



Gold Demand Booms in China

by Junlu Liang, Metals Analyst

China's gold jewellery consumption posted a strong increase over the last decade, rising from just over 215 tonnes in 2000 to last year's record high of 452 tonnes. Moreover, a recent trip to China in mid-September revealed that demand for gold jewellery has continued to grow at a relentless pace so far this year, despite a major increase in the local gold price over the period.

Meanwhile, demand for gold bars has expanded at an even more spectacular pace. In a period of five years, bar investment jumped from a low of 10 tonnes to a staggering 179 tonnes in 2010, with demand likely to approach 250 tonnes this year.

As such, despite being the largest gold producer, China needs to import a large amount of gold to meet the

extraordinary increase in domestic demand. Basis our recent field research, bullion flows into China in the first eight months of this year alone are estimated to have reached over 300 tonnes, against a full year figure of 245 tonnes in 2010. Indeed, were it not for the stellar import demand from China (as well as to some extent India) in early 2011, the gold price's weakness in

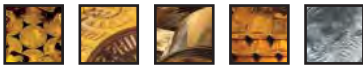
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the first quarter would undoubtedly have been far greater.

To properly understand why gold demand has increased so strongly in China, it is necessary to take into account the macro-economic backdrop in the country. Looking at China's phenomenal GDP growth story of recent years, there can be little argument that the rise in disposal incomes is an important driver of jewellery demand. We would argue that jewellery consumption would have been markedly lower had it not been for robust income growth.

Further support came from ongoing infrastructure developments in smaller cities. This combined with a robust increase in consumer spending allowed major jewellery retailers to expand their business in smaller cities at a very rapid pace, with each new store requiring some "start-up" inventory.

It is also important to mention that inflationary pressures mounted rapidly since the latter part of last year. The threat of rising inflation, exacerbated by the pegging of the local currency to the dollar, saw the official CPI rise rapidly to reach a three-year high of over 6% in the

summer of 2011. Although the central bank has started to raise interest rates since late 2010, anecdotal information suggests that there have been increasing concerns among the general public about the potential for still higher inflation. While the middle class and the newly rich in 'first tier' cities were increasingly purchasing gold bars for wealth preservation and as an alternative asset diversification option, the vast majority of consumers with limited budgets in agricultural regions turned to small pieces of 24-carat gold.

Apart from a generally very positive economic backdrop for the purchase of gold, demand for gold jewellery and bars has been further boosted by widespread media coverage of gold on state run television and the increasing involvement of Chinese commercial banks in promoting gold investment products over the last couple of years.

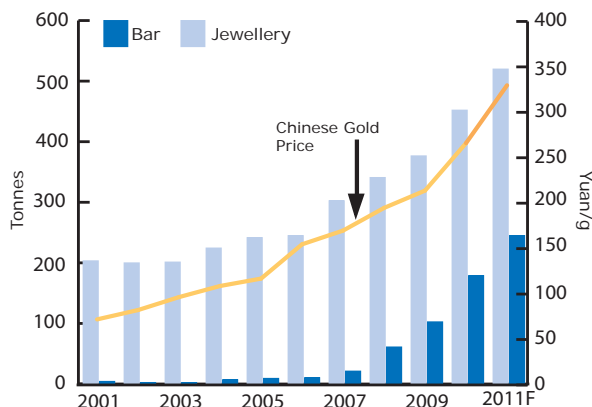
Looking ahead, while the sharp fall in gold prices in late September triggered heavy selling from more speculative investors in China, demand for physical gold has stayed at elevated levels at the time of writing. With the underlying bullish sentiment towards gold remaining

in place, we expect demand for jewellery and bars in China to continue growing over the rest of 2011, which will undoubtedly provide tremendous support for the gold price.

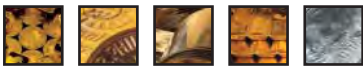


Junlu Liang joined GFMS in 2008. She is focussed on the global investment sector and the official sector. Junlu is also responsible for market research in China, including the investment and jewellery sectors. She holds an MSc in Economics from the London School of Economics

Chinese Jewellery and Bar Demand



Source: Thomson Reuters GFMS



NEW AT THOMSON REUTERS GFMS

Thomson Reuters' Acquisition of GFMS

In case any readers were still unaware, we are pleased to announce that in early August GFMS became a part of Thomson Reuters. This development explains the changes in the appearance of this edition of our newsletter.

Thomson Reuters is the world's leading source of intelligent information for businesses and professionals and the acquisition of GFMS strengthens its offerings to the

metals sector by combining GFMS' powerful forecast analytics and rich fundamentals content with Thomson Reuters leading news and pricing service.

This combination of Thomson Reuters and GFMS will deliver the critical information and tools needed to enable market participants to better optimise their business, investment and trading strategies in the metals marketplace.

In practical terms, the acquisition will have no direct impact on the products and services you are currently taking from GFMS, but we will move quickly to ensure you start to experience the additional value this acquisition will bring.

We hope you are as excited as we are about this new development for the GFMS business and we know it is the best move for the company and for its customers.

Should you have any queries on this matter, please contact:
philip.klapwijk@thomsonreuters.com

First Italian Language Edition of the *Gold Survey 2011 - Update 1*

For many years GFMS has been producing foreign language editions of its precious metals Surveys. These publications have been translated into different languages such as Russian, Hindi, Arabic, Chinese and Japanese. For the first time ever, Thomson Reuters GFMS have released an Italian edition of one of their main gold publications, the *Gold Survey 2011 - Update 1*.

The publication, kindly sponsored by Banca IMI and Intesa SanPaolo was presented in two consecutive events in Vicenza and Arezzo, respectively on 6th and 7th October.

The annual Gold Survey is widely recognised as the most authoritative source of information on the international gold market.

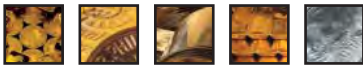
Update 1 to the annual Gold Survey provided flash estimates of global gold supply and demand during the first half of 2011, with analysis of the most recent trends in every sector of the market.

Update 1 also set out Thomson Reuters GFMS' views on the outlook for the main supply and demand variables and the price for the second half of 2011, identifying the most important economic, socio-political and market-specific issues facing the industry in the short term.

A complimentary copy of the Italian Edition of the *Gold Survey - Update 1* was also distributed to participants at the presentations.

For those unable to attend the presentations who wish to obtain a copy of the report please contact Carmen Eleta at:
carmen.eleta@thomsonreuters.com





NEWS FROM THE FIELD

US Silver Industrial Demand - Struggling to Build Significantly on Last Year's Momentum

by Philip Newman, Research Director

Following the record decline in US industrial demand in 2009, last year saw the most significant increase in our series, although the full year total fell short of the 2008 record total. In spite of the only modest US GDP growth forecast for this year, the 2011 total is expected to post a fresh high, if only just. This reflects our latest field research which indicates that the full year total may now see a less robust increase than had previously been expected, for a number of reasons.

First, there have been signs of a marked slowdown in the photovoltaic industry. The growing crisis in Europe has impacted the level of subsidies offered to photovoltaic cell manufacturers. As a result, excess stocks of silver bearing products started to emerge earlier this year, which were required to be run down before new orders could be placed, thereby impacting demand for silver paste (the key silver-bearing intermediary) especially during the middle part of the year. That said, the second half of 2011 has seen a recovery across the industry (as stocks of semi-finished and fully assembled solar cells returned to more "normal" levels), although far from the heady days which characterised end-2010 and the first quarter of this year. In addition, there were signs of a price elastic response from the photovoltaic

industry as high silver prices saw the emergence of pastes with a lower silver content.

Secondly, on the domestic front, the stalled economic recovery has had a pronounced impact on the country's housing and construction market, which in turn has impacted demand for a range of materials, including silver contacts and brazing alloys. Finally, high and often volatile silver prices have affected the ability of silver fabricators to carry out "normal" day-to-day business. In other words, a sudden ramp up in prices has placed significant pressure on credit lines (which are delineated in both volume and value terms), thereby reducing the amount of silver a manufacturer can obtain at a given time.

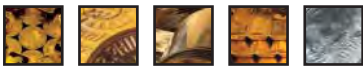
High prices (which until recently have characterised much of this year) have also affected the trade's ability to finance work in progress stocks. While this outcome may not necessarily impact the final level of demand, what has been clear from the research we have conducted, is the uncertainty this has added to the trade, with manufacturers looking to "turn" their metal more rapidly and therefore reduce their exposure (in terms of metal held elsewhere) across the supply chain.



Philip is a Research Director at Thomson Reuters GFMS, focusing on the gold, silver markets and PGMs in the United

States, the Middle East (including Turkey and Egypt) and the UK.

In addition, for the past fifteen years, Philip has run a quarterly survey of the world coin market. Philip holds an Honours degree in economics from the University of Surrey in England. He joined GFMS in 1994.



PUBLICATIONS AND PRODUCTS

Thomson Reuters GFMS Released *Gold Survey 2011 - Update 1*

The *Gold Survey 2011 Update 1* is the first publication released by GFMS as part of Thomson Reuters. Our latest report on the gold market was launched at twin events in London and Hong Kong on the 15th September.

Gold Survey 2011 - Update 1 provides a comprehensive interim analysis of the most recent economic, socio-political and market-specific issues facing the gold market.

Now in its 45th year, the annual Gold Survey is widely recognised as the most authoritative source of information on the international gold market.

It provides an in-depth analysis of developments in the market and contains a wealth of statistics on the main gold trading, consuming and producing countries. Update 1 to the annual Gold Survey will provide flash estimates of global gold supply and demand during the first half of 2011, with analysis of the most recent trends in every sector of the market.

Update 1 also sets out our views on the outlook for the main supply and demand variables and the price for the second half of 2011 and identifies the most important economic, socio-political and market-specific issues facing the industry in the short term.

Supply Highlights

- Mine output grew by 4.9% year-on-year to 1,343 tonnes in the first half of 2011.
- Scrap supply declined by 7.2% to 752 tonnes, despite a 25% rise in the gold price.

Demand Highlights

- First half jewellery fabrication rose by 7.5%
- Other fabrication rose 2.9%.
- Net official sector purchases jumped by 144 tonnes in the first half to 216 tonnes.
- Producers added 12 tonnes to the global hedge book in the first half.
- World Investment fell 24% in the first half but remained high at 624 tonnes.

For further information, multiple copy discounts, electronic versions or back copies, please contact:
charles.demeester@thomsonreuters.com

Quarterly Three Year Copper Forecast

The latest *Quarterly Three Year Copper Forecast* report was released in September 2011.

Despite a tightening fundamental market, copper prices have corrected notably from the highs of over \$10,000/tonne as growing concerns over the health of the global economy have taken centre stage. Against this backdrop, this report provides a comprehensive analysis of the outlook for supply, demand and pricing to 2014 under three probability weighted scenarios.

Chapter 1: Introduction and Executive Summary
This section highlights the key

findings of the research report, highlighting Thomson Reuters GFMS' supply/demand balance and pricing outlook on both a quarterly and annual basis.

Chapter 2: Economic Assumptions
This section provides an overview of the recent economic developments and our projections out to 2014. GDP forecasts for key economies are provided, alongside annual projections for the US dollar against the yen and euro.

Chapter 3: Consumption
This section provides annual consumption forecasts by key consumers including the EU-27,

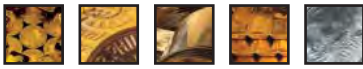
North America, Japan and the BRICs. An analysis of historical consumption trends on both a regional and end-use basis is also included.

Chapter 4: Mine and Refined Production

This section focuses on the outlook for mine and refined production, including the major new projects that will affect future output, in addition to an analysis of historical trends.

Additional Information

- Available in electronic format.
- To receive a quote please contact charles.demeester@thomsonreuters.com.



EVENTS

Gold Survey 2011 - Update 1 Launches, 15th September 2011, London and Hong Kong

Thomson Reuters GFMS launched its *Gold Survey 2011 – Update 1* in London and Hong Kong on 15th September.

At the event in London the presentation was delivered by Thomson Reuters GFMS' Research Director-Precious Metals, Neil Meader, at the Saddlers' Hall.

In Hong Kong the launch took place at the Mandarin Oriental and was presented by the Thomson Reuters

GFMS' Global Head of Metals Analytics, Philip Klapwijk. Both Neil Meader and Philip Klapwijk presented the main findings of the report. The presenters gave a review of the recent developments in key areas of the gold market. The presentations also looked at future possibilities for the various components of the supply/demand balance and what this might mean for the price. The presentations were followed by a Q&A and cocktails.

The launch of the *Gold Survey 2011 - Update 1* at both venues was very successful: nearly 100 participants at the London event and over 60 in Hong Kong, including high-level industry leaders from many different countries and regions. Many local and international media contacts also joined the event.

The Q&A session proved a lively forum for attendees to air a wide divergence of views.

London Bullion Market Association Conference, 18-20th September 2011, Montreal

The LBMA held its annual conference in Montreal this September, in conjunction with the LPPM.

A record attendance, of 530 delegates, participated in a range of sessions, although two overriding themes were the outlook for precious metal prices and the prospects for investment demand. To this end, it was appropriate that Philip Newman, a Research Director at Thomson Reuters GFMS, participated in the Silver Session, which was chaired by

Mike DiRienzo of the Silver Institute. The paper delivered by Philip addressed the outlook for silver investment demand, with many of his conclusions taken from a report which is now being finalised by Thomson Reuters GFMS; this forms an update to an Investment Market report first published by the consultancy in 2009.

The report will be published by the Silver Institute later this year. In spite of the recent price decline, the paper outlined a relatively

positive outlook for investment demand, especially during the 2011-12 period.

This view owes much to the growing risks of a double dip recession, the ongoing sovereign debt crisis in Europe, the impact of historically low or negative real interest rates and rising inflationary concerns in several key economies.

Copies of the presentation can be downloaded from the LBMA web site.



EVENTS

Platinum & Palladium Survey 2011 Launch, 16th September 2011, Shenzhen

Thomson Reuters GFMS launched 7th Chinese Language Edition of the annual *Platinum & Palladium Survey 2011*.

On 16th September Thomson Reuters GFMS, in association with the Beijing Gold Economic Development and Research Centre and China Gold News, launched the 7th Chinese language edition of its *Platinum & Palladium Survey 2011* at an event in Shenzhen – the hub

of China's manufacturing for the two PGMs.

Philip Klapwijk gave a presentation to the large audience which focused on GFMS' latest views on platinum and palladium supply/demand developments and the likely trajectory of PGM prices. This was complimented by brief presentations from senior figures in the Chinese precious metals markets.

The 2011 Chinese language version of the *Platinum and Palladium Survey* is kindly sponsored by Tanaka Kikinzoku Group, the Palladium Alliance International and Shenzhen Yuehao Jewelry Co Ltd. Thomson Reuters GFMS would also like to acknowledge and thank the Chinese Gold Association, Shanghai Gold Exchange, and the Shenzhen Gold Jewellery Association for supporting this year's Chinese language version.

FORTHCOMING EVENTS

With London's established prominence as the financial partner in the global mining industry, **Mines and Money London** is an invaluable channel for the global mining industry to cultivate long-term partnerships with the city's mining stakeholders and investors.

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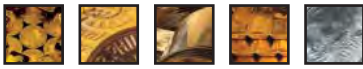
Gold

AMBRIAN, Collins Stewart, Standard Chartered, Blakes, Queensland Government Australia, WOLFE MINING CORP, PKF, cobbetts, srk consulting, IMC, Australian Government Austrade, SOCIETE GENERALE Corporate & Investment Banking, GEMCOM, Webber Wentzel, FASKEN MARTINEAU, ERNST & YOUNG, BEHRE DOLBEAR, PARSONS BRINCKERHOFF, TSX, RIOALTO, CANACCORD Genuity, MPS, NEDBANK CAPITAL, American Appraisal

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MARKET COMMENTARY

Gold Equities Continue to Disappoint

by Paul Burton, Senior Analyst

Paul Burton recently attended two of the most prestigious gold mining investment conferences in the annual calendar.

The Denver Gold Group brought together around 100 precious metal miners and developers with hundreds of analysts and fund managers, while a few days earlier it was the turn of some of the smaller developers and explorers to present to institutional investors at the Precious Metals Summit, a new conference, also held in the rarefied atmosphere of Colorado's Rocky Mountains.

Paul chaired the Senior Producers session, which included such established producers as Agnico-Eagle Mines, IAMGOLD, Randgold Resources, Yamana and Harmony Gold Mining as well as Canada's newest gold miner, Osisko Mining.

The mood amongst delegates at both events was upbeat, as one might expect, but there was none of the euphoria one might associate

with a huge spike in the gold price, which was actually an encouraging sign as it meant that producers and investors alike felt comfortable with the price level and quietly confident that the bull market would continue. There was, however, some concern that gold equities had not moved proportionately with the gold price and had been laggards throughout this booming market. Not only have many failed to keep pace with the gold surge but some have actually fallen in price; a dismal and perplexing outcome for investors.

We can pinpoint the date that the positive correlation between gold and gold shares disconnected - October 2008 - when the worldwide economic crisis shook the markets. At that time, the gold price plunged but recovered in short order to reassert the bull trend and has gone from strength to strength since then (despite some volatile swings and corrections in recent weeks). Gold shares were hit even harder in Q4 2008 and took time to regain lost

ground and have significantly lagged behind the upward movement in the underlying price, particularly this year so far.

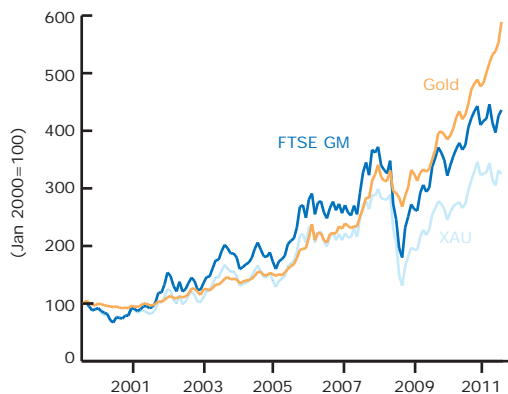
The following chart shows the gold price compared with the FTSE Gold Mines and XAU indices (both indexed back to the start of the current bull market). You can clearly see how the index performed better than the gold price for the bulk of the period, but since late 2008 it has been a different story.

So why has this happened? It's difficult to say definitely, of course, but it seems there may be two main factors at play. The first is that we have seen an acceleration in buying of the physical metal which has outpaced investment in gold stocks. This has been facilitated by the existence of the gold ETF products, but, perhaps more significantly, by the rise in investment demand for physical gold in China and India; regions where investors have a greater affiliation with tangible assets than gold equities.

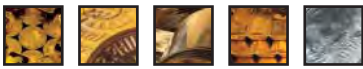
A second reason for the lacklustre performance of gold stocks seems to revolve around expectations for the gold price. There does appear to have been reluctance on the part of investors to believe that the gold price rise of the past six months or so was real and in all probability sustainable. It is almost as if they expected a sharp and substantial correction from the new highs, at which time a better buying opportunity would present itself.

Neither case is conclusive but combined they do offer feasible explanations for the longer term

Gold Price Versus FTSE Gold Mines & XAU Indices



Source: Thomson Reuters GFMS



malaise. Also, it is worth bearing in mind that gold stocks are not immune from the market selloffs that exchanges have been experiencing as fear over world economic collapse has prompted a flight to cash.

Ironically, just as investors were gathering at the Denver Gold meeting, we experienced the start of a major correction in the gold price that may signal the awaited buying opportunity.

New World Gold Analyst Special Reports in Q4

World Gold Analyst will be publishing its latest Special Reports on gold exploration and development in the Canadian provinces of Quebec and Ontario later this year. These reports will bring investors up to date on developments since the last reports were published in 2009. Senior Analyst, Paul Burton, toured mines and projects in both provinces in early September gathering first-hand information for the reports.



Paul Burton graduated as a mining engineer from the Camborne School of Mines in 1975 and spent almost twenty years working in the South African gold mining industry. He has been editor of *World Gold Analyst* since early in 1996. He is an established speaker on the international conference scene and is Chairman of the FTSE Gold Mines Index Committee. He holds an MSc in Mineral Economics and an MBA from the University of the Witwatersrand.

Operation Twist - The Latest Rescue Attempt

by Rhona O'Connell, Senior Analyst

The extended meeting of the Federal Open Market Committee (FOMC) took place on 20th-21st September and, rather than embarking on a new round of Quantitative Easing, it brought about "Operation Twist". This involves reinvestment of mortgage debt, but also, importantly, replacing shorter maturity Treasuries (maturities of up to three years) for longer-dated instruments (maturities of six to 30 years). This is an effort to give the market some stimulus, notably for the housing sector, while endeavouring to minimise any escalation of inflation fears.

The purchase of longer-dated bonds, at a proposed \$400 billion by end-June 2012, was much larger than the market had expected. The immediate aftermath of the announcement (of which more below) was to strengthen the dollar, partly as a result of short covering in the unwinding of carry trades,

to which we referred in our most recent Quarterly Newsletter, while pressurising gold, and taking 30-year bond yields to below 3%.

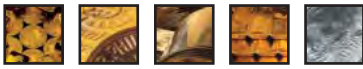
It also contributed in a large way to the massive sell-off across the commodities sector, which started slowly enough, but accelerated rapidly as a result of technical trading, with sell stops elected in number of markets. From the (intraday) highs of 21st September to the lows of 26th September, gold dropped by 15% towards \$1,530, platinum lost 18% and reached below \$1,500, palladium shed 14% to test \$600 and silver plummeted by 36% to trade below \$27. All these markets have subsequently unwound their oversold positions, but have been trading warily.

The heavy trading volumes on the exchanges, but the relative inertia among exchange traded instruments,

showed that the speculative froth had been blown off all these markets, opening the way for a recovery as overhead resistance was reduced. Sentiment is cautious, however although gold has met heavy investor interest and the PGMs have enjoyed industrial buying.

The 30-year yield has fallen towards the lowest level since the end of 2008, the level to which it had dropped in the wake of the Lehman crisis (for much of 2008, the 30-year yield had fluctuated between 4.20% and 4.85%); the yield curve has become considerably shallower since the onset of the financial crisis in September 2008.

Whether the latest programme from the Fed will be sufficient to prevent a double-dip recession in the United States remains to be seen. The FOMC statement on 21st September noted that recent indicators point to



continuing weakness in overall labour market conditions, and an elevated unemployment rate [last recorded at 9.1% for both July and August]. It also remarked on apparent moderation in inflation as “prices of energy and some commodities” had declined from their peaks; and that longer-term inflation expectations have remained stable.

The markets, however, are not so sanguine about the prospects for inflation and at Thomson Reuters GFMS we remain concerned about bloated fiscal balance sheets. The latest balance sheet for the United States stood at \$2.85 trillion, representing 20% of US GDP in 2010 at \$14.58 trillion.

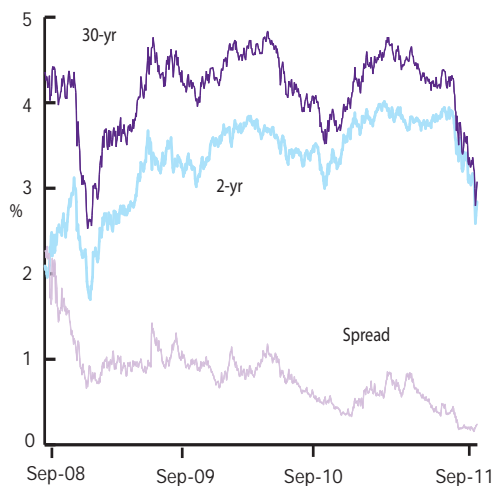
The United States may possibly be at a turning point, but the markets remain cautious, especially in the face of, inter alia, the vicissitudes of European debt negotiations and the fears, locally, of a property bubble in China. Key indicators to follow in the United States are unemployment and housing; so far, neither is showing much sign of improvement. All eyes are now on Europe, where the EFSF agreement at the recent summit has had a mixed reception – although light on detail, it has at least been greeted with some relief that an agreement has at last been concluded. Gold has remained steady in reaction to the deal, reflecting the markets’ continued uncertainty.



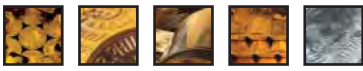
Rhona O'Connell
is a recognised authority in the metals markets, with over 20 years' experience as an analyst in the metals sector. Her

specialist areas constitute gold, silver, platinum and palladium, looking at the markets themselves in the context of the economic, political and financial environments while considering also the performance of other asset classes and related mining equities.

United States Two-Year and 30-Year Yields



Source: Thomson Reuters GFMS



Base Metals: Sentiment Turns Bearish

by Neil Buxton, Research Director Base Metals & Steel

With LME Week now behind us, it is an ideal time to review the events of the last twelve months and, more importantly, assess the prospects for 2012. Indeed, LME Week often proves to be a turning point in the base metals market as a broad consensus can emerge. Our discussions with traders, producers and consumers point to a more cautious price outlook than last year.

Risks to demand growth intensify

On the demand side, a number of drivers that supported the market in 2010 have begun to fade, or possibly have gone into reverse. The rapid rebound in demand in the mature economies has slowed as the restocking, earlier stimulus packages and the various industry-specific measures have come to an end. In China, our recent research trip shows that monetary tightening measures are serving to impart increasing restraint on a number of key end-use sectors. Consequently, downside risks to our global growth forecasts are increasing.

Supply weakness likely to provide some support

Nevertheless, the base metals should find some support from supply side disruptions. In this regard, copper and tin remain the most obvious candidates as limited scheduled increases to capacity, in addition to labour and technical problems, continue to limit growth. The strikes at Freeport's operations merely underline the myriad of problems affecting copper supply.

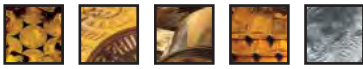
For lead and zinc we see only limited expansion going forward. In contrast, in theory, the nickel market has to absorb production from a wide variety of sources, which removes some of the risk of the timing on certain projects slipping. We have seen the commissioning of many of the HPAL projects such as Goro and Ambatovy being delayed once again. However this is being counterbalanced by the relatively smooth ramp up of the ferro-nickel projects (mainly Brazil), higher nickel pig iron production (China) and the return of Vale's Sudbury and Voisey's Bay operations.

Price prospects

Once again, the traditional inverse relationship between inventories and prices has not been in much evidence. This reflects a number of factors. For aluminium, in particular, the combination of low interest rates and competitive storage rates at warehouses has restricted the immediate availability of metal to consumers. Hence the relatively high physical premiums despite the massive LME stockpile. We note similar, but not so extreme trends in some of the other metals, notably zinc.

Investment funds have certainly played a role in supporting prices this year. Consequently, the sector was always vulnerable should a deterioration in the macroeconomic outlook and a subsequent migration away from so called "risky assets" materialise.

This risk has reared its head in emphatic style over September, as concerns surrounding demand growth in the mature economies led to substantial cross-sector correction. Such concerns will, in our view, continue to keep prices under pressure over the near term at least. However, from a longer term standpoint, commodities prices should remain supported by still strong emerging market demand growth and relatively modest increases to production.



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