



Gold Survey 2005 - Update 2

Philip Klapwijk

Toronto, 19 January 2006

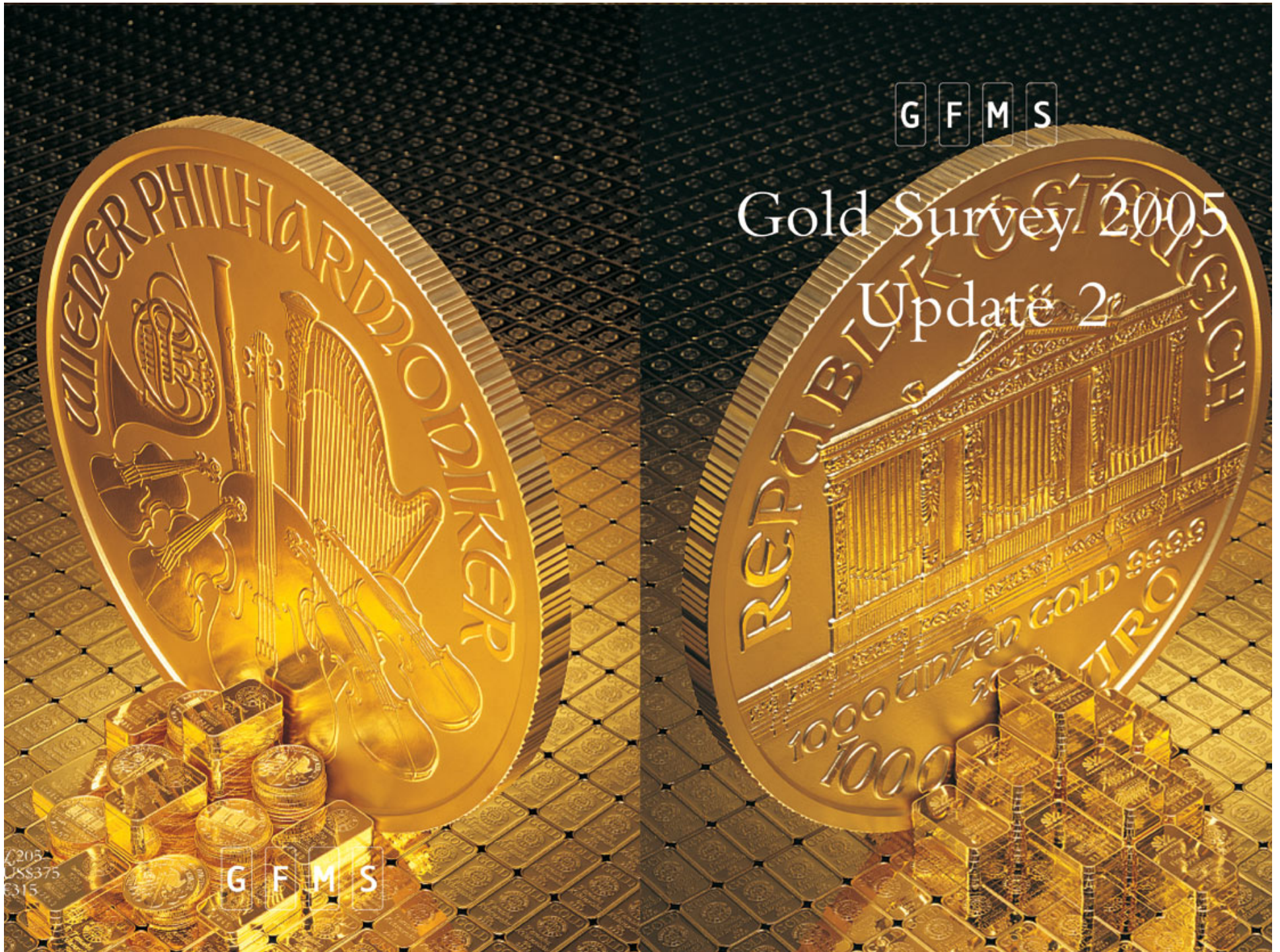


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Gold Survey 2005 Update 2

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US\$375
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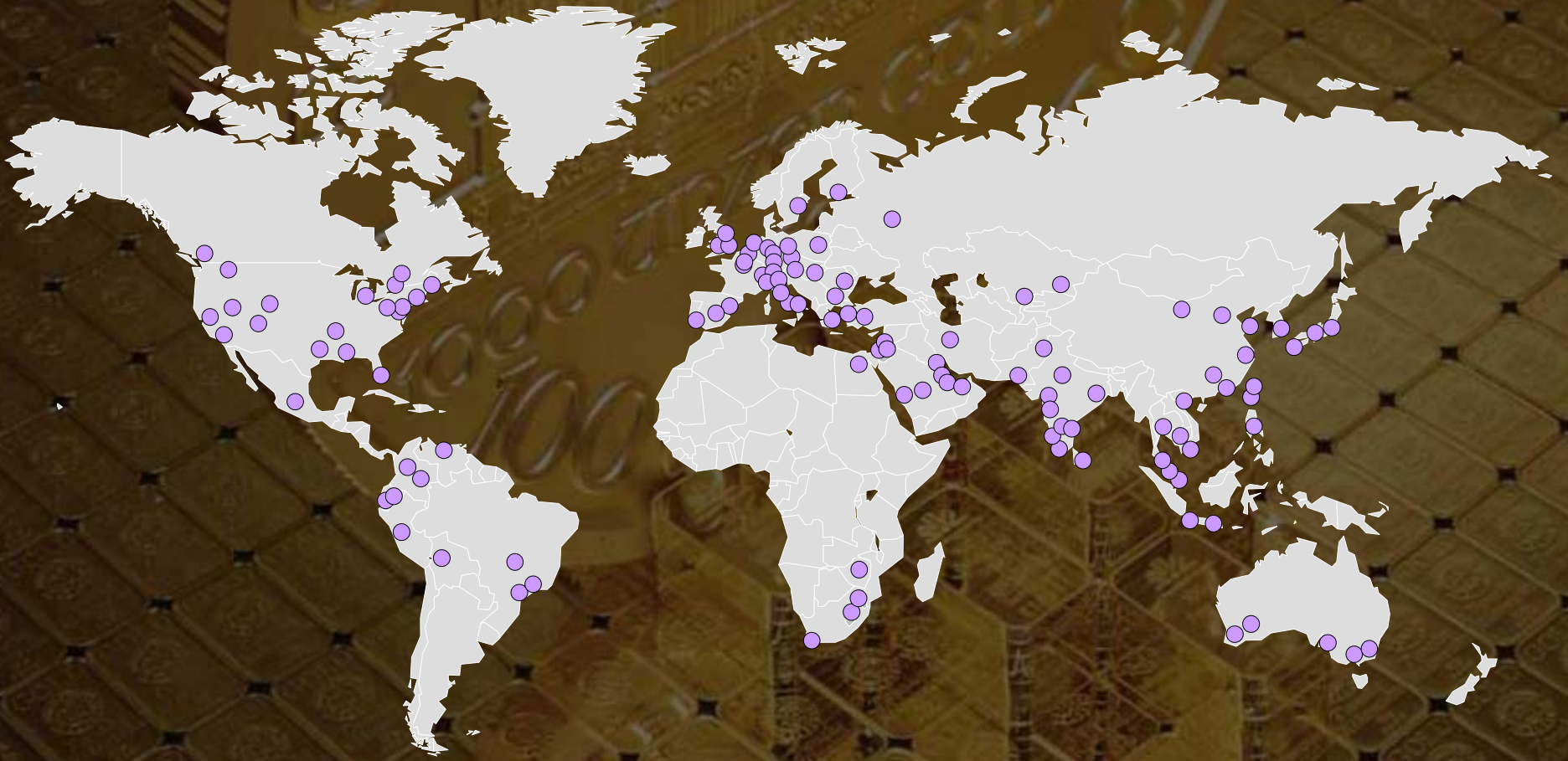
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Unlike others our research is not just desk-based!



Presentation Outline

- Gold Prices
- Supply
- Demand
- Summary & Price Outlook

US Dollar Gold Price

Weekly Averages

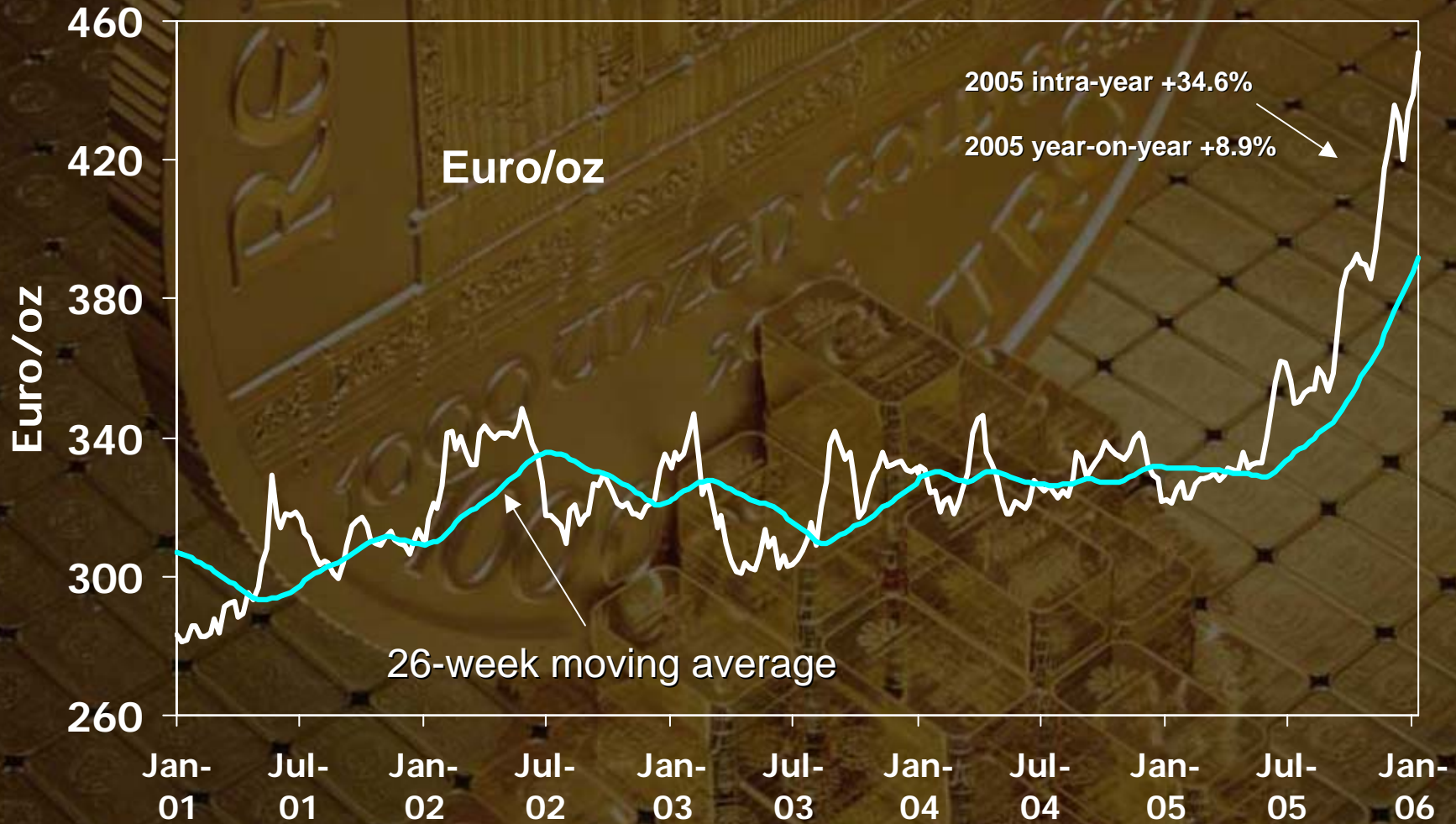


Source: GFMS

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Euro Gold Price

Weekly Averages



Source: GFMS

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Gold Price Correlations

(based on daily price changes)

	05Q1	05Q2	05Q3	05Q4
US\$/Euro Rate	0.81	0.46	0.49	0.25
US\$/Yen Rate	0.61	0.22	0.39	-0.03
Silver Price	0.59	0.48	0.65	0.82
Brent Oil Price	0.11	0.34	0.08	0.11
Comex "Funds"	0.74	0.74	0.57	0.59

Comex "Funds" basis weekly non-commercial open interest.; others basis daily log returns

Source: GFMS

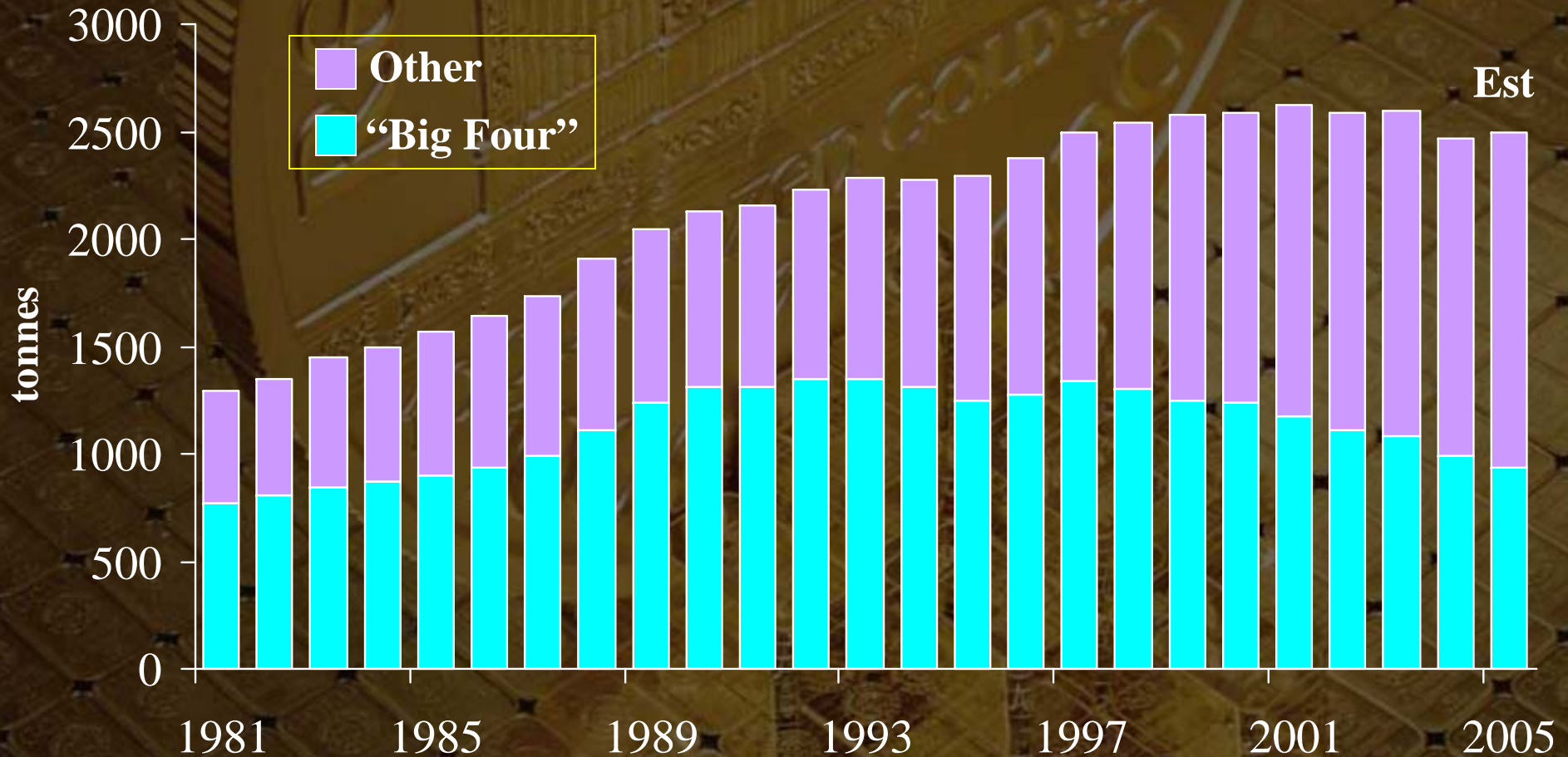


Supply

Gold Supply Estimates for 2005

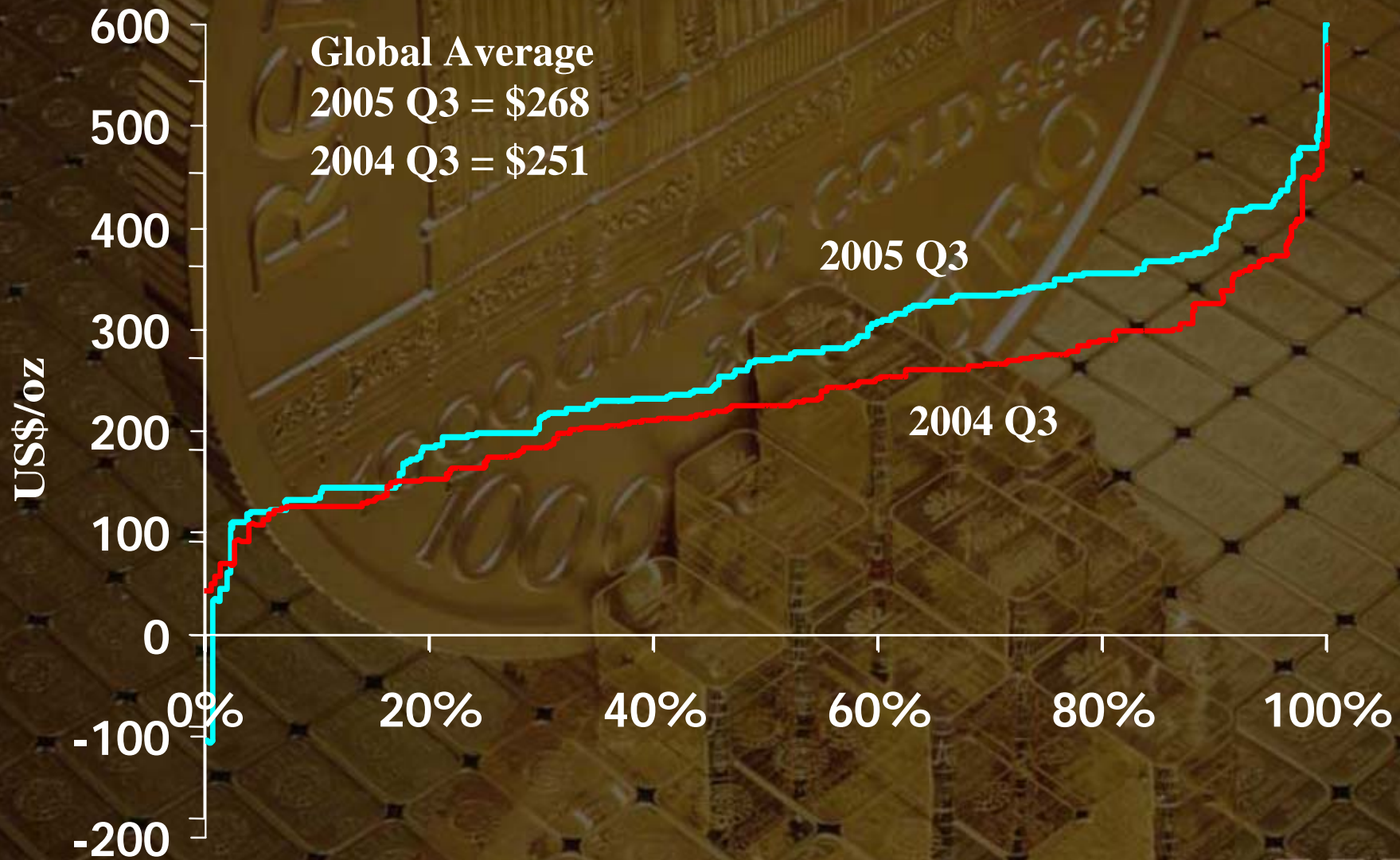
	2004	2005 E	y-o-y
Mine production	2,463	2,494	1.2%
Official sector sales	471	663	40.6%
Old gold scrap	834	840	0.8%
Implied disinvestment	77	-	n/a
TOTAL SUPPLY	3,846	3,997	3.9%

Gold Mine Production



"Big Four": South Africa, USA, Australia, Canada

World Total Cash Costs

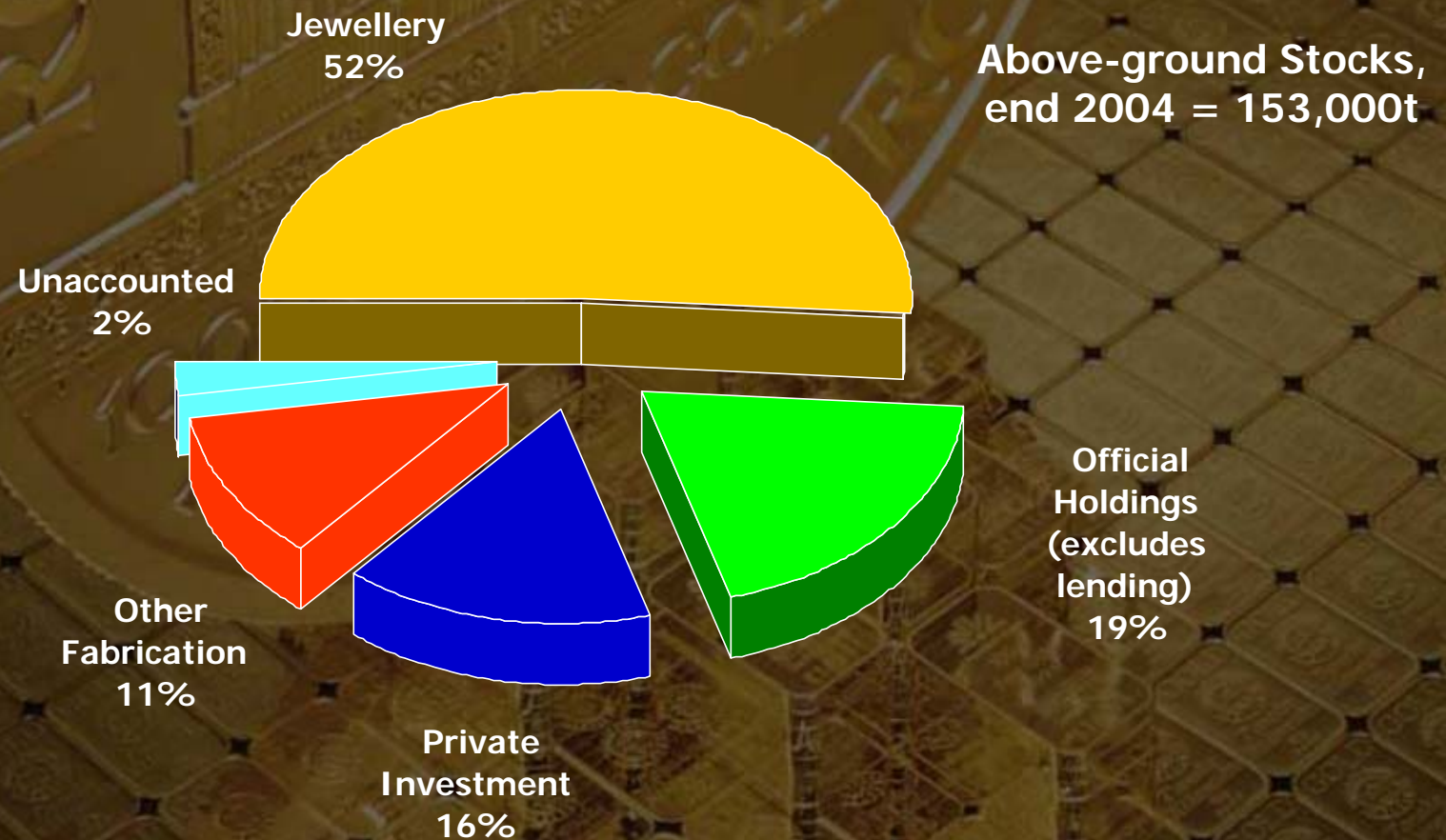


Mine Production in 2005

- At 2,494 tonnes mine production rose 1% or 30 tonnes from 2004's 8-year low.
- Grasberg was again an important swing factor: A return to normal operations at the mine adding over 50 tonnes.
- Higher output in Latin America, China and Australia also contributed more tonnage.
- The principal offset came from South Africa where production slumped to a provisional 295 tonnes, its lowest level for 82 years.
- Q3 2005 average total cash costs up 7% y-o-y to \$268/oz.
- GFMS forecast global mine production to increase by 5% in 2006.

Above-Ground Stocks of Gold, end-2004

Gold is not “consumed” like most commodities; stocks can be available at the right price...



Source: GFMS (*Gold Survey 2005*)

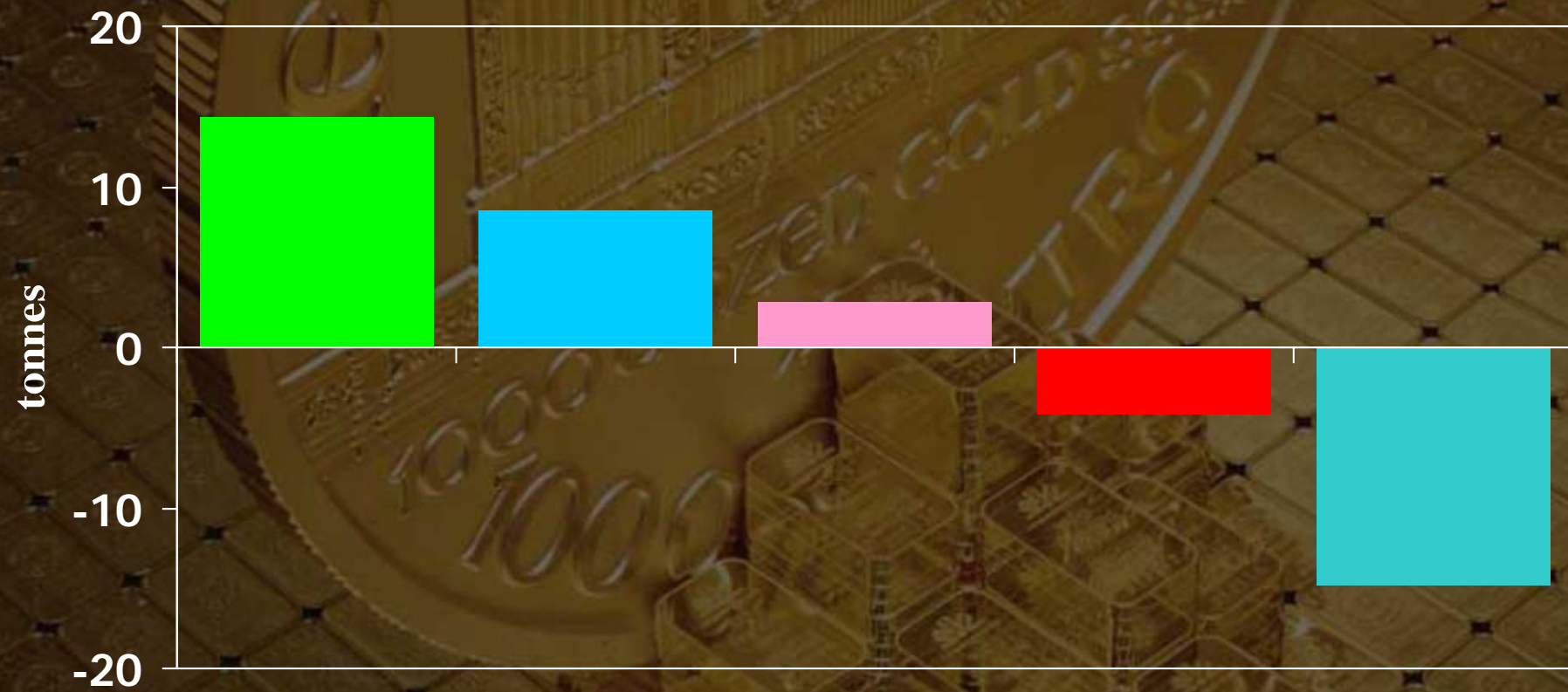
Change in Supply from Above-Ground Stocks

2005 compared to 2004



Regional Changes in Scrap Supply

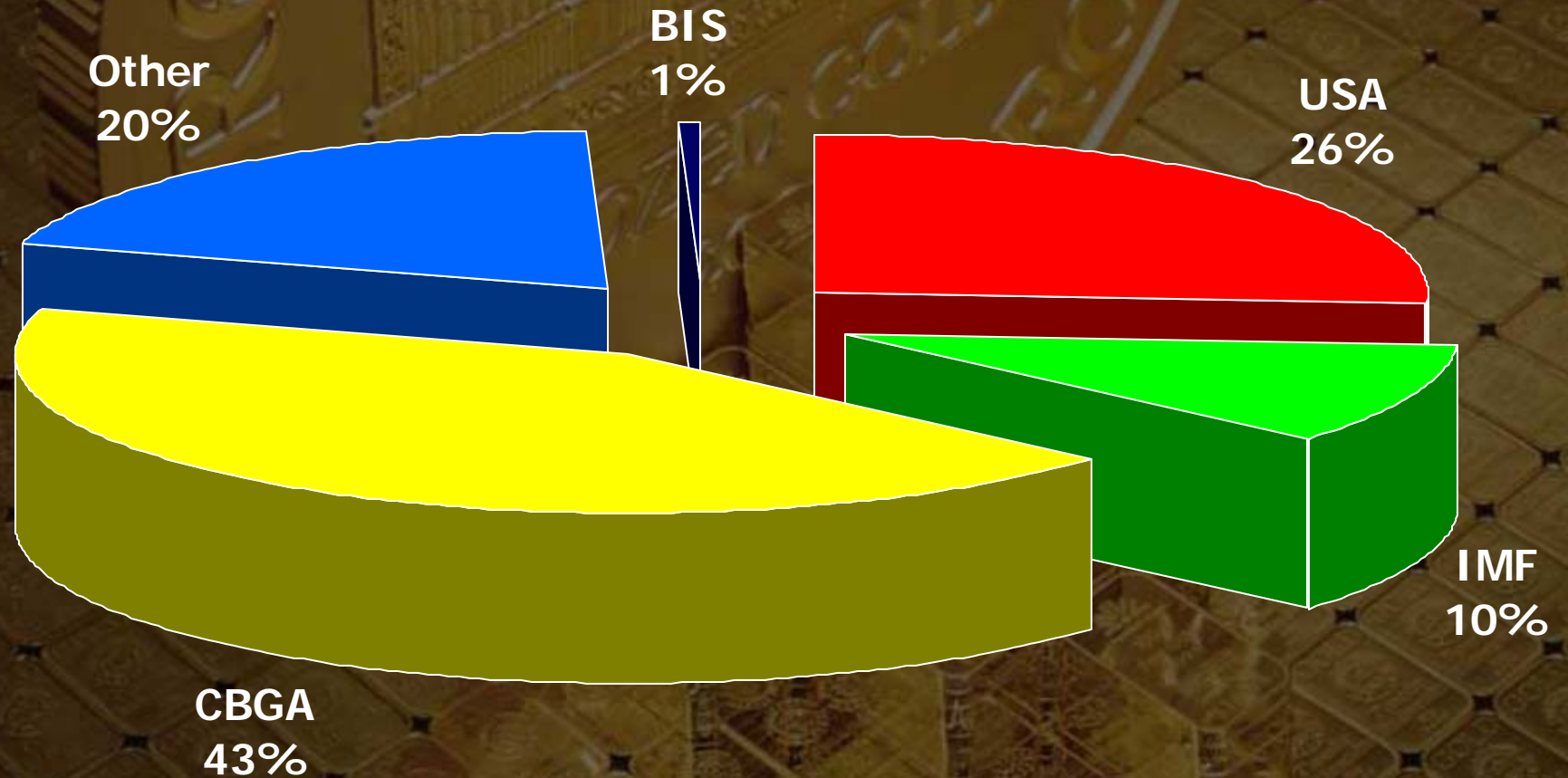
2005 compared to 2004



Middle East Europe East Asia North America Indian SC

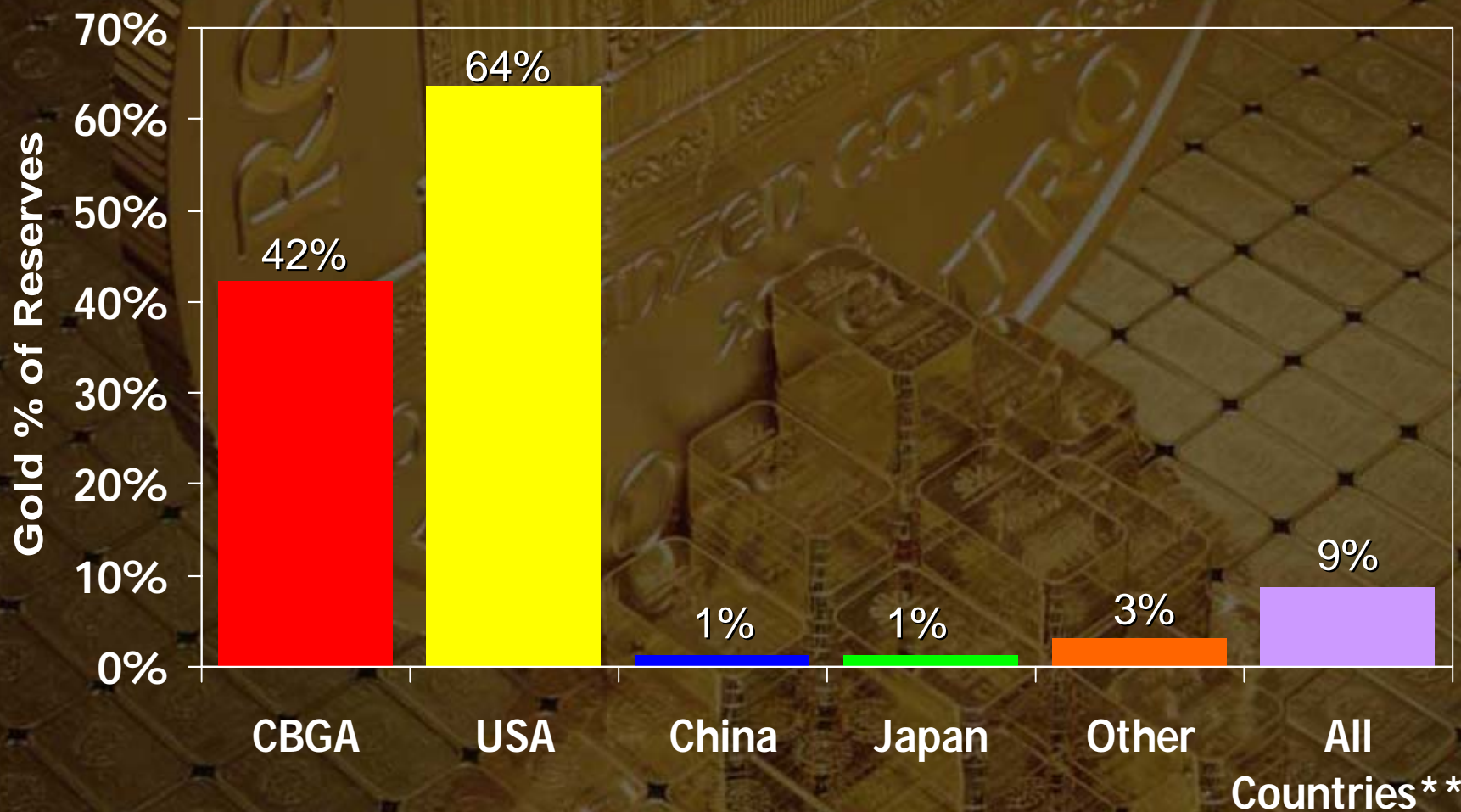
World Gold Holdings

at end-June 2005



Source: IMF

Gold as a Percentage of Total Reserves*

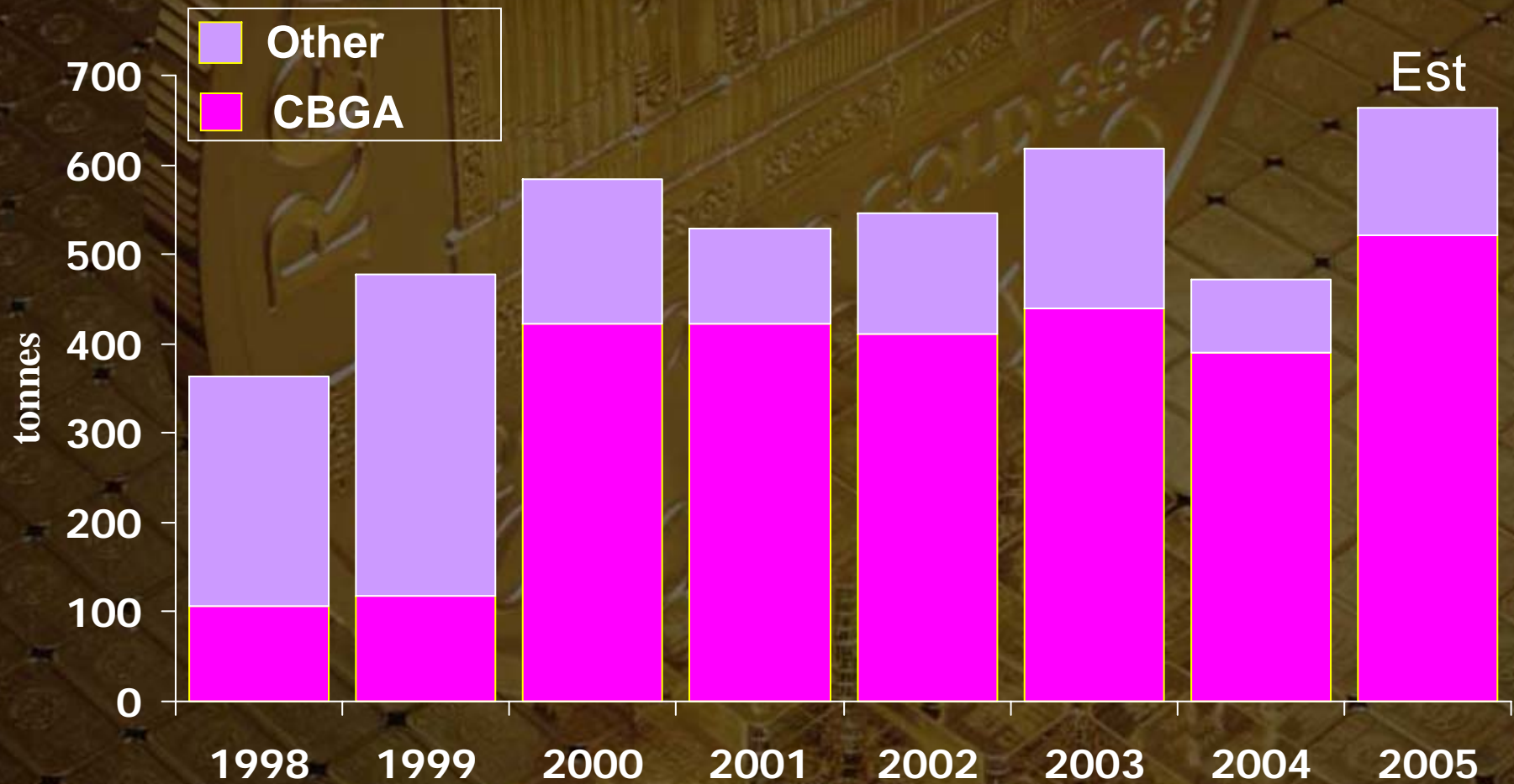


Source: IMF;

*Total Reserves = Foreign Exchange, Gold, Other Reserves

**Excludes BIS & IMF, includes ECB; gold reserves valued at market prices

CBGA and Other Gold Sales



“CBGA” refers to signatories to the Central Bank Gold Agreement

“Other” refers to all other countries

Official Sector - Outlook

- Net sales will continue (several large holders “overweight” in low/zero yielding gold) but annual sales volume unlikely to rise from 2005 peak and probably will fall (e.g. H1.06), especially as some countervailing buying could be seen from e.g. large oil/natural gas exporters and, maybe, China – in its case more likely when the Rmb becomes convertible.
- Will there be a CBGA 3 and, if so, will there be sellers for 500 tonnes per annum? Answers are probably “yes” and “no” respectively.
- Huge rise in global US\$ forex reserves, prospect of US\$ weakness, US “assertiveness” and secular bull-market in gold having some impact on central bank thinking inside and outside CBGA. Peak in “anti-gold” sentiment has passed.
- Some apparently potential buyers constrained by political factors, size of their forex reserves, possible adverse impact on their exchange rates if moving out of dollar into gold.

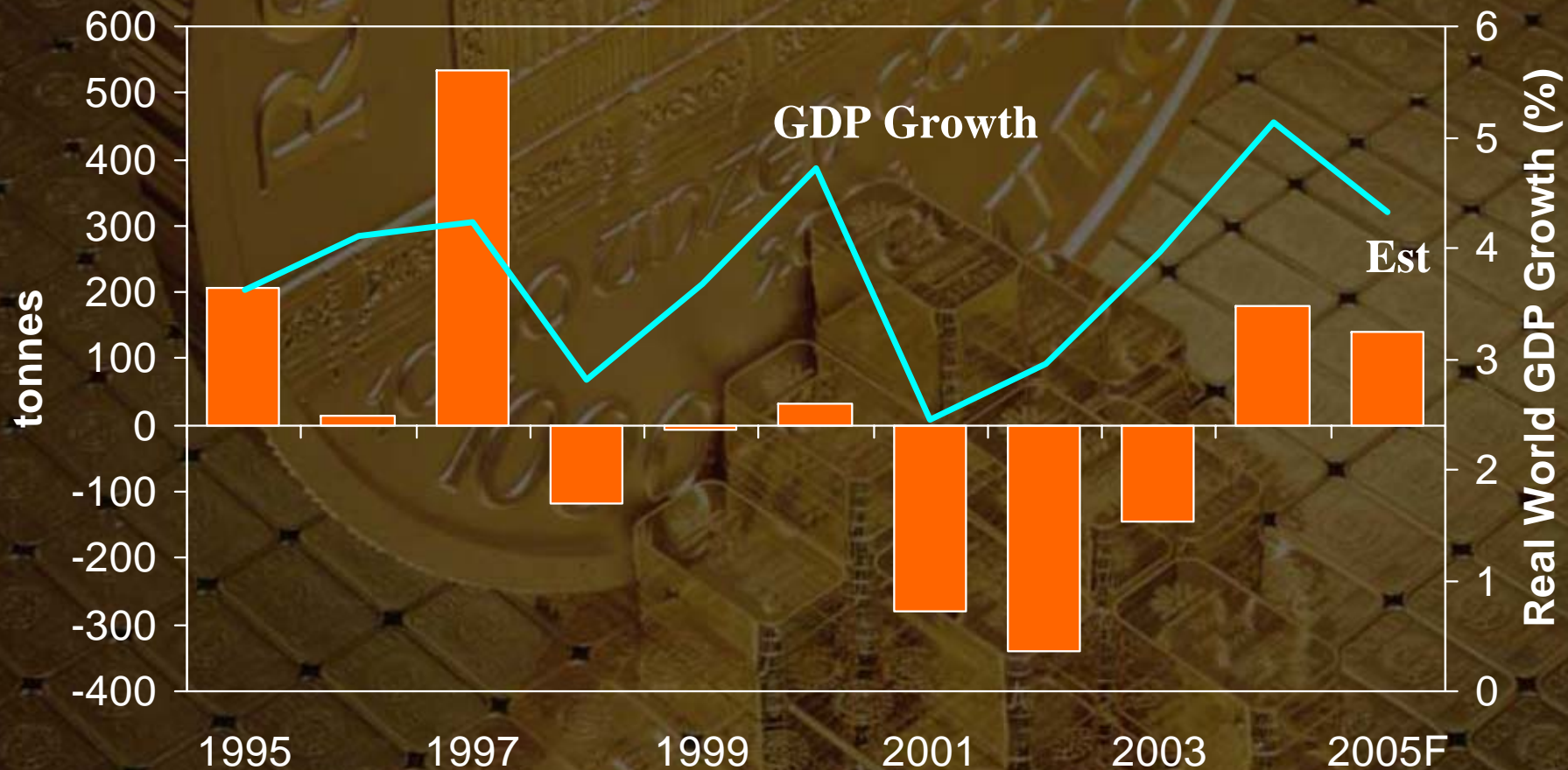
Demand

Gold Demand Estimates for 2005

	2004	2005 E	y-o-y
Jewellery	2,618	2,739	4.6%
Other fabrication	553	573	3.6%
Total fabrication	3,171	3,312	4.5%
Bar hoarding	248	263	6.2%
Net producer hedging	427	195	-54.2%
Implied investment	-	226	n/a
TOTAL DEMAND	3,846	3,997	3.9%

World Gold Fabrication

Annual year-on-year change, tonnes

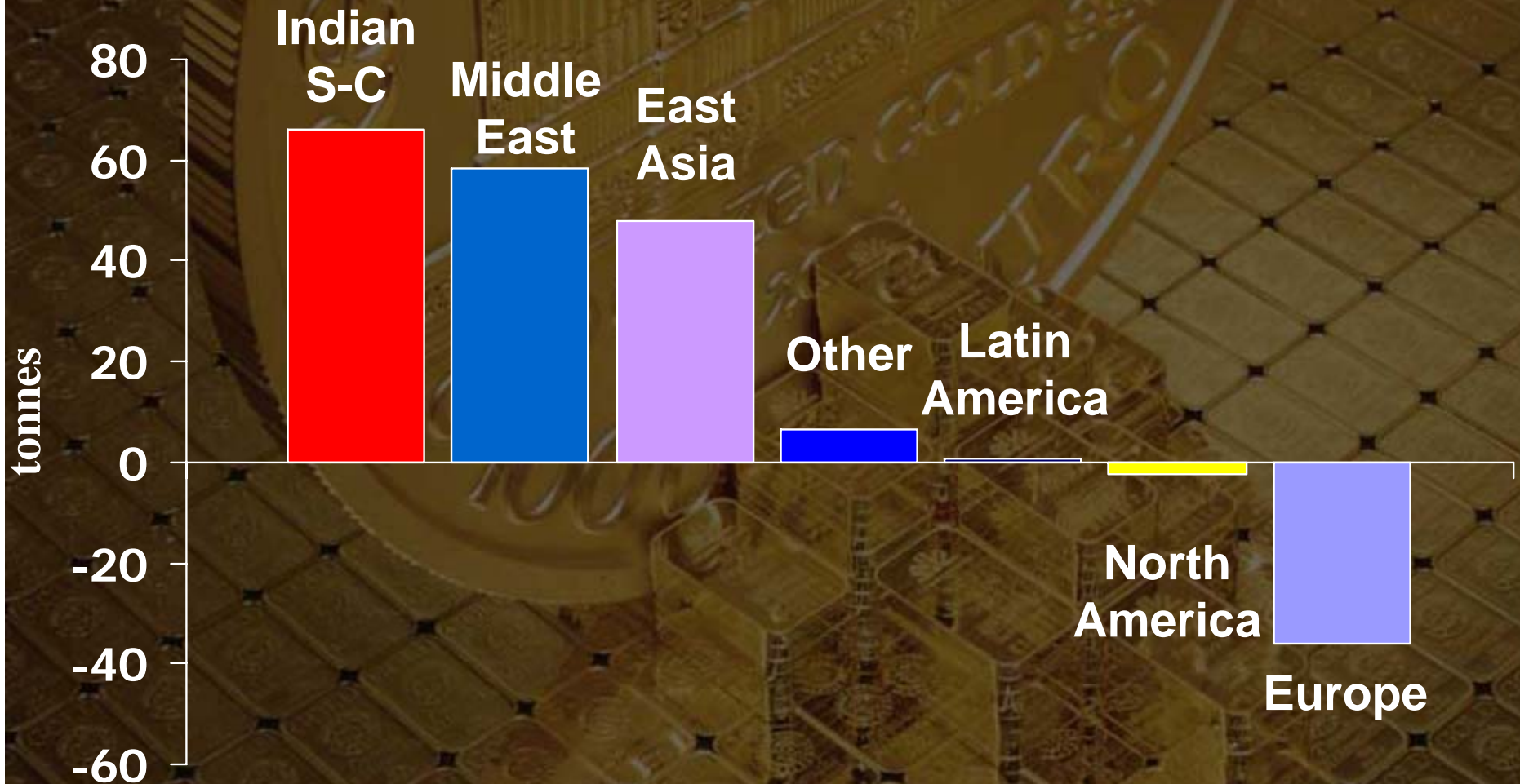


Source: GFMS, IMF

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Fabrication: Winners and Losers

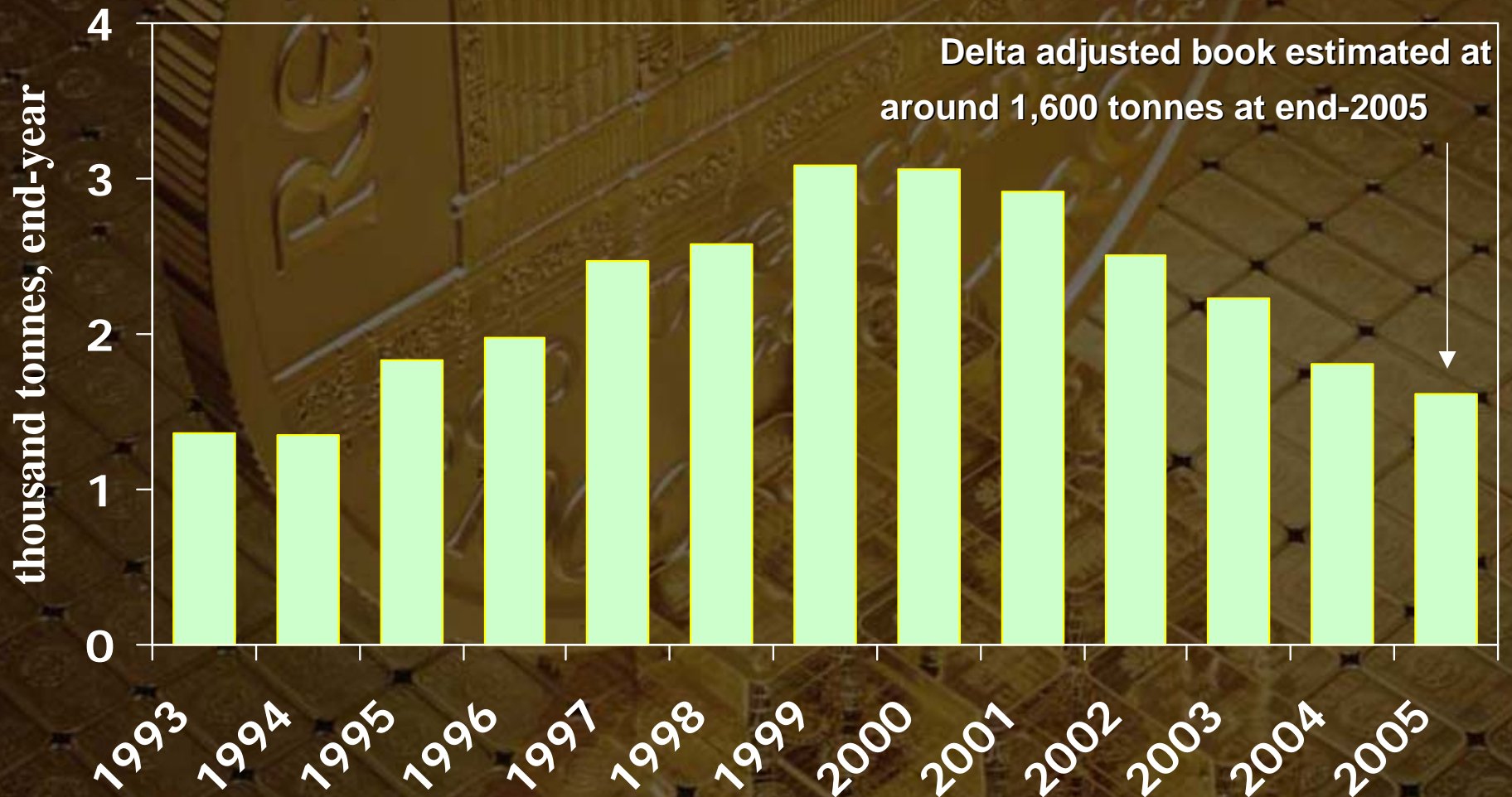
(Figures represent year-on-year change, i.e. 2005 less 2004)



Fabrication Demand in 2005

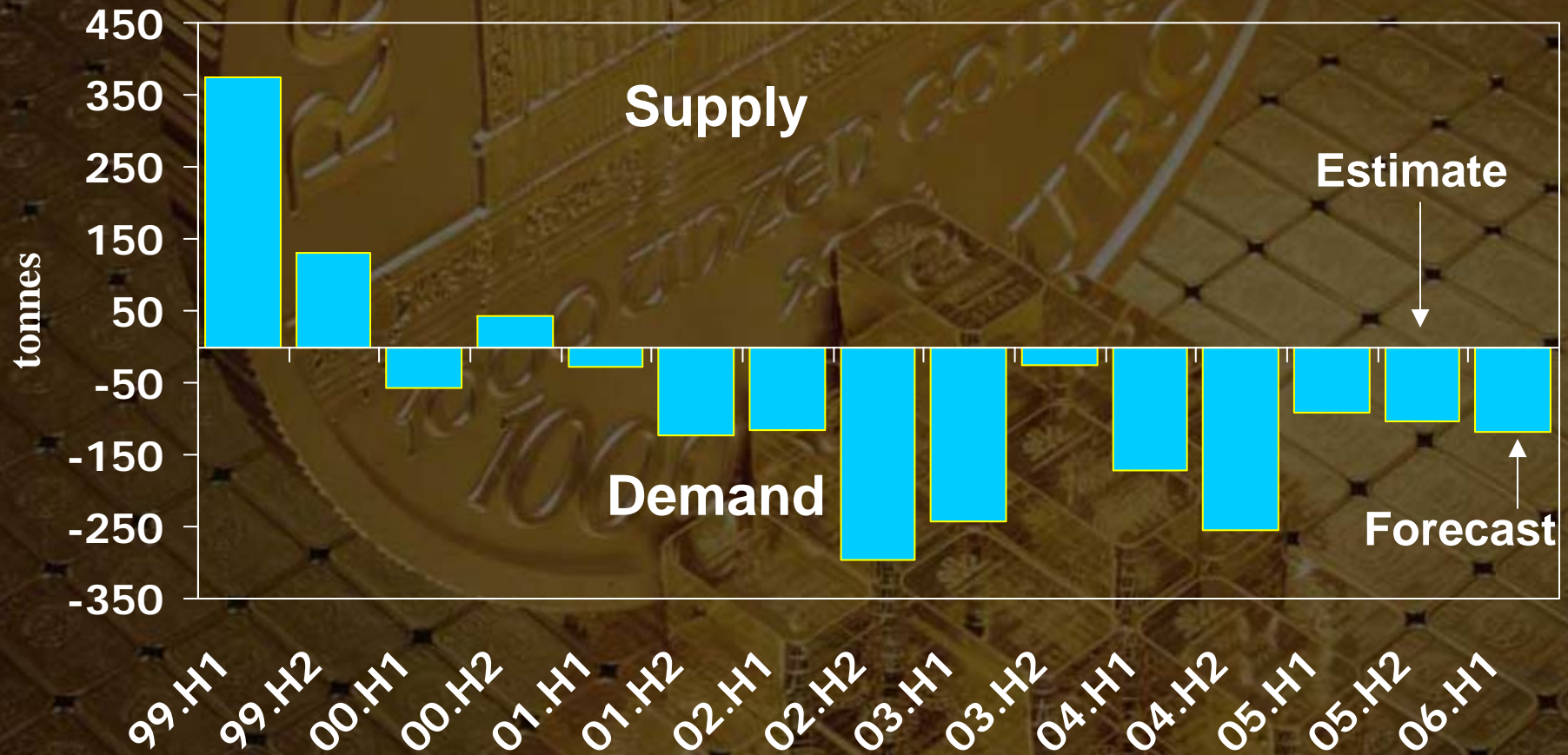
- Total fabrication rose by 4.5% to 3,312 tonnes.
- The largest component, jewellery fabrication, grew by 4.6% to 2,739 tonnes.
- The rise in fabrication demand was impressive in the light of the stronger gold price. Dollar value of fabrication demand expanded at a double-digit rate in 2005.
- However, demand did eventually respond to higher and rising prices; fabrication fell year-on-year in Q4 2005.
- GFMS forecast fabrication to fall by nearly 20% year-on-year in first half 2006. In part this is due to high base in H1 2005 but also reflects high absolute price level. Demand will pick up strongly though on any major dip in the price.

Total Accelerated Supply from Producer Hedging*



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

Net Market Impact of Producer Hedging



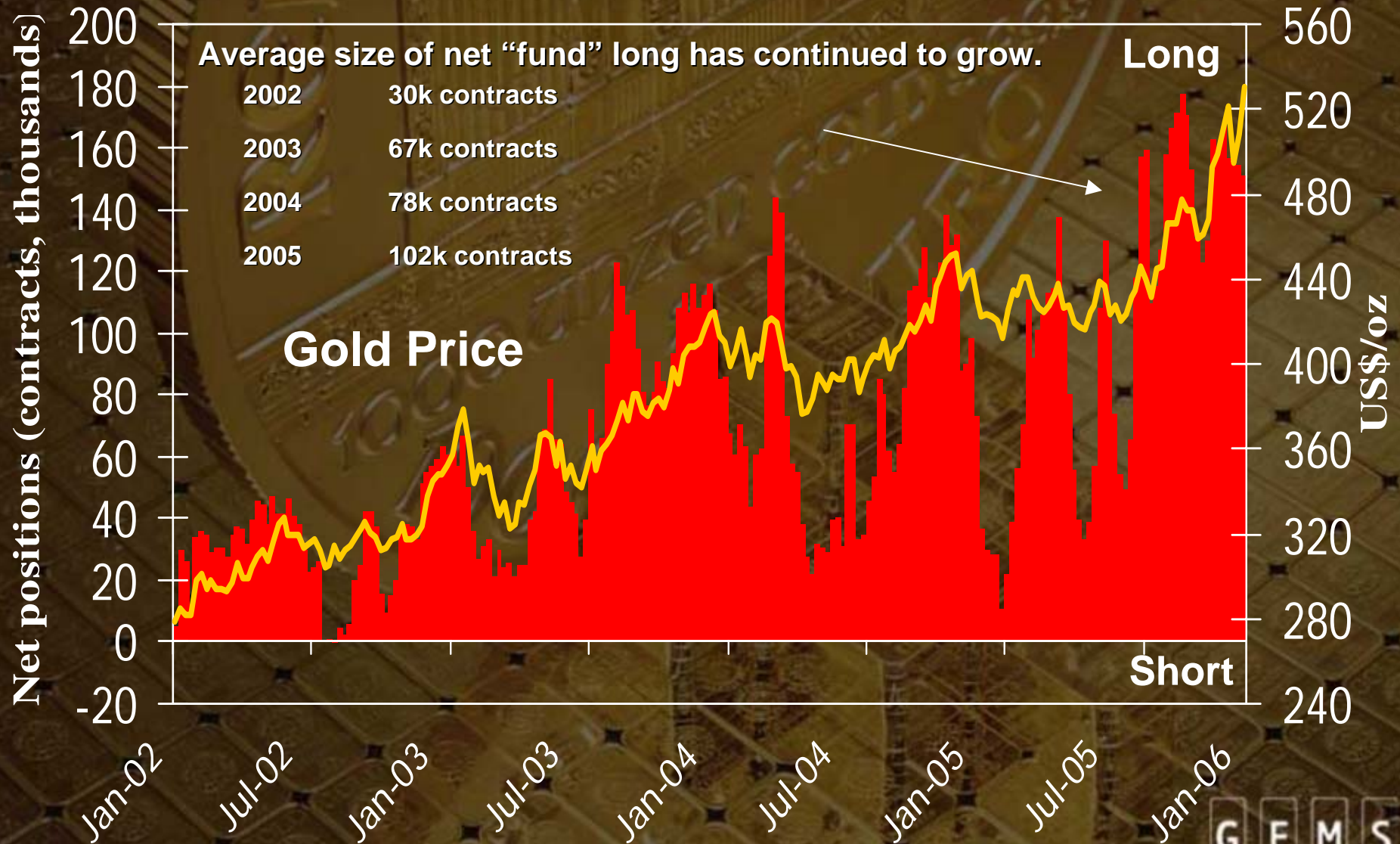
World Investment

	2003	2004	2005
Official Coin Fabrication	107	114	120
Implied Net (Dis)investment	699	-77	226
Bar hoarding	178	248	263
World Investment	983	285	610

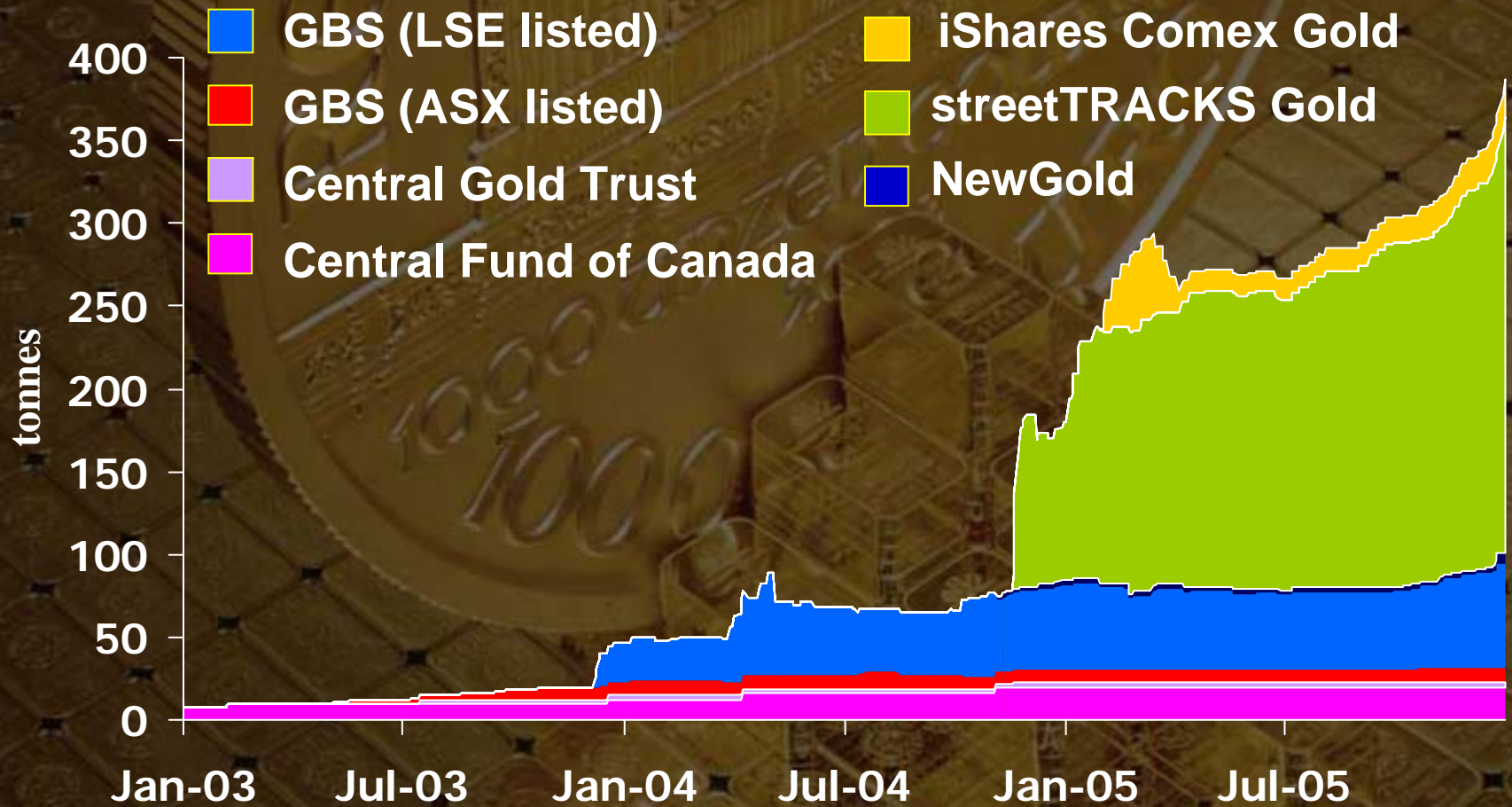
Source: GFMS

Funds remained net long in 2005

(non-commercial net open interest in Comex futures)



ETFs & Other Similar Products



End-Year Value of Non-Commercial & Non-Reportable Net Positions in 13 Commodity Futures



Source: CFTC, EcoWin

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Investment Issues 2005

- “Western” investment (captured in the implied number) was lacklustre in H1.05, then grew strongly from September to December.
- Demand driven by rising inflationary expectations post-Katrina, talk of central bank gold buying, a weakening Japanese currency (the latter encouraging investment in yen-denominated gold), and, of course, the rise in price itself.
- Investment very much focused on the main commodity exchanges and the OTC market. Q4.05 also saw significant inflows into the five active gold ETFs while, in contrast, direct investment in physical bullion remained disappointing.

The background of the slide features a close-up, high-angle view of gold bars and coins. The bars are arranged in a grid pattern, and the coins are scattered around them. The lighting is warm, highlighting the metallic texture and the embossed details on the gold. The overall tone is professional and financial.

Summary & Price Outlook

Gold Supply Forecasts for H1.2006

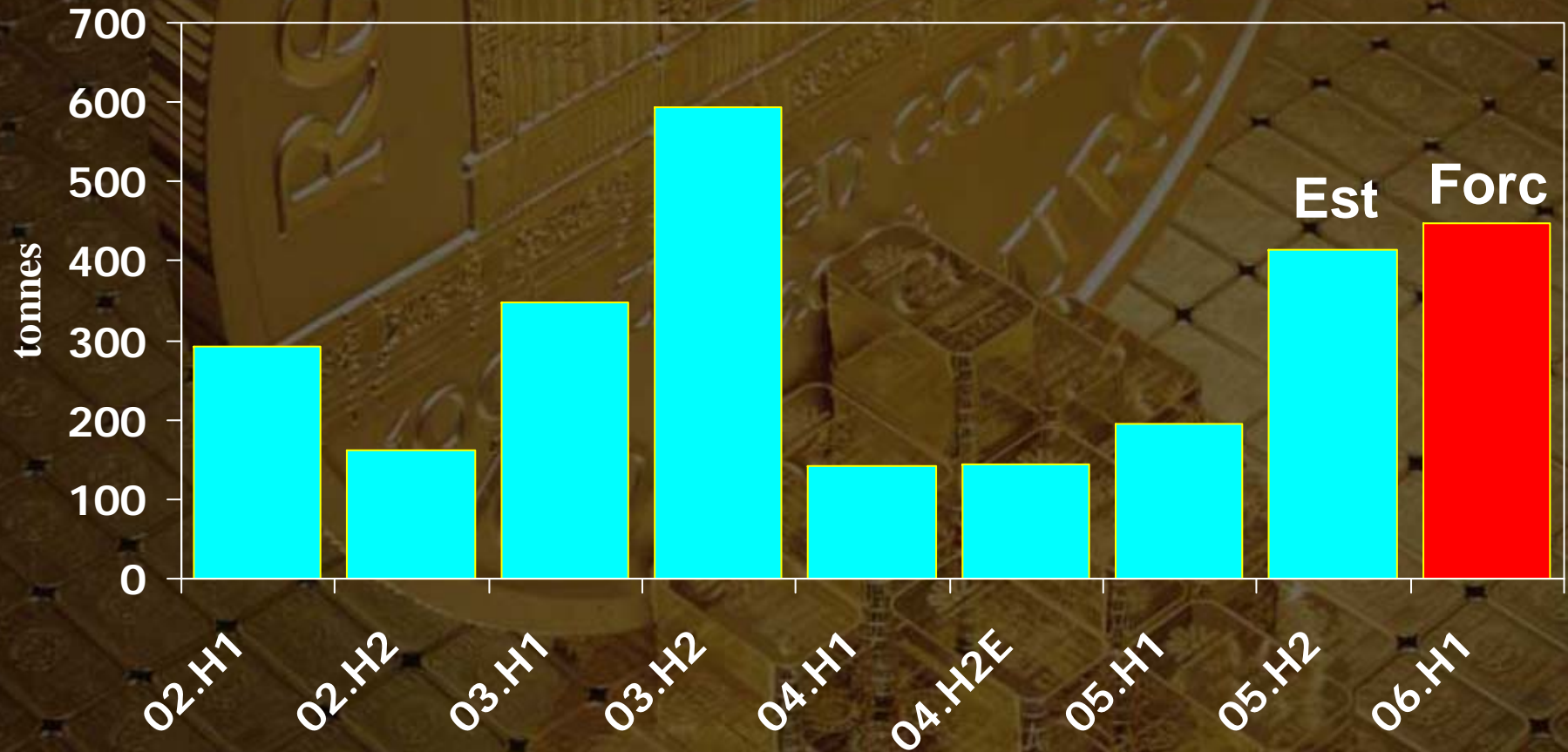
	H1.05	H1.06 F	y-o-y
Mine production	1,180	1,236	4.7%
Official sector sales	423	238	-43.7%
Old gold scrap	399	451	13.0%
Implied disinvestment	37	-	n/a
TOTAL SUPPLY	2,040	1,925	-5.6%

Gold Demand Forecasts for H1. 2006

	05.H1	06.H1 F	y-o-y
Jewellery	1,485	1,133	-23.7%
Other fabrication	300	301	0.5%
Total fabrication	1,785	1,434	-19.6%
Bar hoarding	163	87	-46.4%
Net producer hedging	92	118	27.9%
Net investment	-	286	n/a
TOTAL DEMAND	2,040	1,925	-5.6%

World Investment

World Investment: Bar Hoarding, Coins, Implied Net (Dis)Investment



Price Outlook

- Short-term price correction probable. Speculative overhang needs to be worked off.
- “Western” investment may need an external trigger to move up another gear. (More likely in H2.06 in form of weaker dollar, US short term interest rates peaking/falling, crisis in Gulf?)
- Downside limited by funds and private investors looking to come in at more “reasonable” price level; growing inflow into commodities.
- Fabrication demand likely to rebound very strongly on prices close to \$500/oz. Expectations have adjusted again to new price level.
- Supply threat limited in 2006: Stronger mine production growth and higher scrap likely to be offset by lower official sector sales.
- GFMS’ H1.06 Forecast: Core range \$490-\$550; Average for first half of \$521/oz (+22% y-o-y).

GFMS Gold Price Forecast for First Half



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