basis
- Costs measured at 70% of Western World gold production
- Bottom-up cost analysis methodology to assess $/tonne mining, ore processing and on-site administration costs, plus benchmarking of fuel, power, labour productivity and other key inputs
- Global analysis and forecasting of mine supply, breakdown of industry cost structures and trends, benchmarking

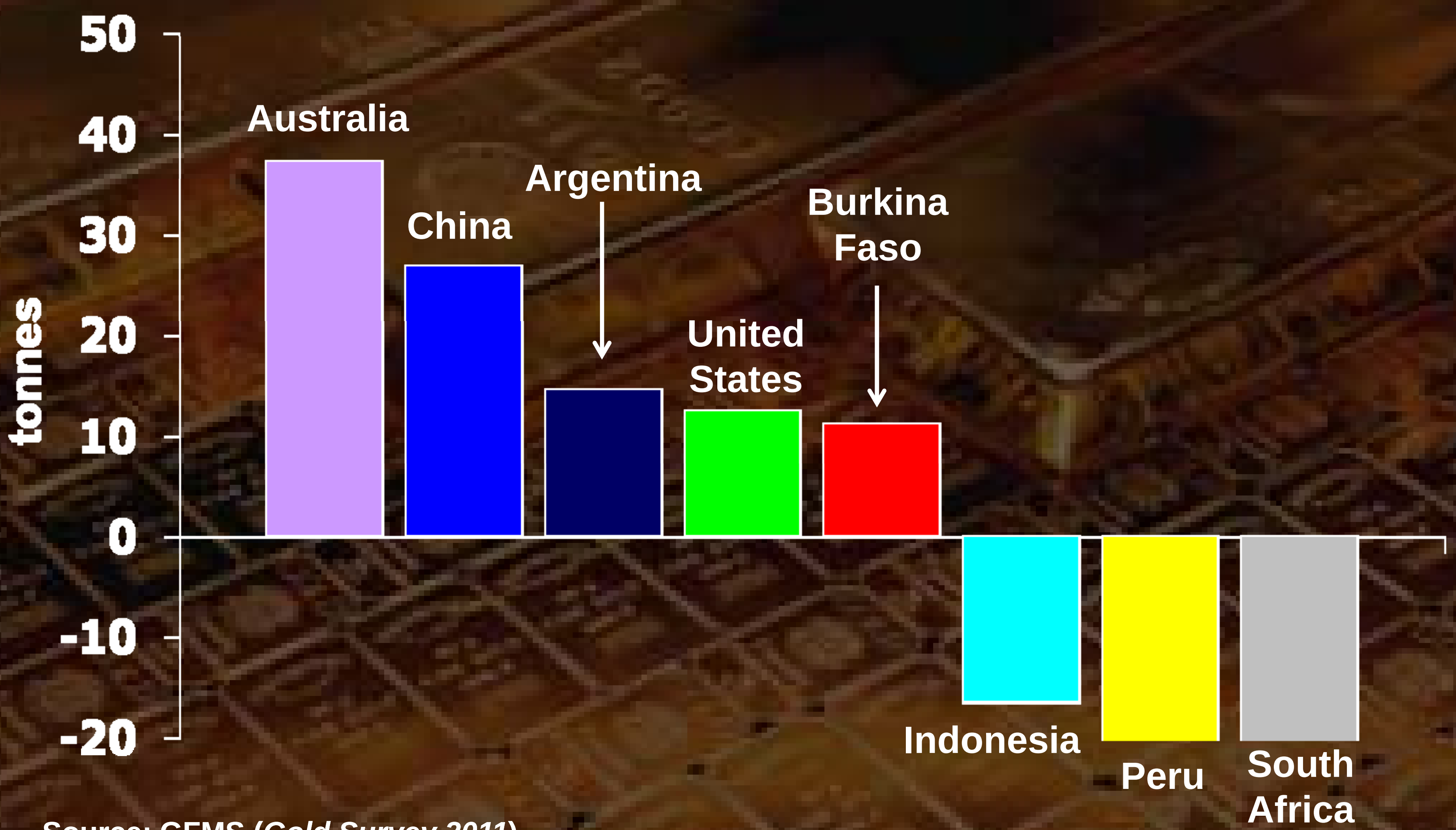
# Gold Mine Production




Source: GFMS (*Gold Survey 2011)*

# Mine Production: Winners and Losers

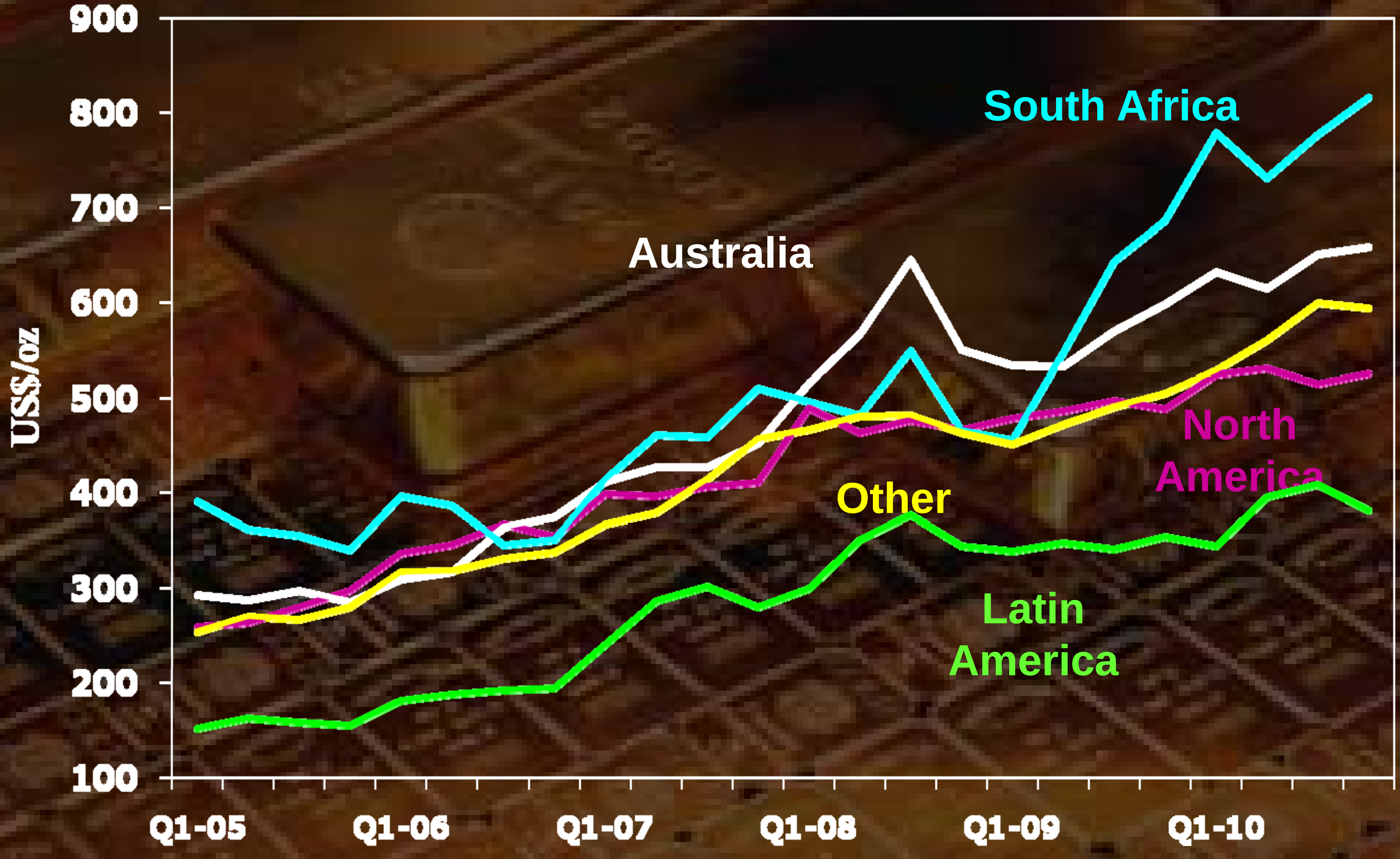
**(Figures represent year-on-year change, i.e. 2010 less 2009)**




Source: GFMS (*Gold Survey 2011*)

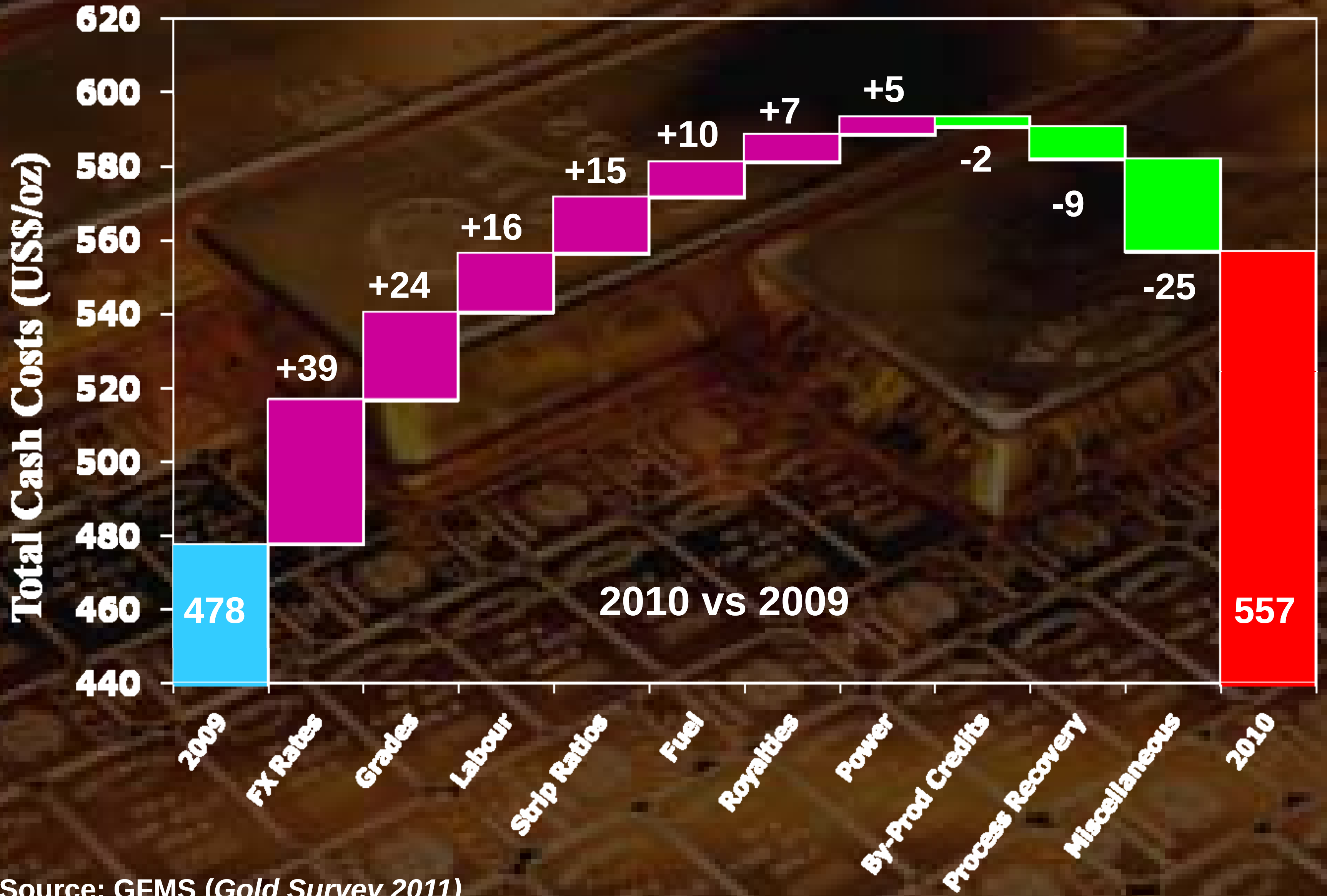
# Major Western World Mines' Cash Costs

(in money-of-the-day terms)




Source: GFMS (*Gold Survey 2011)*

# Year-on-Year Changes to Cash Costs



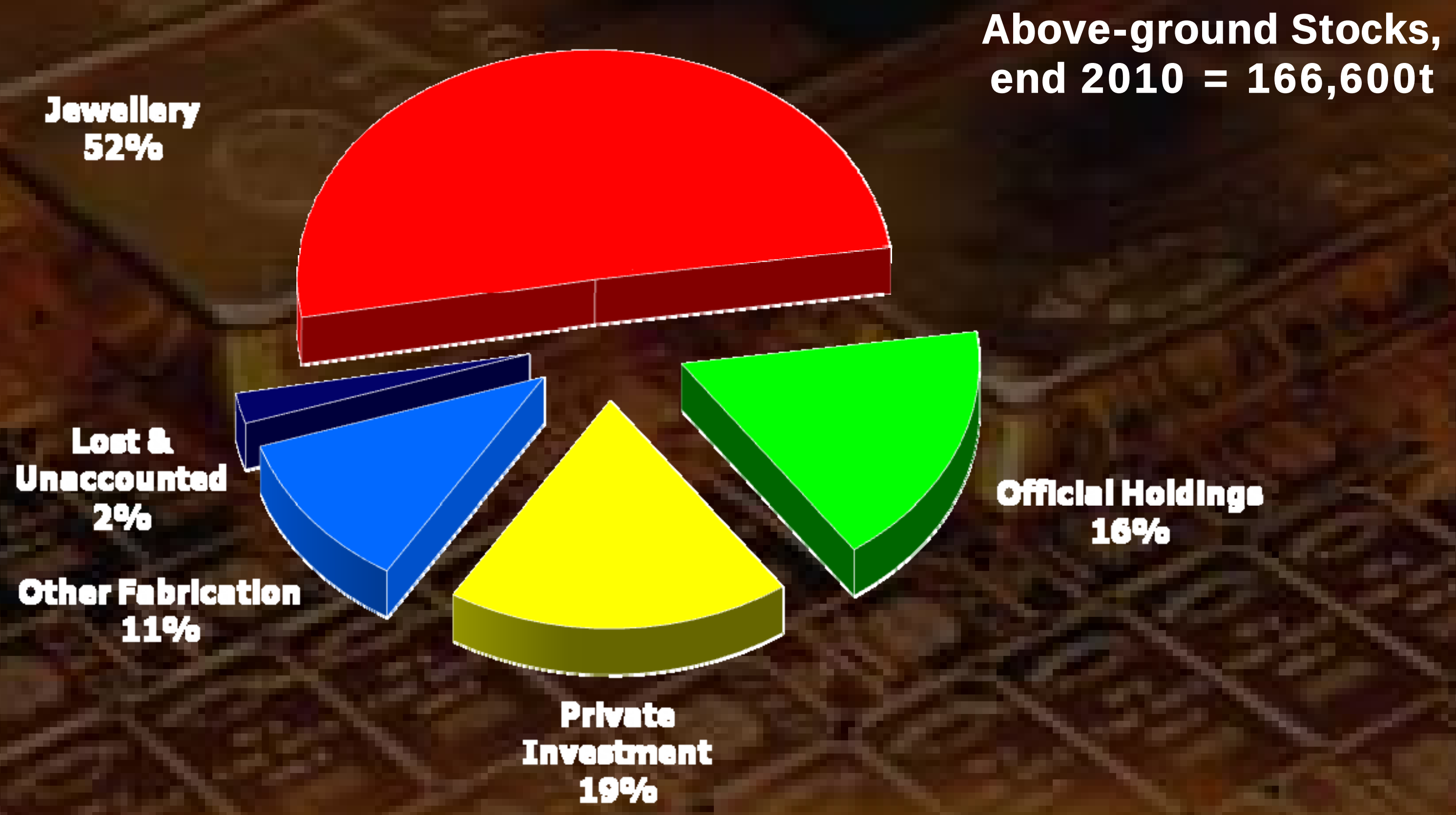

Source: GFMS (*Gold Survey 2011)*

# Mine Production

- 99 tonne increase equal to 3.8% y-o-y in 2010; a second successive year of annual growth.
- This left production at an all-time high of 2,689 tonnes, surpassing the previous record of 2,646 tonnes in 2001.
- Growth was recorded in all regions.
- Significant gains in Australia, China, Argentina and the United States.
- Increases stemmed from both the start of new operations, and redevelopment of previously suspended operations.
- US dollar denominated total cash costs increased by an average 17%, or $79/oz, to $557/oz in 2010.
- GFMS' proprietary 'All-In' Costs measure increased by 20% to an average of $857/oz.

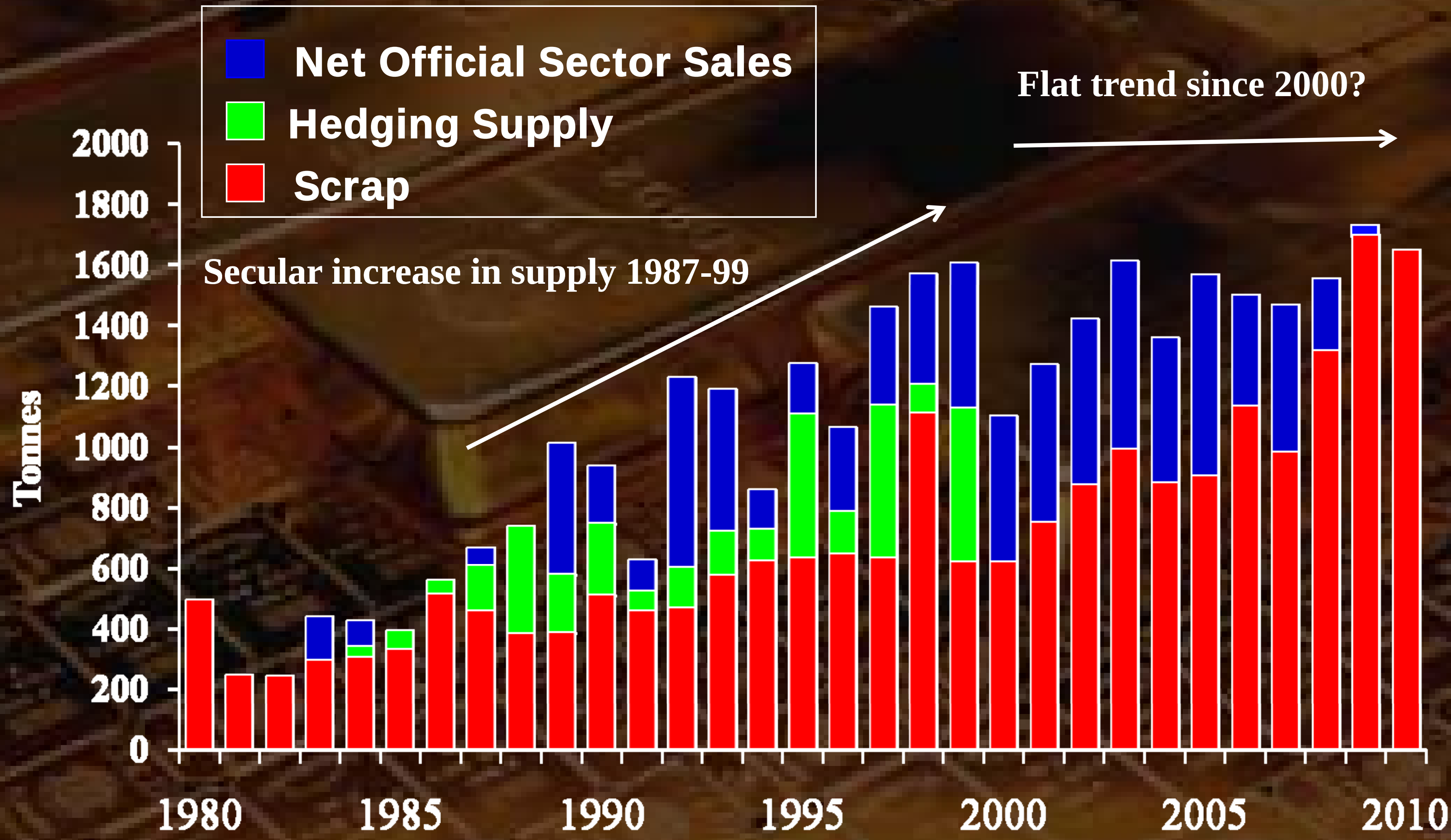
# Above-Ground Stocks of Gold, end-2010

Gold is not "consumed" like most commodities; stocks can be available at the right price…




Source: GFMS (*Gold Survey 2011*)

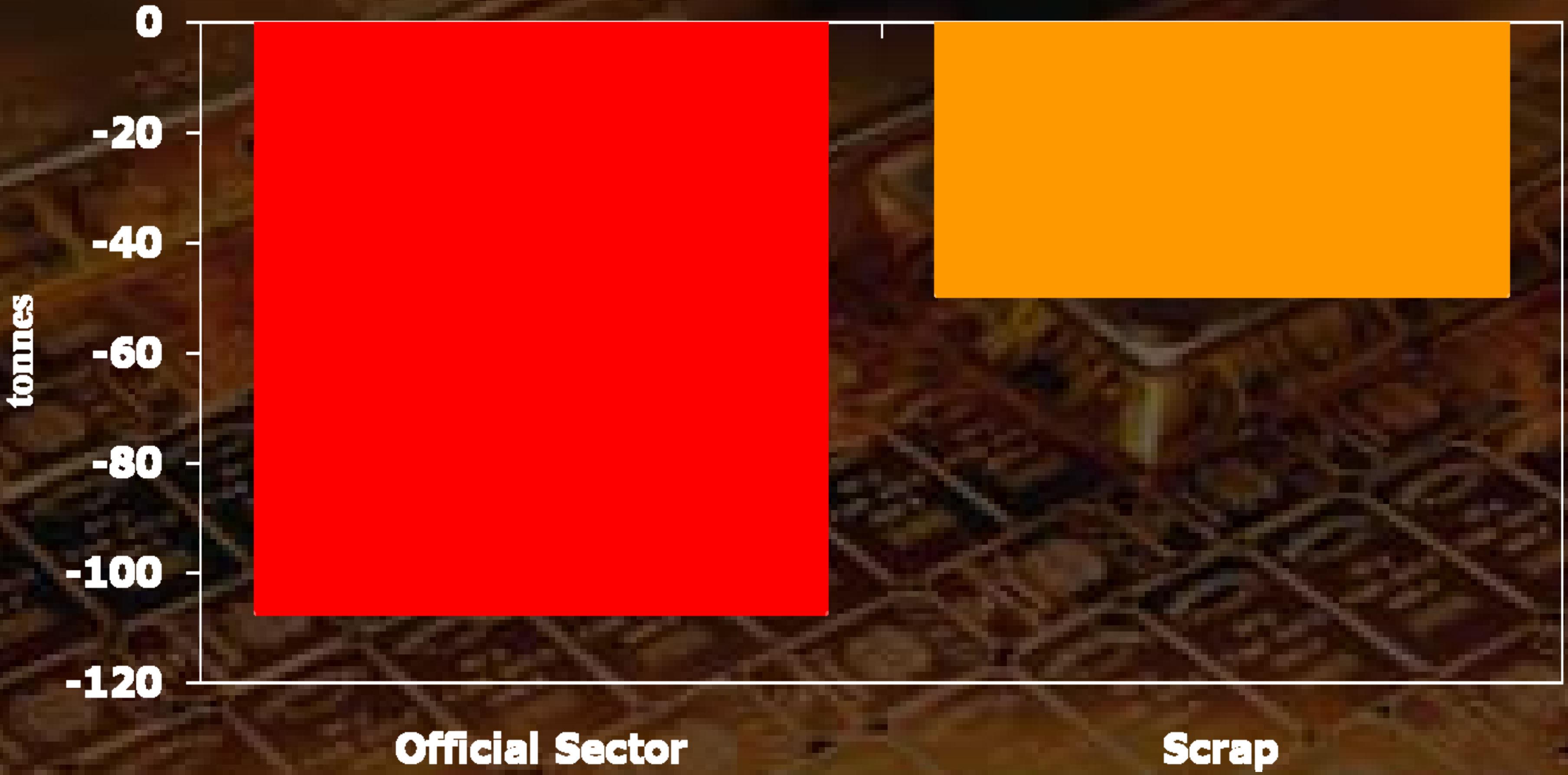
# Supply from Scrap, Hedging & Official Sales




Source: GFMS

# Change in Supply from Above-Ground Stocks

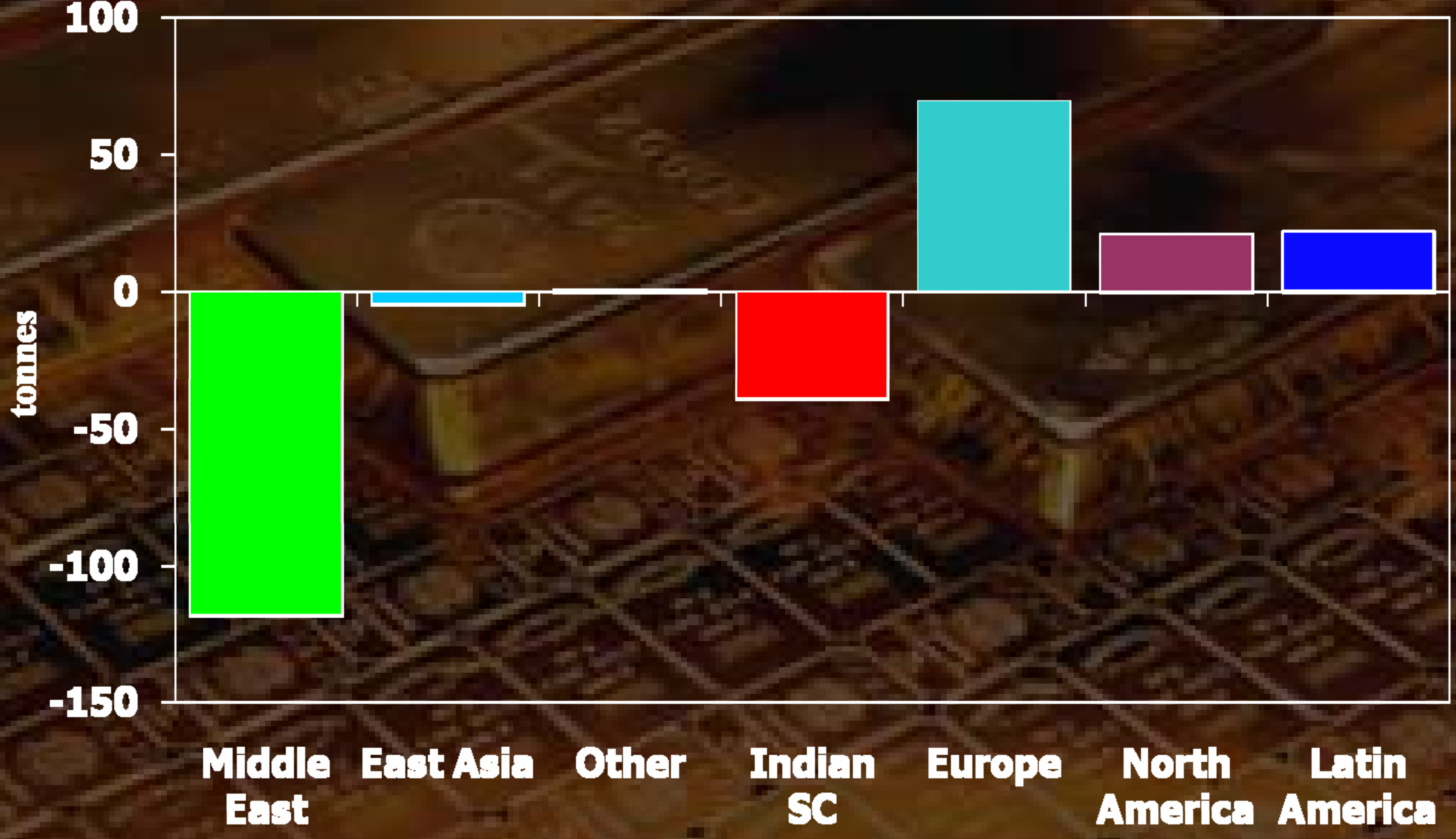
2010 compared to 2009




**Source: GFMS (*Gold Survey 2011*)**

# Regional Changes in Scrap Supply

## 2010 compared to 2009

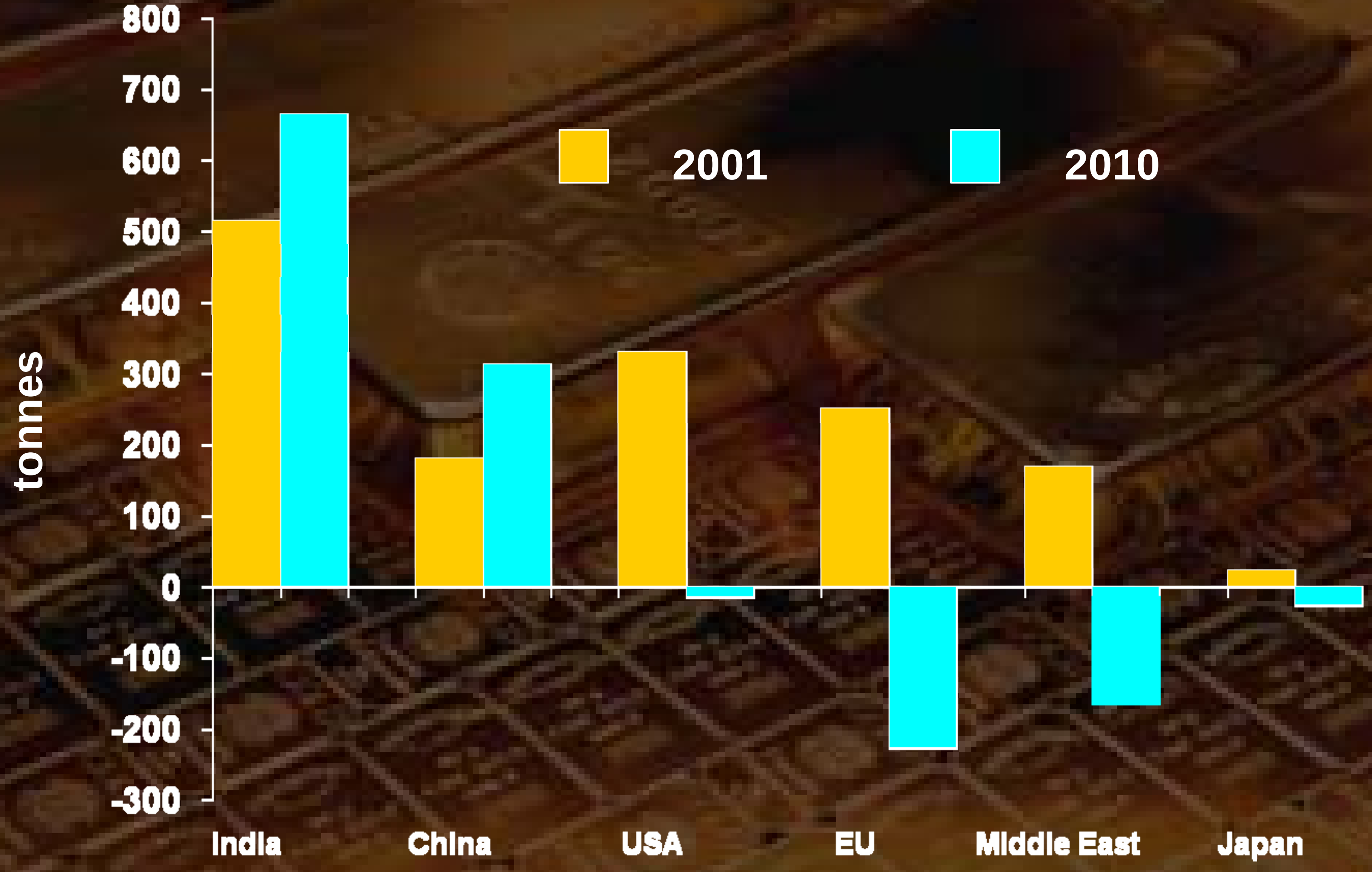



Source: GFMS (*Gold Survey 2010)*

# Jewellery Fabrication & Scrap Supply


Source: GFMS (*Gold Survey 2011*)

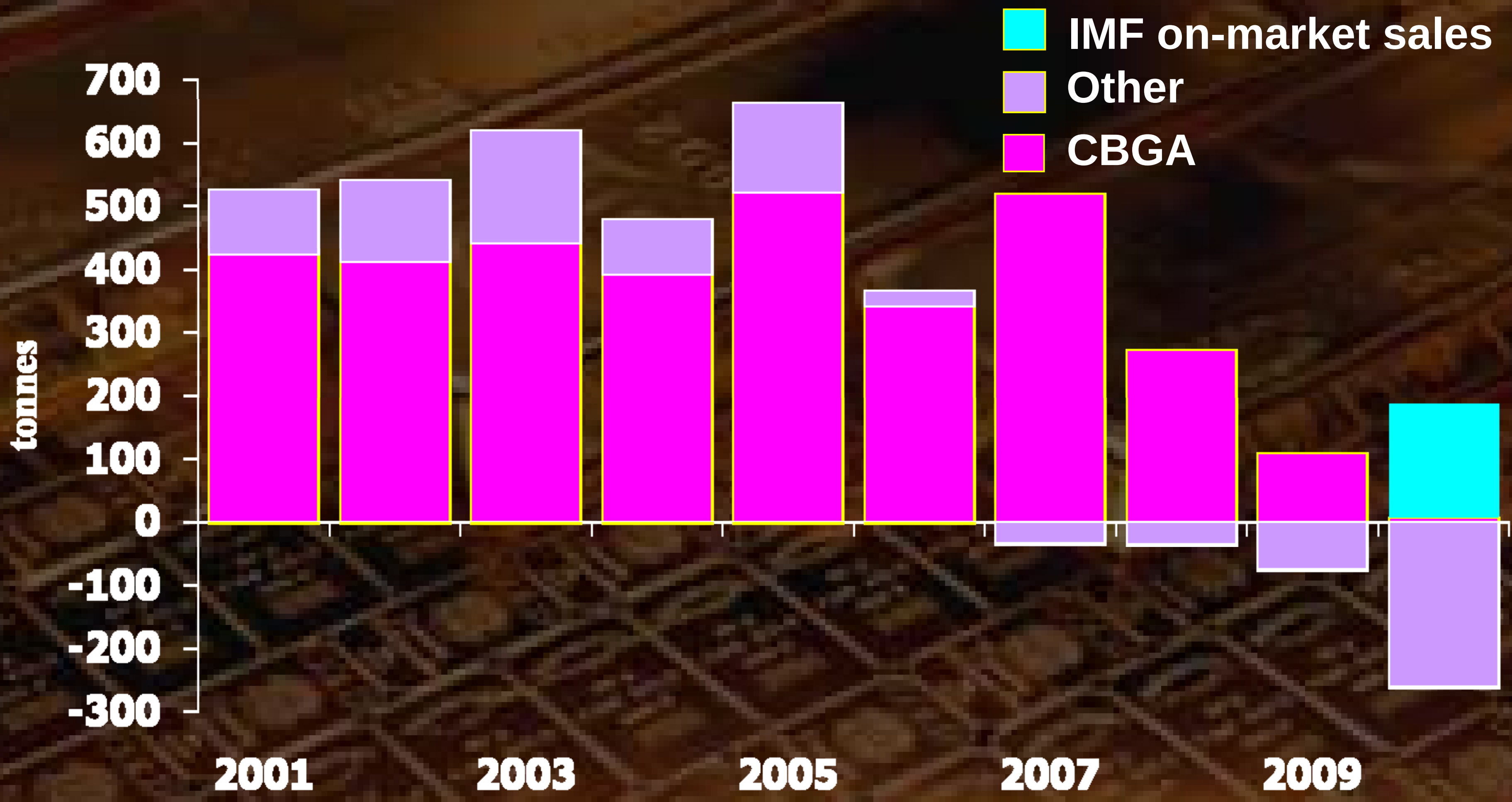
# Net Jewellery Demand* 2001 and 2010




*Jewellery consumption minus all scrap

Source: GFMS

# CBGA and Other Gold Sales

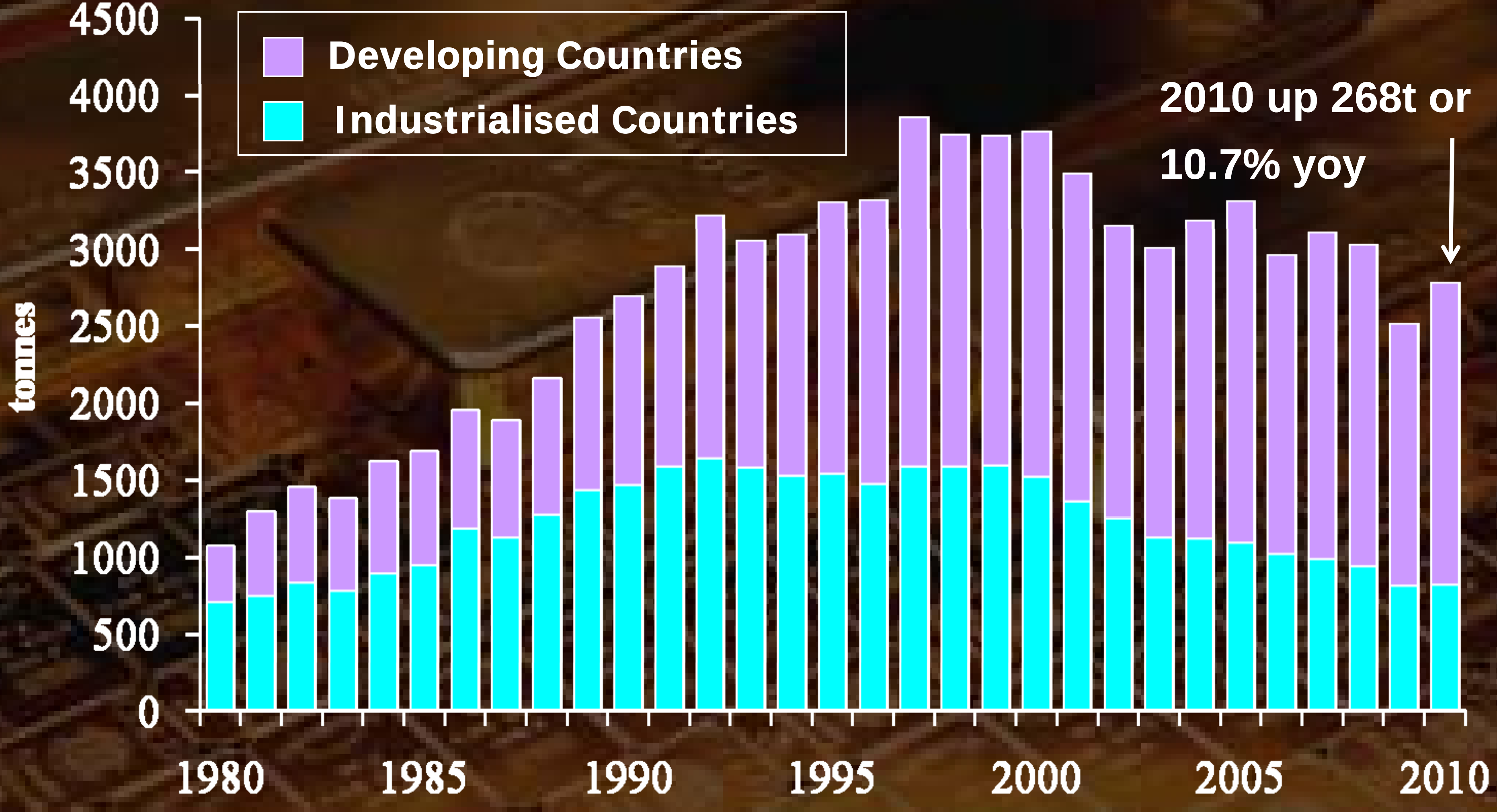



**"CBGA" refers to signatories to the Central Bank Gold Agreement**
**"Other" refers to all other countries**

**Source: GFMS (*Gold Survey 2011*)**

# Demand

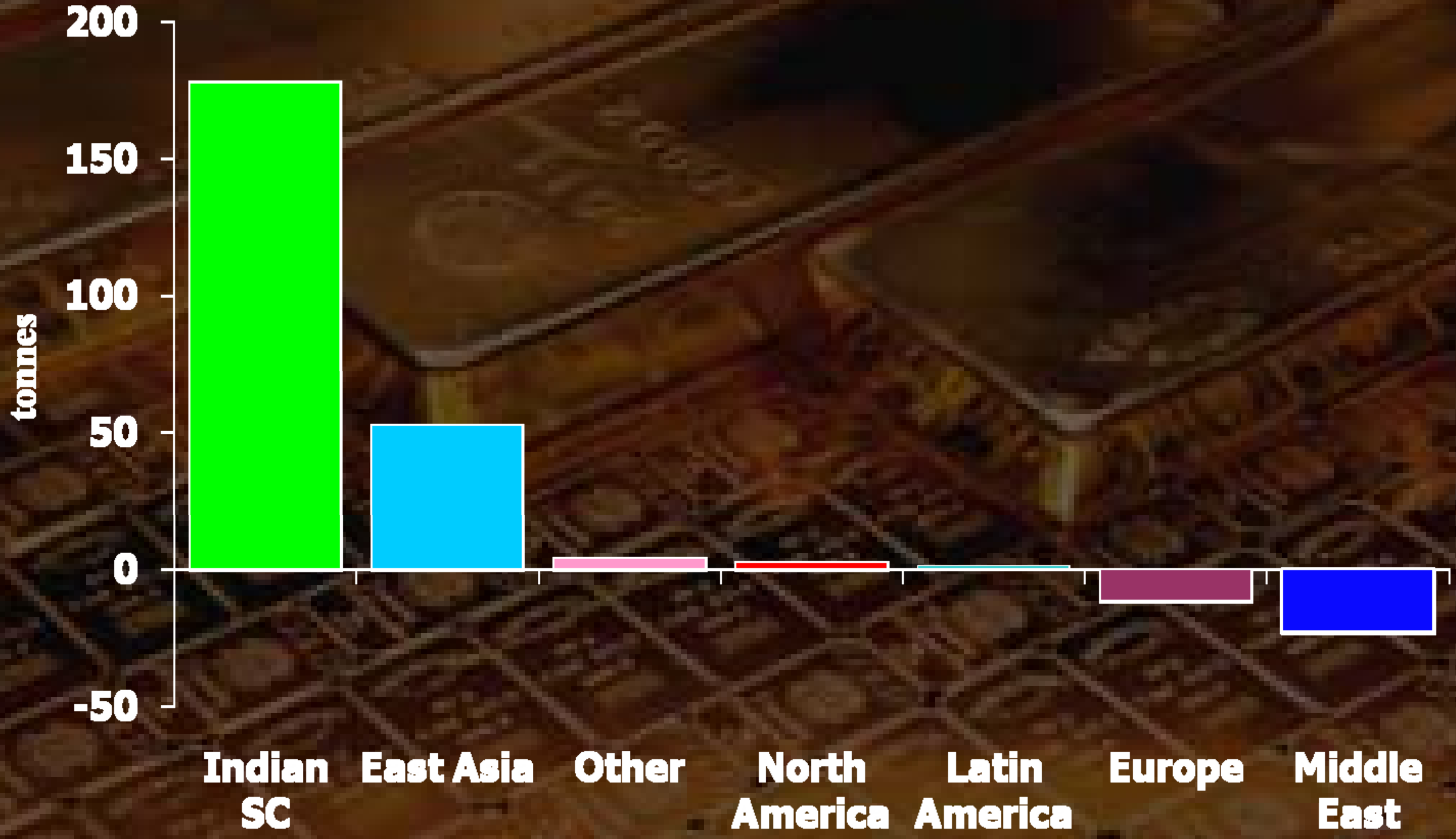
# World Gold Fabrication




Source: GFMS (*Gold Survey 2011*)

# Jewellery Fabrication: Winners and Losers

(Figures represent year-on-year change, i.e. 2010 less 2009)




Source: GFMS (*Gold Survey 2011*)

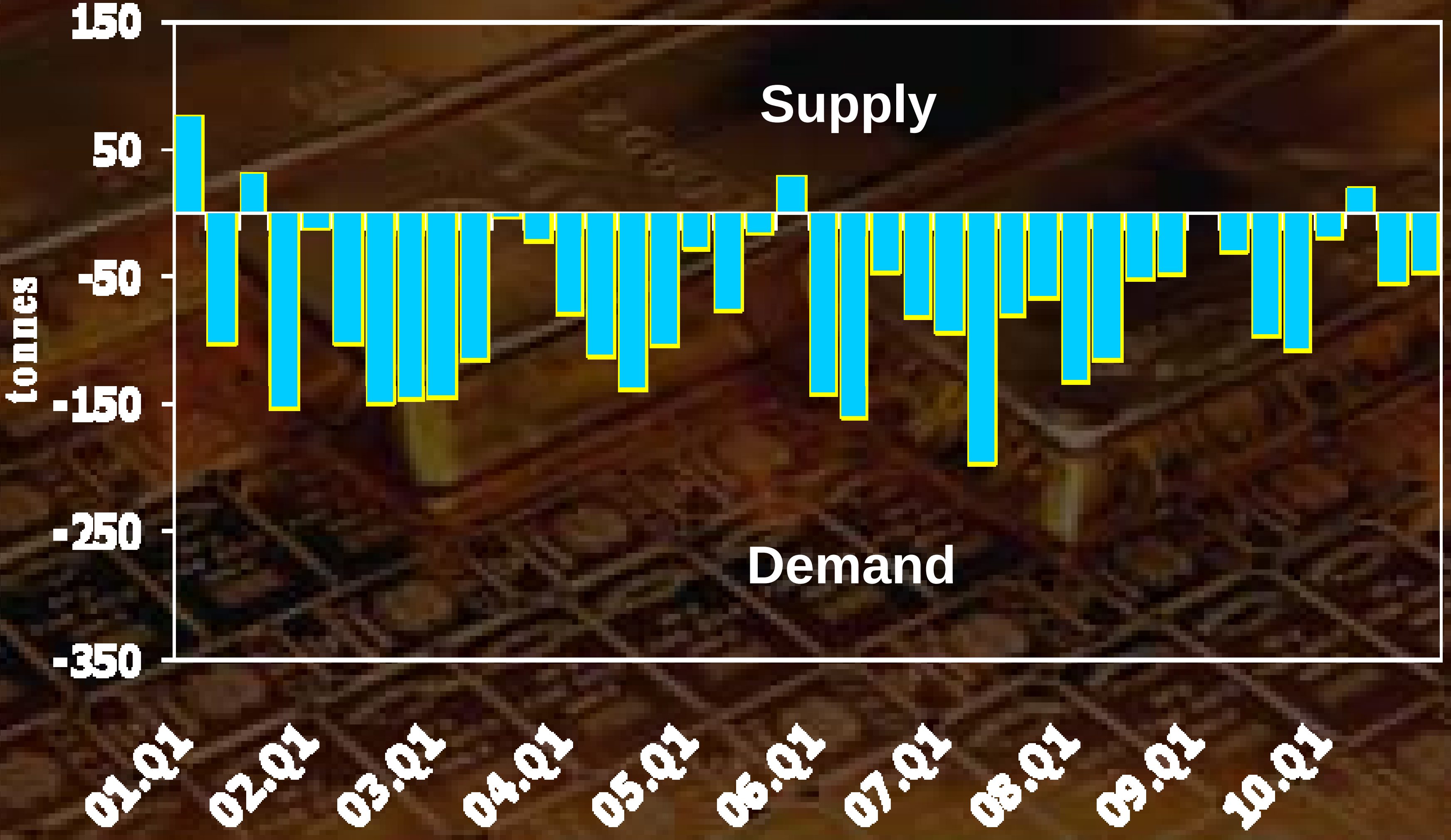
# Fabrication Demand in 2010

- Total fabrication demand rebounded by 10.7% to 2,779 tonnes, led by a recovery in jewellery demand.
- Despite higher prices, jewellery fabrication grew notably by 11%. Most of this increase was due to India. Excluding the country, the rise was less than 2%.
- Other fabrication was 9% higher yoy in 2010. With all coins excluded, other fabrication's rise was a more robust 14%.
- Electronics demand accounted for the bulk of gains in non-jewellery fabrication, with demand up by 19% to a new record high, thanks to an improving world economy.

# GFMS' Hedging Analysis

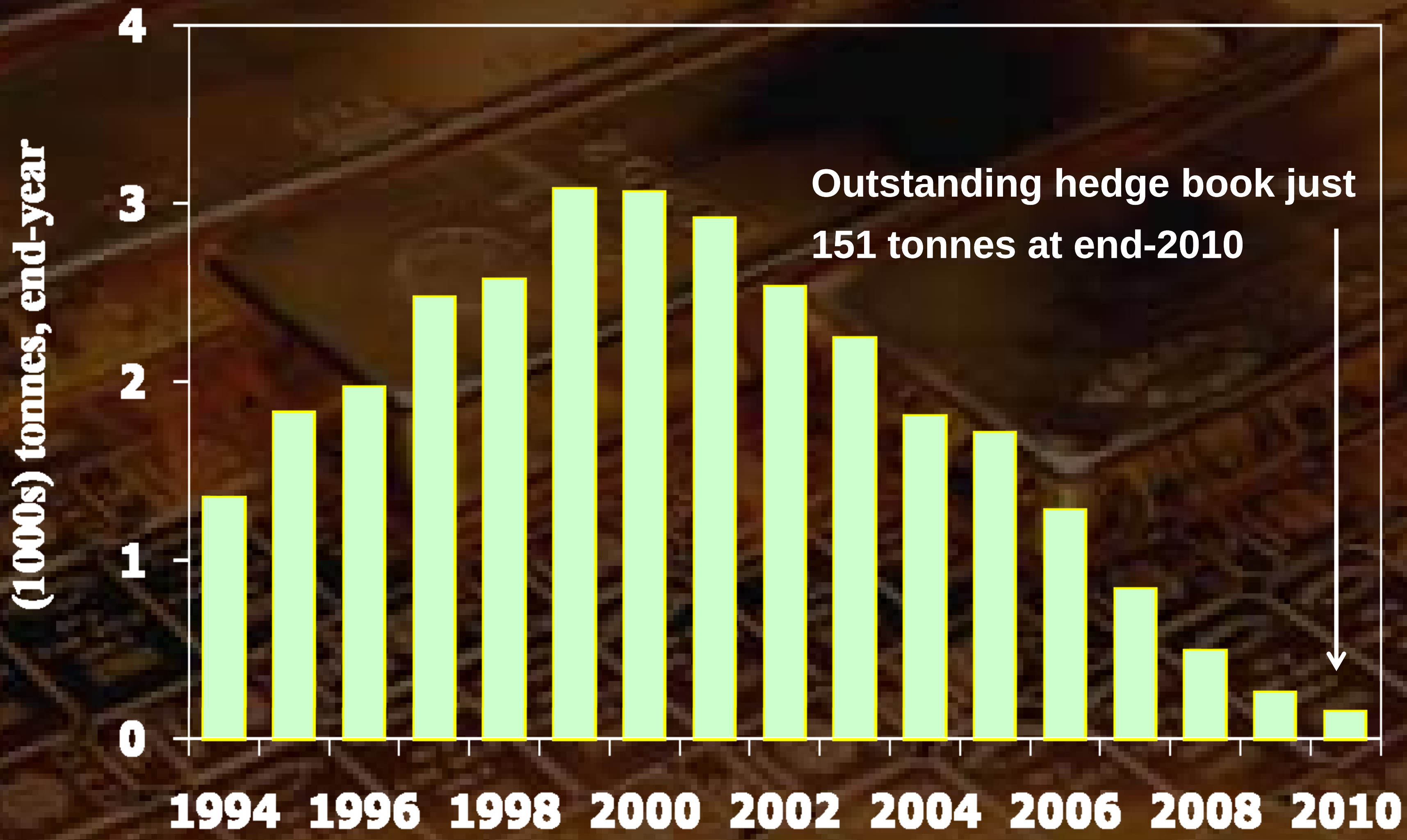
- GFMS enter all hedging transactions into our hedging database and the *Brady Trinity* system.
- Trades are input on a quarterly basis by company, instrument, year of expiry and currency.
- Using detailed market data, accurate deltas and other sensitivities are calculated.
- Comprehensive global hedge book analysis is published once per quarter by GFMS, in association with *Société Générale.*

# Net Market Impact of Producer Hedging




Source: GFMS (*Gold Survey 2011*)

# Total Accelerated Supply from Producer Hedging*




* outstanding forward sales, loans and net delta hedge against positions

**Source: GFMS (*Gold Survey 2011*)**

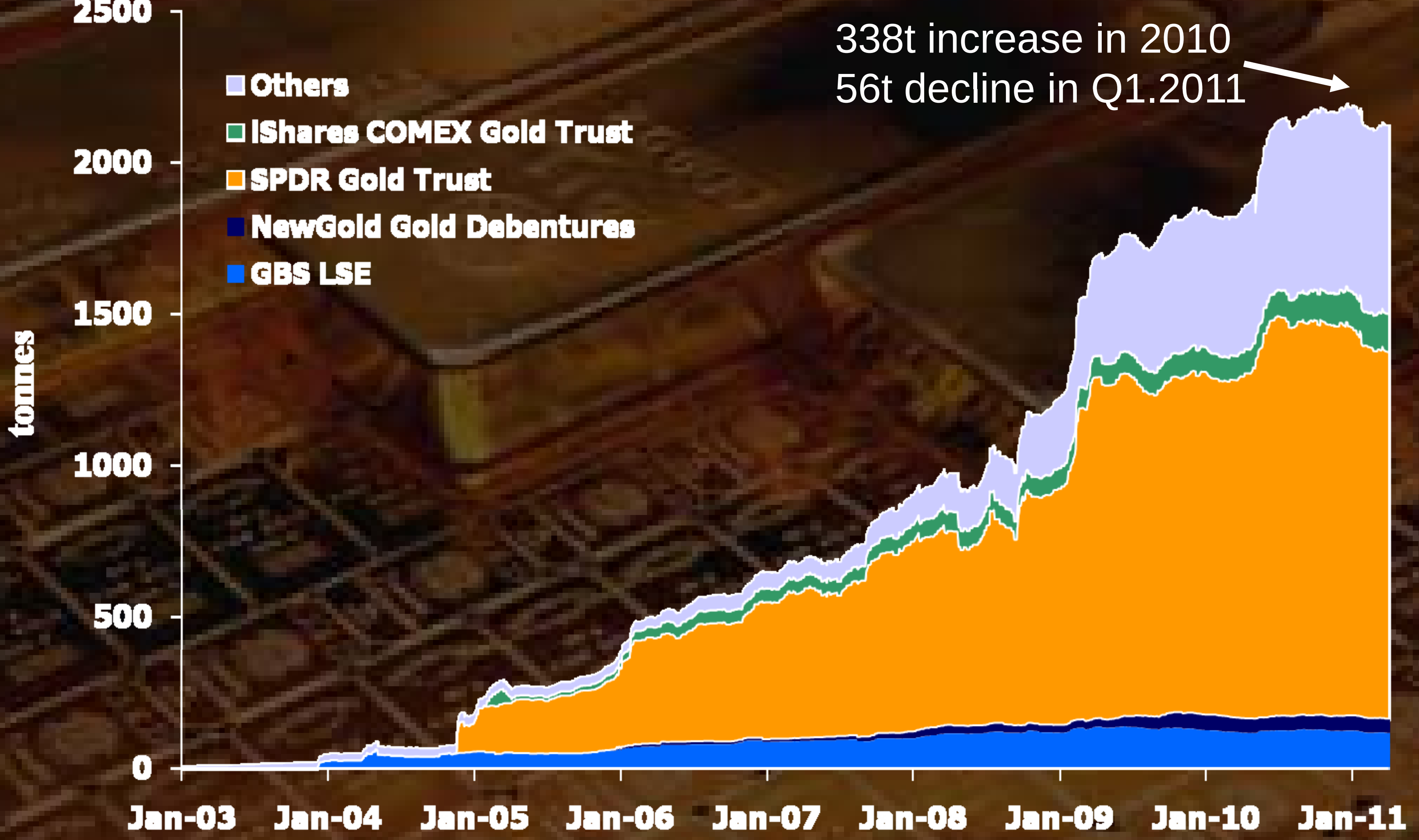
# Investment in 2010

- World Investment (which includes the implied figure, physical bar investment and all coins) fell by 10% to 1,675 tonnes. In approximate value terms, however, it rose to a new record of $66 billion.
- After a relatively quiet start to 2010, investment accelerated in the second quarter. Following a summer lull, renewed interest drove the gold price to successive record nominal highs in the final quarter of the year.
- Gold’s safe haven appeal was boosted by the fact that major currencies found themselves undermined by several factors, including the renewed sovereign debt crisis in Europe, ultra-low interest rates and quantitative easing, most notably in the United States and Japan.

# World Investment*


*World Investment is the sum of Implied Net (Dis)Investment, Bar Investment and all Coins & Medals.
Source: GFMS (*Gold Survey 2011)*

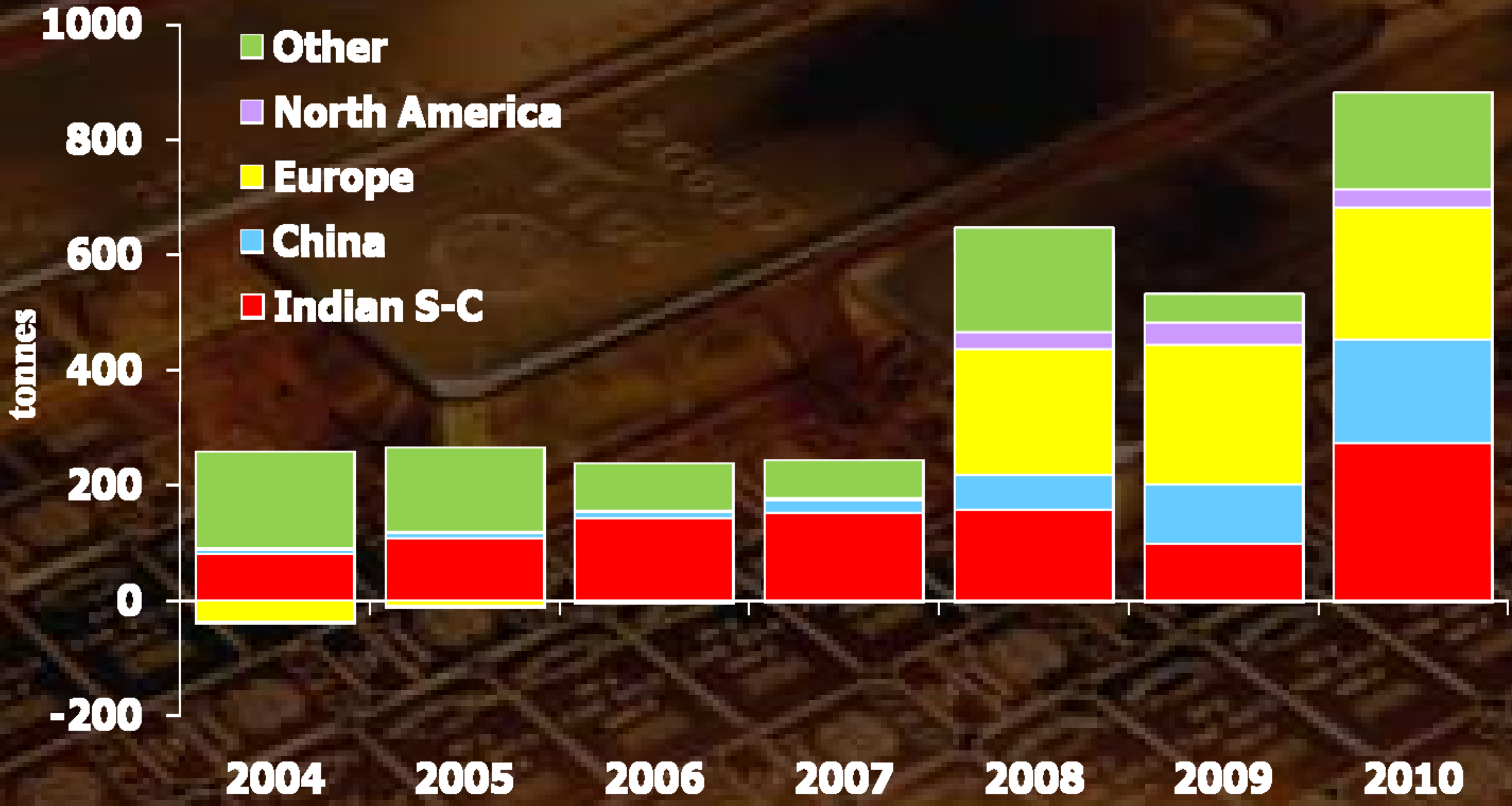
# Gold Exchange Traded Funds




Source: Respective issuers

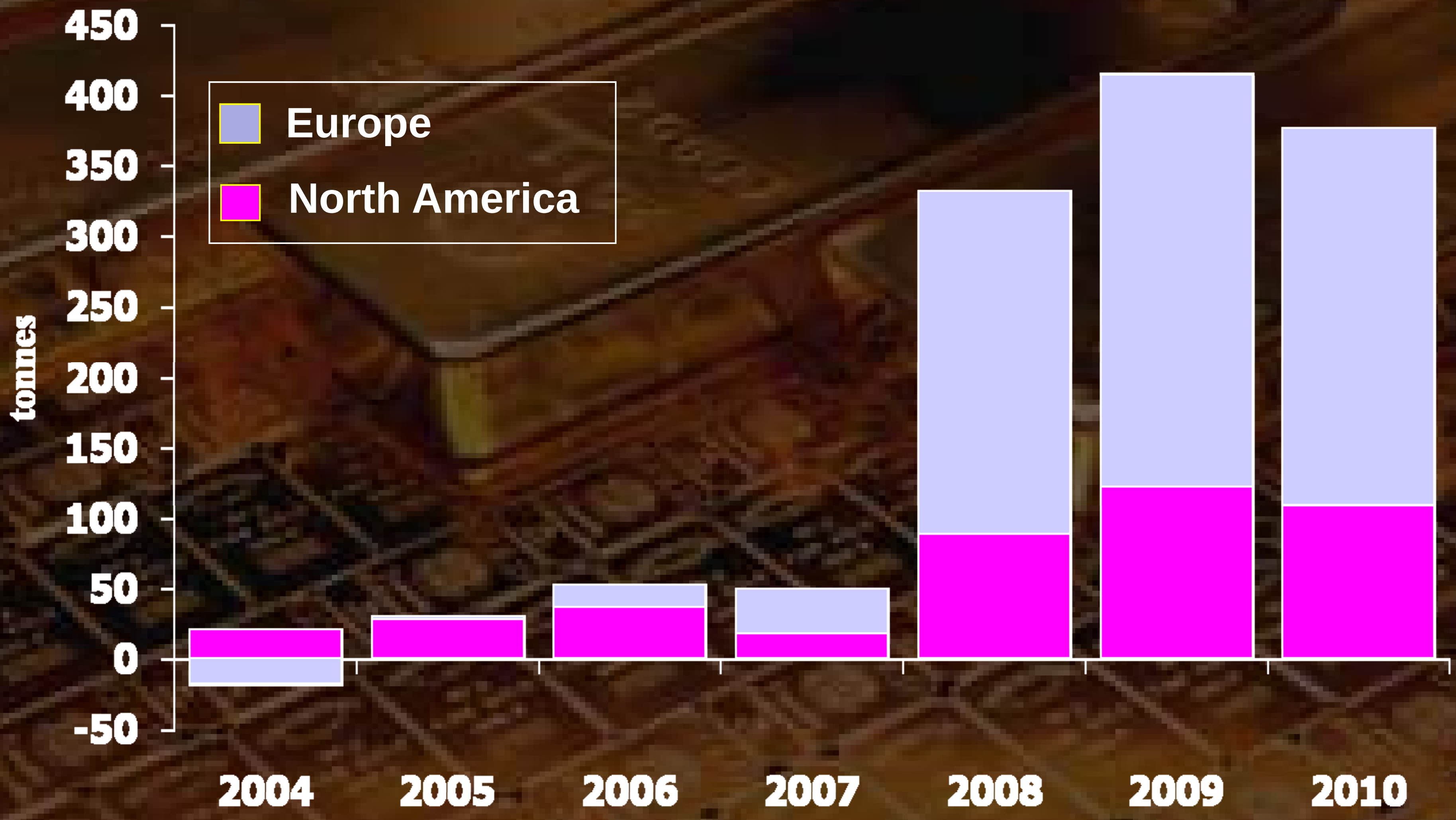
Investors' Positions in Gold Futures
(non-commercial & non-reportable positions in Comex futures)
Average size of net "investor" long.
2008 177k contracts
2009 219k contracts
2010 263k contracts
2011.Q1 225k contracts
Gold Price
Net positions (contracts, thousands)
dollars/oz
350
300
250
200
150
100
50
0
1600
1400
1200
1000
800
600
400
200
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Non-commercial & non-reportable net positions in futures taken as proxy for investors' positions.
Source: CFTC

# Physical Bar Investment




Source: GFMS (*Gold Survey 2011*)

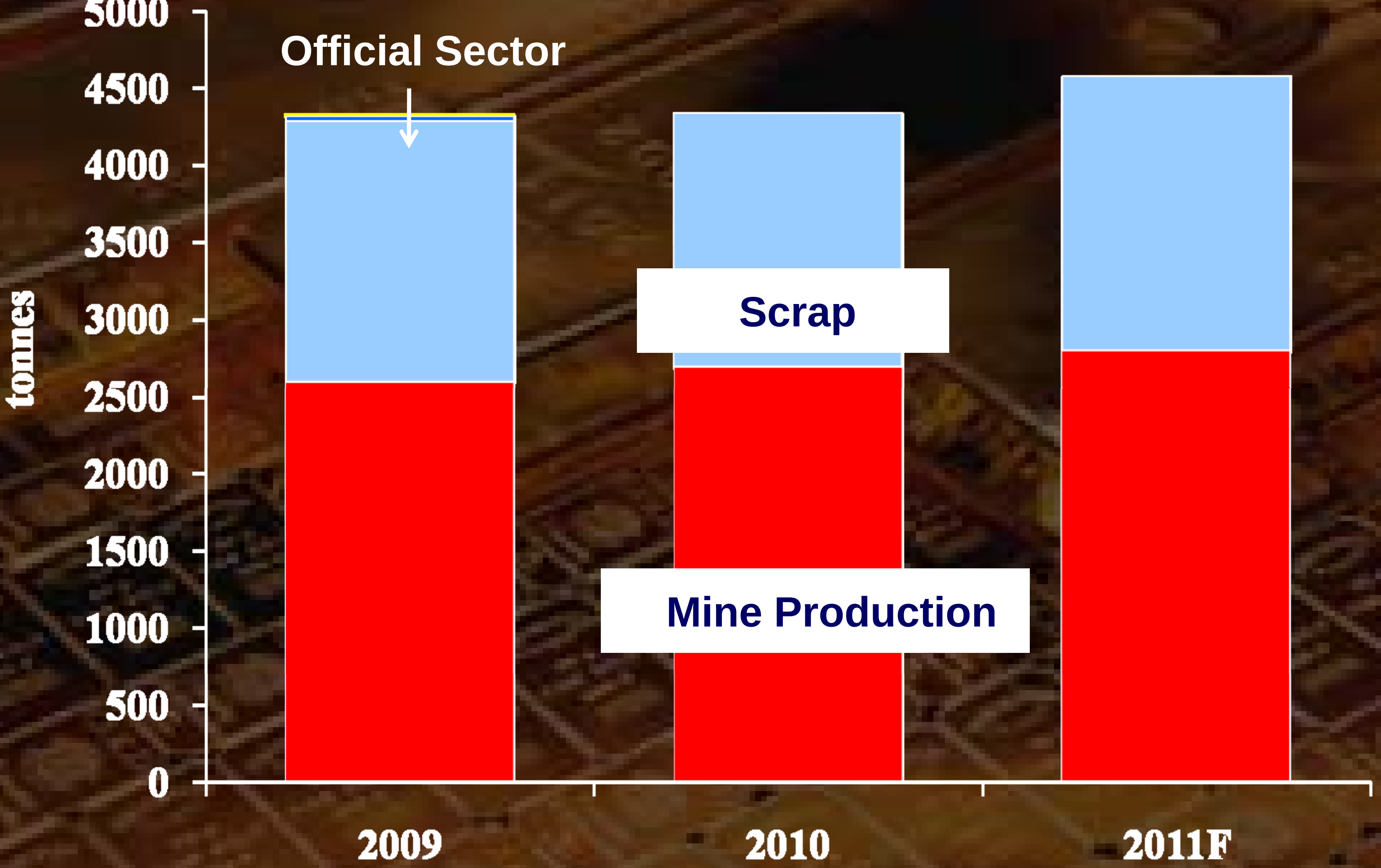
# Retail Investment




Source: GFMS (*Gold Survey 2011*)


Price Outlook

# Gold Supply 2009-2011F

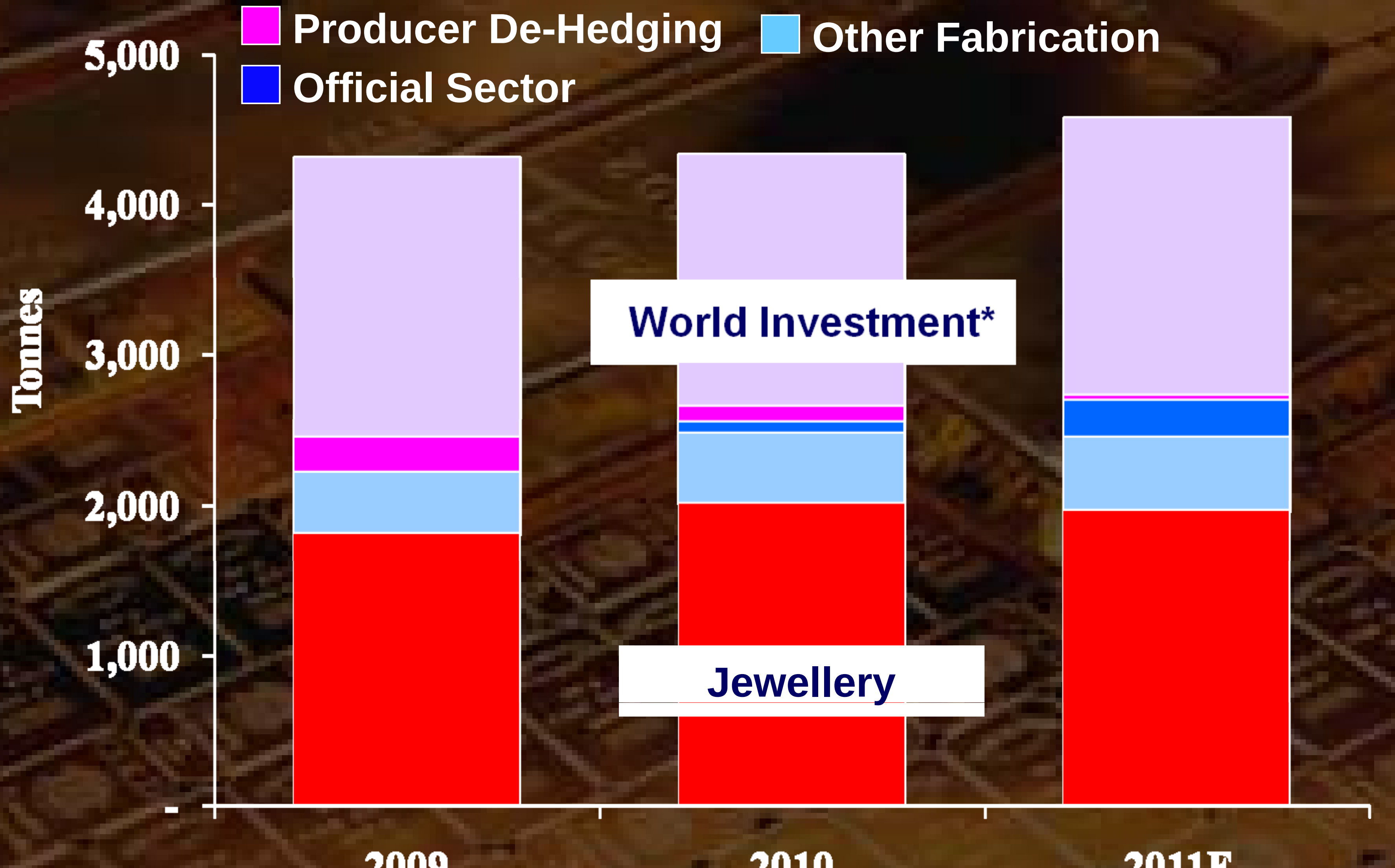



Source: GFMS

# Supply in 2011

- Mine Production forecast to increase by a similar amount this year, 4%, with a number of large project start-ups expected to contribute significant quantities of gold during the year.
- Despite a fall in the first quarter of 2011, scrap is forecast to post a fair increase for the full year, mainly in the second half.
- Overall supply growth in 2011 currently forecast at 6% compared with just 0.4% in 2010.

# Gold Demand 2009-2011F




*World Investment is sum of Implied Net Investment, Physical Bar Investment and all Coins & Medals

Source: GFMS

# Demand in 2011

- Jewellery demand is likely to slip back this year due to higher prices, although the extent of the decline will be very limited.
- Other fabrication set to continue growing this year, due to gains in the electronics sector.
- Prospects for further de-hedging are limited by the now very low outstanding producer hedgebook.
- Net official sector purchases are likely to rise strongly, following the ending of the IMF gold sales programme.
- Investment demand for gold is expected to remain positive throughout this year.

# Investment in 2011?

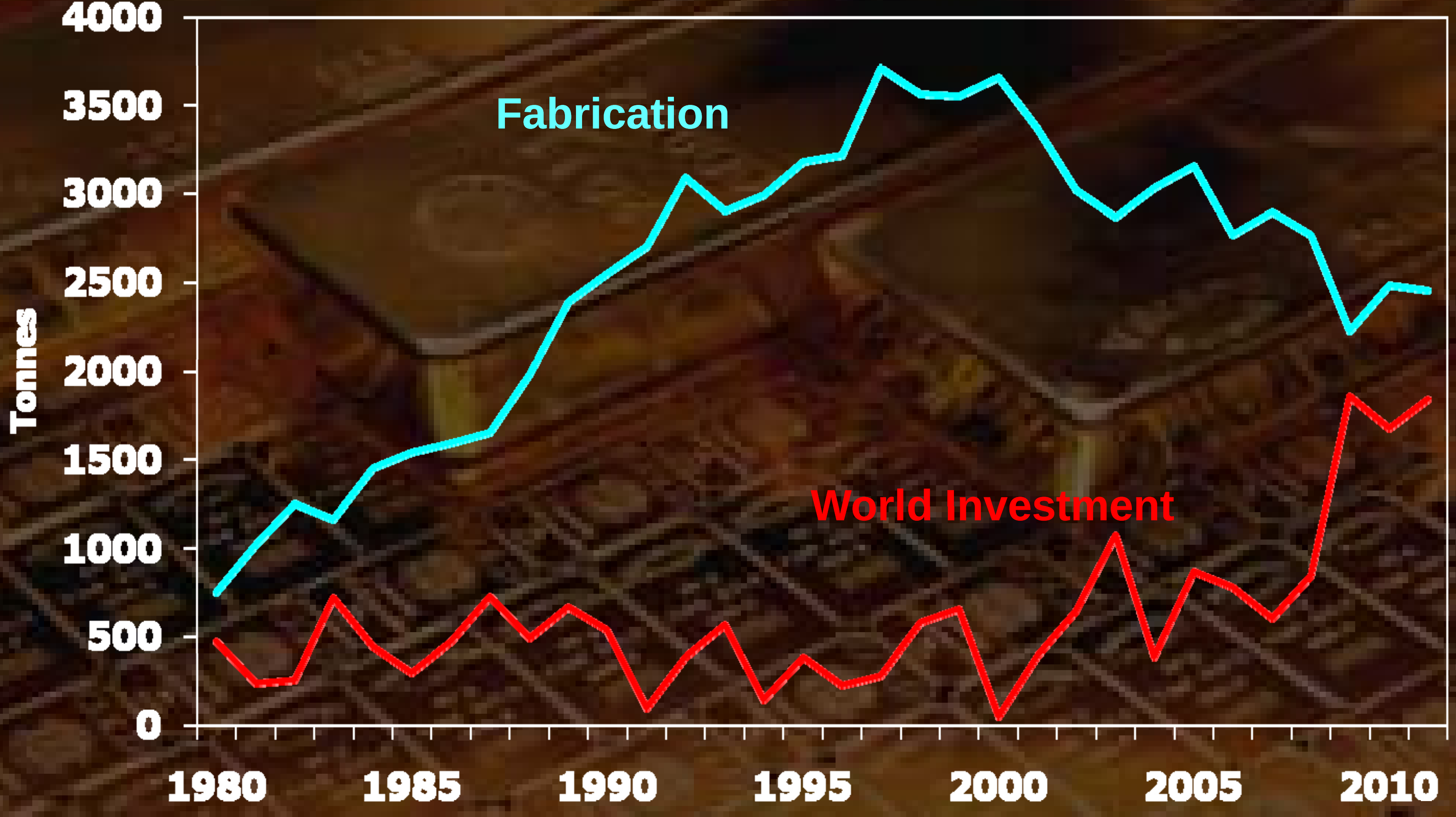
**Economic backdrop for investment will remain favourable in 2011:**

- **All major developed countries will maintain very loose monetary policies. Any increase in interest rates (e.g. in Eurozone) will be a slow and gradual process.**
- **Tighter monetary policy in China and India will not be sufficient for interest rates to turn positive for local savers or to impact severely GDP growth.**
- **Inflation expectations to grow, particularly in light of central banks' reluctance to raise interest rates, loose fiscal policies and high commodity prices.**
- **Ongoing sovereign debt crisis in Europe and its spreading eventually to the United States and Japan will further undermine faith in government paper.**

**Sustainability of investment demand an issue for the longer term:**

- **Investment's share of overall gold demand is exceptionally high by historical standards.**
- **Increasing size of investors' near-market bullion stocks provides potential for major sell-off if/when economic backdrop for investment turns negative.**

# World Investment* & Fabrication (excluding all coins)
(1980-2011F)




***World Investment is the the sum of implied investment, bar hoarding and all coins & medals**

**Source: GFMS**

# Price Outlook

- Investors will remain the principal driver of prices this year, with a breach of $1,600 in the second half still a strong possibility.

- In the short term, prices could retrace from current levels; the high $1,300s are a possible low over the next three months, with prices in that region most likely to be very well supported by bargain hunting and stock replenishment.

- Supply expected to rise fairly strongly this year, with continued growth in mine production. Scrap supply has remained relatively low year-to-date but should recover in the latter part of 2011 basis higher price conditions.

- Fabrication demand likely to fall somewhat but losses to be limited by surges in jewellery related buying on price dips and underlying growth in electronics fabrication.

- Market imbalances suggest that at some point the gold price will have to retreat. Nevertheless, this is most unlikely to occur on a secular basis in 2011and potentially not until well into 2012, especially if current economic conditions, which still favour gold investment, are largely maintained.

# GFMS Gold Price Forecast for 2011


Source: GFMS

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