GOLD FIELDS MINERAL SERVICES LTD

# Second Quarter 2003 Gold Supply & Demand Balance

*Note: The gold supply and demand balance and other demand data in this document have been compiled by Gold Fields Mineral Services (GFMS) for the World Gold Council. GFMS is publishing the data for the second quarter.*

| Tonnes | 2001 | 2002 | yoy % change | Q102 | Q202 | Q302 | Q402 | Q103* | Q203* | yoy % change |
|---|---|---|---|---|---|---|---|---|---|---|
| **Supply** | | | | | | | | | | |
| Mine production | 2,623 | 2,587 | -1.4 | 579 | 637 | 708 | 664 | 602 | 650 | 2.1 |
| Official sector sales | 529 | 556 | 5.0 | 163 | 118 | 83 | 191 | 163 | 116 | -1.5 |
| Old gold scrap | 707 | 832 | 17.7 | 198 | 205 | 197 | 231 | 253 | 226 | 9.9 |
| Implied net disinvestment | 53 | - | - | - | - | - | - | - | 17 | n/a |
| **Total Supply** | **3,912** | **3,975** | **1.6** | **940** | **960** | **989** | **1,086** | **1,018** | **1,010** | **5.2** |
| **Demand** | | | | | | | | | | |
| Fabrication: | | | | | | | | | | |
| - jewellery | 3,038 | 2,689 | -11.5 | 656 | 637 | 657 | 738 | 577 | 657 | 3.2 |
| - other | 475 | 486 | 2.2 | 125 | 118 | 117 | 126 | 140 | 134 | 14.3 |
| Total Fabrication | 3,513 | 3,174 | -9.6 | 781 | 755 | 774 | 864 | 716 | 792 | 4.9 |
| Bar hoarding | 248 | 252 | 1.7 | 80 | 53 | 61 | 58 | 25 | 48 | -10.6 |
| Net producer hedging | 151 | 423 | 180.1 | 31 | 104 | 149 | 139 | 159 | 170 | 63.9 |
| Implied net investment | - | 125 | n/a | 47 | 48 | 5 | 25 | 118 | - | n/a |
| **Total Demand** | **3,912** | **3,975** | **1.6** | **940** | **960** | **989** | **1,086** | **1,018** | **1,010** | **5.2** |
| London PM fix (US$/oz) | 271.04 | 309.68 | 14.3 | 290.07 | 312.40 | 314.20 | 321.87 | 352.09 | 346.90 | 11.0 |

Totals may not add due to independent rounding. Net producer hedging figures are exclusive of any delta hedging of central bank options. Implied net (dis)investment is the residual from combining all of the other GFMS data on gold supply/demand as shown in the Summary Table. As such, it captures the net physical impact of all transactions not covered by the other supply/demand variables. * Provisional.

## Summary

It is estimated that global gold demand rose by just over 5% year-on-year in Q203. The greatest change was in producer de-hedging which provisional estimates show rising very strongly to record levels. Jewellery fabrication managed a small gain, largely thanks to India, though other forms of fabrication demand rose far faster. In contrast, bar hoarding fell notably.

On the supply side, mine production rose slightly, though this was largely a result of unusually low figures for Indonesia in 2002. Much larger year-

on-year growth was seen for old scrap, with large volumes emerging from countries such as Egypt and Saudi Arabia. Official sector sales, however, eased a fraction. Supply also received a small contribution from the switch to modest levels of implied net disinvestment. This left total supply just over 5% higher than in Q2 last year.

## Supply

Initial estimates for **mine production** point to a modest year-on-year rise in output in Q203. Much of the increase is merely attributable to a comparison being made against a period when volumes coming out of Indonesia's Grasberg, the world's largest gold producing mine, were unusually low as a result of various temporary factors. Nevertheless, there is a structural element to the Q203 rise in the form of continued production growth in Russia and yet more so in China. (There has also been a slight upward revision in the Q103 mine production figure.)

Old gold **scrap** volumes remained buoyant in Q203, slipping a little from first quarter volumes but remaining notably higher than in 2002. The fall from the first quarter was chiefly a function of Q203 local currency prices tending to be lower than in Q1. In India, for example, the 6% quarter-on-quarter fall in the average rupee price played a key part in the 23% quarter-on-quarter drop in jewellery scrap. Where local prices saw increases, most obviously in Egypt, however, scrap volumes often continued rising, at times quite aggressively.

Much of the year-on-year gain in old scrap was attributable to a handful of countries in Asia, such as Indonesia and Thailand, and in the Middle East, such as Egypt, in particular, and then Saudi Arabia. Many industrialised countries also saw year-on-year gains.

It is estimated that net **official sector sales** fell noticeably from a revised Q103 number of 163 tonnes to 116 tonnes in Q203. Much of this decline was due to smaller volumes from the Central Bank Gold Agreement countries whose sales dropped from 135 tonnes to 88 tonnes in these two periods. (The exact split between the two quarters is, to a degree, subjective on account of Portugal's recent sale of 45 tonnes. This was announced to have taken place in March and April but no allocation to each month was specified. For statistical purposes, 25 tonnes has been earmarked to March and the balance to April.)

The **implied net (dis)investment** figure is the residual derived from combining all of the other data on gold supply/demand as shown in the Summary Table on page 1. For Q203, there were modest levels of implied net disinvestment. This addition to supply in part represented some selling back by speculative players of positions built up in Q103, illustrating the short term outlook of much of the purchases this year, plus some retail disinvestment and the relative absence of more strategic 'buy and hold' investors in Q203.

## Demand

Provisional estimates for **producer de-hedging** show this to have risen yet further in Q203 to a record 170 tonnes, an increase of 11 tonnes on the revised Q103 figure of 159 tonnes. The pace of de-hedging in the second quarter is believed to have been at its greatest in the first part of the period. The Q2 figure is provisional as full data on the 90 or so companies analysed by GFMS has yet to become available. This remaining information is expected to appear in the next week or two, shortly after which GFMS will publish a final figure for de-hedging in the second quarter.

(Over the last year, GFMS have extensively deepened and improved the analysis of the global producer hedge book. Specifically, each options trade by instrument and year of expiry is entered into not only a hedging database but also into the *Brady Trinity*™ integrated trading and risk management software, the use of which enables accurate deltas for all trades to be calculated.)

The first quarter's year-on-year fall in **jewellery** fabrication was sharply reversed in the second, chiefly as a result of lower and more stable gold prices. This was most apparent in India though much of south east Asia (for example Indonesia or Thailand) and many countries in the Middle East (such as Turkey or Saudi Arabia) also registered solid growth. A good portion of these gains, however, were offset by losses in many of the industrialised countries, in particular Italy (whose first half output appears to have fallen by a figure very comfortably into double-digits), such that the global figure only rose by around 5%.

The other categories of fabrication rose more strongly. This was particularly true of the **other industrial/decorative** sector (largely thanks to India) and overall **coin** fabrication (much of which was attributable to Turkey). The principal exception here was **electronics** fabrication which fell, in part as a result of a year-on-year drop in Japanese offtake.

**Bar hoarding** was up sharply quarter-on-quarter, a rise in part due to India, though the Q203 figure was still noticeably lower than in Q202, chiefly as a result of a fall in Japan. (The second quarter last year saw the tail end of an investment boom in Japan linked to concerns over the stability of that country's banking system.)

## Consumer Demand

| **Tonnes** | 2001 | 2002 | yoy % change | Q102 | Q202 | Q302 | Q402 | Q103* | Q203* | yoy % change |
|---|---|---|---|---|---|---|---|---|---|---|
| Total | 3,382.9 | 3,020.6 | -10.7 | 715.1 | 653.1 | 690.6 | 961.7 | 641.1 | 696.0 | 6.6 |
| - jewellery | 3,037.9 | 2,688.6 | -11.5 | 625.9 | 591.7 | 598.5 | 872.5 | 574.6 | 626.1 | 5.8 |
| - retail investment | 345.1 | 331.9 | -3.8 | 89.2 | 61.5 | 92.1 | 89.1 | 66.5 | 69.8 | 13.6 |

Jewellery (and retail investment) is measured here on a consumption basis whereas in the table on page 1 it is measured on a fabrication basis. As a reminder to the reader, fabrication is measured at the point where pure gold is first transformed into another product. Consumption is measured at the point of purchase by the final user or customer. The latter therefore in practice represents domestic fabrication plus imports less exports adjusted for retail stock movements. * Provisional.

## Consumer Demand in Key Countries

| **Tonnes** | 2001 | 2002 | Q202 | Q203** | | | yoy % change | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Total | Total | Jewellery | NRI* | Total | Jewellery | NRI* |
| India | 709.7 | 547.3 | 135.2 | 184.0 | 161.0 | 23.0 | 36.0 | 38.5 | 21.1 |
| Greater China | 271.5 | 238.1 | 53.6 | 45.7 | 45.0 | 0.7 | -14.6 | -14.2 | -35.0 |
| China | 205.6 | 203.9 | 45.1 | 39.7 | 38.0 | 1.7 | -11.9 | -13.6 | 57.7 |
| Japan | 113.9 | 141.6 | 29.2 | 20.2 | 10.7 | 9.5 | -30.8 | -12.3 | -44.1 |
| South-East Asia | 264.4 | 256.0 | 53.9 | 56.8 | 43.5 | 13.3 | 5.4 | 6.1 | 3.1 |
| Indonesia | 106.3 | 102.9 | 24.9 | 27.5 | 26.1 | 1.4 | 10.4 | 14.0 | -30.0 |
| Vietnam | 57.6 | 59.6 | 12.7 | 13.0 | 4.3 | 8.7 | 2.4 | -10.4 | 10.1 |
| Middle East | 440.6 | 370.3 | 91.2 | 98.5 | 92.6 | 5.9 | 8.0 | 4.1 | 163.4 |
| Saudi Arabia | 165.8 | 143.0 | 35.3 | 40.5 | 38.3 | 2.2 | 14.5 | 10.9 | 161.9 |
| Egypt | 117.4 | 82.0 | 18.3 | 16.5 | 16.3 | 0.2 | -9.8 | -11.9 | -200.0 |
| UAE | 99.6 | 93.1 | 23.7 | 26.4 | 24.2 | 2.2 | 11.6 | 6.8 | 120.0 |
| Turkey | 119.1 | 128.4 | 27.7 | 49.6 | 36.1 | 13.6 | 78.9 | 73.9 | 93.6 |
| USA | 413.1 | 410.9 | 70.9 | 64.7 | 60.8 | 3.9 | -8.7 | -8.0 | -18.8 |
| Europe | 274.9 | 236.4 | 32.7 | 32.9 | 37.3 | -4.4 | 0.7 | -13.2 | -57.3 |
| Italy (jewellery only) | 91.2 | 87.5 | 17.3 | 15.0 | 15.0 | na | -13.2 | -13.2 | na |

**Net Retail Investment. ** Provisional.*

The overall recovery in jewellery consumption in Q203 was largely attributable to increases in many developing world countries. India, for example, bounced back in this period chiefly through a lower gold price and the perception of greater price stability. This factor also influenced other key markets in the Middle East though this area also benefited from the end to the war in Iraq.

In sharp contrast was the industrialised world's performance where the year-on-year fall in jewellery sales was often into double-digits. Here, the critical factors were a range of economic issues (for example, sluggish growth or unemployment fears) and a continuation to broadly unfavourable trends in consumer taste. Chinese consumption also fell markedly, chiefly due to the SARS outbreak.

*(Fuller demand figures for Q203 will appear on Bloomberg in three days and on the GFMS website, www.gfms.co.uk, in six weeks.)*

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For further information on GFMS and its products, please contact Laurette Perrard on gold@gfms.co.uk.

GFMS' next major publication will be *Gold Survey 2003 Update 1*. This report provides a 30 page review of the gold market in the first half of 2003 and a forecast for the full year. It contains detailed analysis of the main developments in mine production, costs, hedging, fabrication, investment and central bank activity. It also gives commentary on price movements and indications on what to expect looking forward.

The publication can be ordered from GFMS at the above e-mail address for £195, US$295 or €290 per copy.

GFMS have moved to new premises. The new postal address, telephone and fax numbers follow. All e-mail addresses and the website's details remain unchanged.

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