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PROPUESTA METODOLOGICA PARA IMPLEMENTACION DE LA CADENA PRODUCTIVA DE LA JOYERIA EN ANTIOQUIA

ANEXO N° 9

TENDENCIAS DE LA DEMANDA MUNDIAL DE ORO PARA JOYERIA Y USO INDUSTRIAL WORLD GOLD COUNCIL

CORPORACIÓN NUEVO MILENIO

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GOLD DEMAND TRENDS

Second quarter 2002 highlights

- Gold price rises in many currencies, the fragile world economy and political worries combined to limit the quantity of gold used in jewellery and in industrial applications in Q2. At 581 and 74 tonnes, respectively, these were 16% and 6% lower than a year earlier. The climate was more favourable for gold investment with strong growth in certain countries. However, the rise in price prompted dishoarding elsewhere, reducing net investment demand to 57 tonnes, 12% below a year earlier. Total demand, including dental uses, was 729 tonnes, 14% below Q2 2001.

- A sharp fall in demand in India, a market particularly sensitive to price volatility, accounted for much of the decline. In contrast, demand showed healthy growth in those markets where economic recovery was more advanced, such as Turkey and parts of East Asia. Industrial demand was higher than a year earlier throughout East Asia, suggesting that a recovery in electronics production could be under way, after the recent severe downturn.

- Although the quantity of gold used fell, its value in US dollars was virtually unchanged from a year earlier as a consequence of the rise in the US dollar price. A rise in the value of investment (up 3%) and industrial demand (up 9%) was offset by a 2% decline in jewellery demand.

This issue contains the first statistics to be published on the new basis for *Gold Demand Trends*. The World Gold Council has outsourced compilation of gold demand statistics to Gold Fields Mineral Services Ltd, who can draw on the resources and knowledge of WGC staff as well as their own. The new data have enhanced quality and greater coverage; industrial and dental demand are now included as well as global demand for jewellery and retail investment. There are some changes to definitions. Full details of the changes and the new definitions are given in the insert. Past data have been revised to agree with the new definitions.

In this issue

Overview

To match the change in statistics there is a new design and layout for Gold Demand Trends. The publication will start with an overview summarising key points. The main section will treat "consumer demand" (jewellery plus net retail investment) on a country-by-country basis. This covers purchases by individual consumers and is therefore broadly similar to the scope of the previous publication although definitions and in some cases coverage have changed (see insert). Following this will be two sections, one on industrial demand and one on dental demand. The final text will, as usual, comment on market developments, which both influence, and are influenced by, gold demand. The publication concludes with an extended statistical appendix.

Three main factors played on gold demand

As was the case in the first three months of the year, three main factors accounted for much of the movement in gold demand during the second quarter. The rise in the dollar price had an adverse effect on jewellery and industrial demand in most countries, other than those with currencies which appreciated with respect to the dollar. The price movement had a mixed effect on investment: a rising price encourages purchases but can also stimulate dishoarding. Economic weakness had negative impact on jewellery and industrial demand. Political worries dampened jewellery demand in a number of cases but for the most part supported investment. Overall demand in the second quarter was 729.0 tonnes, 14% below Q2 2001. The dollar value of demand in Q2 was, however, effectively unchanged from a year earlier since the fall in the quantity of gold was almost exactly offset by the rise in price.

Consumer demand

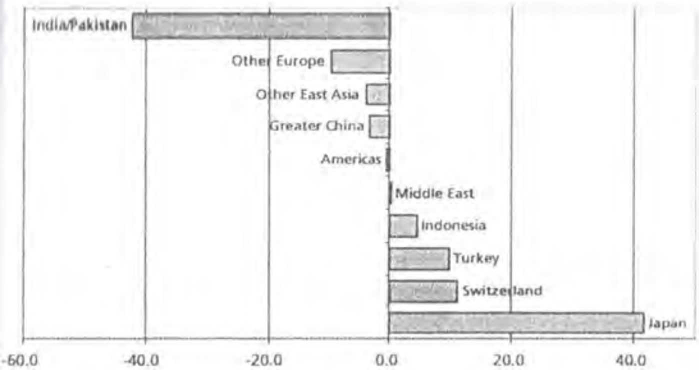
Overall demand by consumers (jewellery plus retail investment) was 15% lower in Q2 than a year earlier. As in Q1, the rise in the dollar price hurt jewellery demand - in many countries. This included, in particular, countries such as India and those in the Middle East, where demand is sensitive to price volatility, and the existence of a substantial exchange market for jewellery enables consumers to purchase a new piece of jewellery by trading in one of their own. In such markets it is common for both the trade and consumers to hold back from buying for cash at times of a rising price. Demand for new gold returns once they feel more certain that the price has stabilised - at whatever level this occurs.

Gold demand

1. *Q2% change over year earlier* 2. *Year to date% change over year earlier*

	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2 % change*	2 *Year to date %*
Tonnes									
Total consumer	3337.6	3358.9	754.0	754.1	1014.2	702.4	637.6	*-15.4*	*-15.7*
Jewellery	3177.2	3005.8	689.7	626.5	921.1	610.8	580.8	*-15.8*	*-18.3*
Investment	160.4	353.1	64.3	127.6	93.2	91.7	56.8	*-11.7*	*12.2*
Industrial	387.3	305.2	79.4	68.1	78.3	66.6	74.4	*-6.4*	*-11.2*
Dental	68.8	67.8	16.9	16.9	17.1	17.1	17.0	*0.4*	*0.8*
Total	3793.7	3731.9	850.4	839.1	1109.6	786.1	729.0	*-14.3*	*-15.0*
Value, $bn									
Total consumer	29.95	29.28	6.49	6.65	9.08	6.55	6.41	*-1.2*	*-4.6*
Jewellery	28.51	26.20	5.94	5.52	8.25	5.69	5.84	*-1.6*	*-7.4*
Investment	1.44	3.08	0.55	1.12	0.83	0.85	0.57	*3.2*	*26.2*
Industrial	3.48	2.66	0.68	0.60	0.70	0.62	0.75	*9.4*	*0.9*
Dental	0.62	0.59	0.15	0.15	0.15	0.16	0.17	*17.2*	*14.3*
Total	34.04	32.53	7.32	7.39	9.94	7.33	7.33	*0.1*	*-3.7*
Price, $/oz	*279.1*	*271.1*	*267.7*	*274.1*	*278.6*	*289.9*	*312.7*	*16.8*	*13.4*

Change in net retail investment H1 2001 to H2 2002, tonnes



The weak market for jewellery was also affected by geo-political concerns – which lowered consumer confidence and in some cases constrained tourism – and by the fragile state of the world economy. Demand for jewellery is very sensitive to consumers' incomes. It is noticeable that in Turkey, and in some countries in East Asia where recovery is more advanced, jewellery demand showed growth. The rise in price meant that the dollar value of jewellery purchases was just 2% lower than a year earlier.

Results for retail investment were driven by conflicting factors, as in Q1. Political and economic worries, falling stock markets, concerns over corporate governance and price rises in certain countries encouraged much gold purchasing. But price rises also encourage dishoarding and this tempered net offtake at the retail level. In Q2, unlike Q1, the negative impact outweighed the positive so that the quantity of gold purchased was 12% lower than a year earlier. The strong first quarter nevertheless meant that offtake for the first half year was 12% higher. In general, the mix of factors that influenced gold investment during the first half of 2002 had varying and sometimes very different impacts – as the bar chart shows – in different countries and regions. Despite the fall in quantity, the dollar value of gold bought for investment in Q2 was 3% higher than a year earlier; for the first half the rise in value was a substantial 26%.

Industrial and dental demand

While the hesitant global economy prolonged the downturn in overall industrial demand for gold, the quarter brought the first signs of recovery in East Asia where year-on-year growth rates were universally positive. Factors at play included the fact that the semi-conductor market seems to have stabilised while electronics goods manufacturers have been restocking. In Europe and the USA continued weakness in telecommunications and decorative markets limited demand. With the rise in price, the dollar value of industrial demand in Q2 was 9% higher than a year earlier. Dental demand was stable in quantity terms; the rise in the dollar value was 17%.

Outlook for demand

Political uncertainties and economic worries seem likely to underpin demand for investment gold in the immediate future. Unless the gold price rises again then jewellery demand should start to recover; the physical market now seems to have adapted to prices in excess of $300 per oz. The recovery in jewellery demand should gain strength once the stuttering global economic recovery gathers pace; industrial demand should likewise pick up. In the immediate future a deficient monsoon in certain regions of India will dull what would otherwise be bright prospects in that country.

Gold market developments

After the gold price moved into higher ranges in most currencies in the first quarter, the period between May and August was largely a time of price consolidation. The price in most major currencies was steady, although dollar weakness boosted prices in dollar terms. The test of $330/ounce in mid-May represented a culmination of widespread nervousness over the outlook for equities and currencies, with the Bank of Japan repeatedly intervening in the currency markets, and the financial sector starting to change its view on interest rates and look for further cuts in the US at least. Corporate governance remained an issue, while a gradual build-up in political tension remained supportive. With the "professional" trade largely absent in the summer, and speculative positions turning neutral, the market effectively traded a $305-325/ounce range.

India and Pakistan

Jewellery, bar and coin demand in India and Pakistan

Price volatility continued to hurt demand

Rising rupee prices again deterred demand for fresh gold jewellery in India, particularly as the Indian authorities prevented the rupee from appreciating fully in response to the dollar's decline. Weak rural incomes and a less buoyant economy were secondary factors. Meanwhile, while the prospect of price rises and the geopolitical situation - notably the crisis in Kashmir - were favourable to investment, the rise in price also encouraged dishoarding so that net investment was sharply down on year-earlier levels.

In the first two months of the quarter consumer demand recovered to some extent, aided by a vibrant wedding season, auspicious days for gold buying and periodic bouts of jewellery purchasing when the price stabilised for short periods. However the renewed climb in gold prices from the second half of May meant that once the wedding season ended there was little to support demand. In June official gold imports slumped to one of the lowest levels seen since liberalisation at the end of 1997. The year-on-year fall in consumer demand in the second quarter was less severe than in the first quarter but still reached 41%.

Indian demand is always sensitive to price volatility. An increasing or volatile price always chokes off demand for a period until the trade and consumers feel that it has settled down. It is this, facilitated by the existence of the extensive exchange market for jewellery, which is primarily responsible for the very sharp fall in measured demand during the first six months of 2002. It is common in India for consumers to purchase, or part-purchase, a piece of jewellery by exchanging a piece of appropriate weight of their own. At times of price volatility, consumers will resort to this rather than purchasing all new metal with cash. Some estimates suggest that 50-60% of purchases were financed in this way.

Such purchases are excluded from our statistics. It must also be pointed out that the new basis of *Gold Demand Trends* in Q2 statistics, which adopts a narrower definition than the previous figures, has the effect of showing a larger fall in jewellery demand than our earlier figures. For details of this, and for some further comments on the Indian data, see the box on the following page.

Prospects for demand in India during the remainder of the year are mixed. Since July there have been reports of good trade purchasing when the international price fell below $310 per oz and it seems that both trade and consumers have now adapted to a price in excess of $300. There are many auspicious days for weddings as well as the festival season. Unlike last year there is no *Adik Mas*, the occasional month added to the Indian calendar which is inauspicious for demand. All of these suggest that gold demand should be vibrant in the months ahead. However the Indian monsoon has failed or been well below normal in a number of (albeit not all) regions. Given the importance of rural demand for gold in India this will offset many of the positive factors.

Consumer demand in India and Pakistan

1. *Q2% change over year earlier* **2.** *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2% change*	2 *Year to date%*
India	723.0	726.7	213.2	127.2	156.2	113.4	126.9	*-40.5*	*-45.8*
Jewellery	620.0	614.7	180.3	107.6	132.2	101.1	113.2	*-37.2*	*-42.9*
Investment	103.0	112.0	32.9	19.6	24.1	12.4	13.6	*-58.5*	*-61.9*
Pakistan	58.1	49.0	8.9	8.7	19.1	15.2	10.7	*19.6*	*22.3*
Jewellery	54.1	47.0	8.6	8.4	18.3	14.6	10.3	*20.0*	*22.6*
Investment	4.0	2.0	0.4	0.4	0.8	0.6	0.4	*9.5*	*15.7*

The effect on India of changes in statistical definitions

The changes to the statistical definitions in *Gold Demand Trends* particularly affect the data for India due to the characteristics of the Indian market. Since the change is substantial, and since India is the largest gold market, the WGC will continue to publish data on the old basis also for the next few issues to assist our readers.

Two changes in particular affect the data for India: the separation of jewellery from retail investment demand and the splitting out of industrial demand; and the different treatment of recycled gold.

In earlier issues of GDT, Indian demand was shown as a total. While this was primarily consumer demand (ie jewellery plus retail investment combined) the data also included some uses now classified as industrial demand including gold used in gold plating of costume jewellery, decorative purposes or as *jari* (gold thread used, for example, in saris). This is now included in the industrial section.

Probably the major difference for India is in the treatment of recycled gold. As explained in the main text gold jewellery is frequently exchanged in India. In general it is exchanged for a piece of similar weight or used in part exchange for a piece of heavier weight. Sometimes it is sold for cash. In either case the jeweller may re-use the gold himself or sell it back to a refiner.

It is debatable whether to include purchases of gold funded by the exchange of a piece of jewellery as additional demand or to include part of this. Various - equally valid - practices could be adopted. Henceforth statistics in *Gold Demand Trends* will not include such purchases. The decision to exclude these was taken partly in order to achieve consistency with other countries and with the statistics published by *Gold Fields Mineral Services*, partly as it can be argued that such purchase is not a purchase of gold but of a new design, and partly for practical reasons.

The size of the total Indian market varies according to which definition of purchasing is adopted. If all purchases are included the market (including retail investment and industrial demand) would easily exceed 1,000 tonnes per annum. On the previous basis used in GDT, where a somewhat wider definition was used, annual demand in 2001 was 843 tonnes. On the new basis annual consumer demand for 2001 is 727 tonnes and if industrial demand is included this rises to 757 tonnes.

The different treatment of such purchases can also at times affect trends in demand. In the first half of 2002, as explained, because of the rising price, Indian consumers funded a larger proportion than normal of their overall purchases by exchange. Thus on the old basis our demand figures would show a slightly smaller – although still substantial – fall in demand. The table below gives the figures as well as data for official gold imports.

India gold demand (former basis) and official imports

1. *Q2% change over year earlier* **2.** *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2 % change*	2 *Year to date%*
Total demand	829.7	843.2	236.3	172.1	185.1	149.8	175.0	*-25.9*	*-33.2*
Official imports	533.7	593.6	179.7	99.3	127.5	85.7	94.4	*-47.5*	*-51.2*

Source: WGC

India and Pakistan (continued)

Recovery in Pakistan

In contrast to India, demand in Pakistan staged a solid recovery from the subdued levels of the first half of 2001 with year-on-year increases of around a fifth in both the first and second quarters. This occured despite the fact that rising prices hampered offtake during much of the quarter until prices eased from mid-June. Political tensions also encouraged gold investment buying.

The Pakistan government has announced that licenses will no longer be needed for the bulk import of gold and silver. Any organisation will be allowed to import gold providing they supply their own foreign exchange and pay normal duties. Until now all imports have in practice been channelled via just three importers. The new arrangements should help provide a healthier market and avoid interruptions of supply to jewellers.

Greater China

Jewellery, bar and coin demand in mainland China, Hong Kong and Taiwan

Economic problems, rising prices reduce demand

Economic problems in Hong Kong and Taiwan, coupled with rising and fluctuating prices, hit gold demand in Greater China during Q2. Overall consumer demand was 21% lower than a year earlier and a 16% year-on-year fall was recorded for the first half year as a whole. Net retail investment demand was almost halved in the half-year with rising prices encouraging dishoarding and regulations continuing to hamper investment in mainland China. With the exception of shopping for Mother's Day the second quarter is traditionally a slow period for jewellery sales after the peak selling weeks before the Chinese New Year.

Although second quarter demand was reasonably stable in China, the frequency with which the central bank adjusted the domestic price of gold, albeit in response to international price movements, was partly responsible for the 4% drop in gold jewellery demand during Q2 as it prompted consumers to adopt a more cautious approach. Promotional campaigns encouraged offtake in the East but overall gold sales were also hurt by successful diamond and platinum sales campaigns. Diamonds and platinum are not subject to the regulatory barriers which, although slowly reducing, still hamper gold sales; additionally profit margins are higher encouraging manufacturers to focus on them.

Consumer demand in Greater China

1. *Q2% change over year earlier* **2**. *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2 % change*	2 *Year to date %*
Greater China	292.6	269.7	66.2	63.5	64.0	67.6	52.2	*-21.2*	*-15.7*
Jewellery	280.9	265.7	63.7	60.7	66.6	66.9	52.5	*-17.6*	*-13.7*
Investment	11.7	4.0	2.5	2.8	-2.6	0.7	-0.3	...	*-89.5*
China	212.5	205.6	47.3	48.3	54.7	55.8	44.2	*-6.6*	*-2.4*
Jewellery	205.6	203.2	45.8	48.0	54.3	55.6	44.0	*-4.0*	*-1.2*
Investment	6.9	2.4	1.5	0.3	0.4	0.2	0.2	*-86.7*	*-76.5*
Hong Kong	23.0	21.6	5.7	5.0	4.1	6.0	4.0	*-29.7*	*-20.0*
Jewellery	22.8	21.5	5.7	5.0	4.1	6.0	4.5	*-20.9*	*-15.4*
Investment	0.2	0.1	0.0	0.0	0.0	0.0	-0.5	...	...
Taiwan	57.1	42.5	13.2	10.3	5.2	5.8	4.0	*-69.7*	*-63.9*
Jewellery	52.5	41.0	12.2	7.8	8.2	5.3	4.0	*-67.3*	*-63.0*
Investment	4.6	1.5	1.0	2.5	-3.0	0.5	0.0	...	*-75.0*

conomic weakness and record unemployment emained the primary factors affecting gold emand in Hong Kong, and consequently gold emand was 30% lower in the second quarter. easonably brisk sales of gold jewellery over ne National Day holiday and Mother's Day, vere mainly directed towards lightweight ems so overall volume was relatively modest.

espite the rising price of gold, the amount of ishoarding in the retail investment sector was egligible. The continuing macro economic veakness is likely to be a reason for investors olding onto their gold.

Taiwan experienced a further very weak quarter, with gold jewellery demand less than a third of year-earlier levels. The decline was reflective of continuing domestic economic hardship, particularly high unemployment. Extensive trading-in of old jewellery was a feature during the quarter.

While the rising local gold price seems to have encouraged some gold investment, this appears to have been effectively offset by dishoarding leaving net investment at around zero.

Japan & South Korea

apan: First half-year demand almost ouble year-earlier levels

ipanese retail investment demand staged a ear-on-year increase of 107% in the second uarter. Although this fell short of the heady vels seen in Q1, gold nevertheless put in a olid performance as a retail investment asset, nanks largely to lingering concerns over the ealth of the Japanese banking industry and a recarious stock market position. The public ood is still cautious and the macro-economic nvironment remains fragile, so the outlook r investment demand therefore remains ositive.

ne jewellery side of gold demand in Japan as weaker, lower on the year by almost 7%. s a result of the generally dull economy owever, jewellery demand as a whole was slack and gold jewellery proved to be a dominant sector in an otherwise uninspiring market.

Year-to-date gold consumption was almost double that seen during the first half of 2001, rising by 95%, with an impressive 196% increase in investment consumption.

Jewellery, bar and coin demand in Japan and South Korea

Economic recovery, weddings, the World Cup support Korean demand

The football World Cup competition in Korea during Q2 provided consumers with an incentive to invest in one-off gold memorabilia. With economic recovery underway the quarter as a whole was 4% higher than the same period a year earlier.

Consumer demand in Japan & South Korea

1. *Q2% change over year earlier* **2.** *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	Q2 % change (1)	Year to date % (2)
Japan	105.1	113.9	21.2	36.8	32.5	57.2	29.7	*40.0*	*94.8*
Jewellery	49.8	50.6	12.5	14.8	12.5	12.2	11.7	*-6.5*	*2.5*
Investment	55.3	63.3	8.7	22.0	20.0	45.0	18.0	*106.9*	*195.8*
South Korea	69.7	67.8	14.3	17.9	20.5	14.1	14.8	*3.6*	*-1.5*
Jewellery	61.8	63.5	13.5	16.9	19.5	13.8	13.7	*1.5*	*1.9*
Investment	8.0	4.4	0.8	1.0	1.0	0.3	1.1	*41.0*	*-40.7*

Japan & South Korea (continued)

Q2 jewellery consumption was a shade stronger on the year, thanks in part to seasonal wedding demand, resulting in a 2% year-to-date increase over 2001.

With the unanticipated success of the South Korean football team in the tournament, commemorative coin and medals sold well and investment purchases amounted to 1.1 tonnes. This number would have been stronger still, were it not for dishoarding prompted by the rising gold price; the combination of low inflation and a healthy economic environment detracting from gold investment demand.

South-east Asia

Jewellery, bar and coin demand in Indonesia, Thailand, Vietnam, Malaysia and Singapore

Q2 demand 17% higher

South-east Asia presented an overall positive picture for gold consumption in the second quarter, with a 30% year-on-year rise in investment offtake accounting for the majority of the 17% increase in total demand compared with Q2 2001. For the first half year demand in the region was essentially unchanged from a year earlier.

On an individual country basis, the strongest performance came from Indonesia (up 55%), followed by a 7% gain in Malaysia. Singapore and Thailand were both broadly neutral. Jewellery growth was positive in Vietnam but was outweighed by a fall in investment as a result of government action to curb the real estate boom.

Rapid growth in Indonesia

Jewellery consumption in Indonesia posted a strong quarter. Although this is compared with a somewhat soft second quarter in 2001, demand for gold jewellery was nevertheless buoyant rising 27%. This exuberance was driven by a fall in the domestic price of gold, as

Consumer demand in South-east Asia

1. *Q2% change over year earlier* **2.** *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2 % change*	2 *Year to date %*
All countries shown	251.4	267.0	46.4	69.9	74.3	68.3	54.3	*17.1*	*-0.1*
Jewellery	195.5	206.0	36.5	50.5	59.9	52.5	41.4	*13.6*	*-1.7*
Investment	55.9	61.0	9.9	19.4	14.4	15.8	12.9	*30.3*	*5.5*
Indonesia	95.2	106.3	16.0	33.1	30.2	26.0	24.8	*55.4*	*18.2*
Jewellery	86.7	97.8	18.0	28.5	26.3	23.5	22.8	*27.0*	*7.8*
Investment	8.5	8.5	-2.0	4.6	3.9	2.5	2.0	...	...
Thailand	65.4	64.7	9.4	12.1	19.6	18.2	9.5	*1.1*	*-16.1*
Jewellery	56.3	53.3	8.3	8.9	16.4	14.6	7.7	*-7.2*	*-20.4*
Investment	9.1	11.4	1.1	3.2	3.2	3.6	1.8	*63.6*	*8.0*
Vietnam	55.0	60.3	14.0	15.9	13.3	15.8	12.7	*-9.3*	*-8.4*
Jewellery	21.0	23.8	4.0	5.9	6.8	7.0	4.8	*20.0*	*6.3*
Investment	34.0	36.5	10.0	10.0	6.5	8.8	7.9	*-21.0*	*-16.5*
Malaysia	23.2	23.5	4.2	6.2	7.5	5.3	4.5	*7.4*	*0.1*
Jewellery	19.8	19.4	3.5	4.7	6.9	4.5	3.4	*-2.5*	*1.4*
Investment	3.4	4.1	0.7	1.5	0.6	0.8	1.1	*57.1*	*-5.0*
Singapore	12.6	12.2	2.8	2.6	3.7	3.0	2.8	*0.0*	*-1.5*
Jewellery	11.7	11.7	2.7	2.5	3.5	2.9	2.7	*0.0*	*-1.6*
Investment	0.9	0.5	0.1	0.1	0.2	0.1	0.1	*0.0*	*0.0*

the rupiah gathered sufficient strength to more than offset the rising international gold price, augmented by a good harvesting season in April and an improved political and economic situation.

For broadly similar reasons, investment demand also turned round from the minor levels of dishoarding seen during the same period of 2001. It would likely have been higher had it not been for the relatively strong performance of the stock market since the beginning of the year, which diverted some of the funds that would normally have been directed towards gold.

Mixed trends in Thailand

With the international gold price established at levels above $300/oz, demand for gold jewellery in Thailand languished during the quarter, over 7% lower than the already weak levels seen a year previously. The second quarter is traditionally a time of low demand as it coincides with the start of the school year, which often results in families pawning gold for school fees.

Investment was more robust, up a healthy 64% year-on-year. There are reports of a generalised increase in consumer interest in purchasing gold for investment purposes, particularly as a strengthening Thai baht counterbalanced the rising price to a certain degree, making gold more affordable.

Curbs on real estate market hit gold investment in Vietnam

Overall gold demand in Vietnam registered a drop of 9% in the second quarter, essentially the result of a 21% fall in investment.

Investment purchases of gold suffered as a result of measures introduced by the government in an effort to curb the real estate boom. Given that gold bars are the primary means of purchasing property in many areas, the inevitable impact was to keep investment in check.

Jewellery on the other hand rallied by 20% over the same period a year earlier. The reason behind the relatively enthusiastic demand for gold jewellery was investment-related, being primarily due to the perception of gold jewellery as a means of saving, in light of the rising price of the metal.

A mixed picture in Malaysia; unchanged demand in Singapore

Gold demand in Malaysia during Q2 was 7% higher compared with Q2 2001, but the breakdown shows a firm rise in investment demand competing with sluggish jewellery consumption. The high and relatively volatile price action during the quarter, combined with general weakness across the retail sector as a whole, kept gold jewellery purchases muted. As a result such consumption was marginally softer, down 0.1 tonnes to 3.4 tonnes.

Gold investment trends were more positive; the rising price improved the appeal of gold as an investment vehicle, while the tensions in the Middle East emphasised the safe haven aspect of gold. There was particular interest in the official Kijang Emas coin and investment consumption reached 1.1 tonnes compared with 0.7 tonnes a year previously.

In Singapore, both jewellery and investment offtake were unchanged on the year; the year-to-date comparison was also broadly neutral. Jewellery consumption of 2.7 tonnes was largely maintained through strong tourist purchases. The period of Ching Ming (a festival of tomb sweeping and ancestor worship), considered traditionally inauspicious for celebrations, falls at this time of year and largely explains seasonal weakness in the second quarter.

Middle East

Jewellery, bar and coin demand in Saudi Arabia, Egypt, UAE, Kuwait, Bahrain, Oman and Qatar

Mixed influences

Gold consumption across the Middle East region came under mixed influences during the second quarter. The rising price of gold had opposite effects on the investment and jewellery components of demand, as did the over-hang of political uncertainties in the region. Net retail investment rose in all countries apart from Egypt but jewellery demand suffered in all countries analysed.

Price rises deter jewellery buying in Saudi Arabia

In Saudi Arabia, the wedding season in May and June stimulated a certain amount of gold jewellery demand, but the high and fluctuating gold price created enough of a cautious attitude among consumers that overall demand for the quarter was lower by 12% year-on-year. Investment offtake, meanwhile, benefited somewhat from gold's role as a safe haven investment in light of the unstable political atmosphere.

Economic problems hit demand in Egypt

A sharp downturn in Egyptian gold consumption was largely due to the impact of the weaker local currency unit on the rising gold price, which resulted in a 40% year-on-year increase in the domestic price (calculated using the official exchange rate). Economic conditions remained problematic in Q2, which further explained consumer reluctance to purchase gold, whether as jewellery or investment. Indeed, investment was mildly negative in the quarter and scrap volumes in

Consumer demand in the Middle East

1. *Q2% change over year earlier* **2**. *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2 % change*	2 *Year to date %*
All countries shown	455.5	438.2	115.1	94.9	106.3	109.6	100.5	*-12.7*	*-11.4*
Jewellery	448.2	429.3	113.6	92.8	103.4	106.8	99.3	*-12.6*	*-11.6*
Investment	7.3	8.9	1.5	2.1	2.9	2.8	1.2	*-21.5*	*0.9*
Saudi Arabia	173.8	165.4	43.7	33.0	42.5	41.9	38.3	*-12.2*	*-10.7*
Jewellery	169.8	163.4	43.4	32.6	41.9	41.1	38.0	*-12.4*	*-11.0*
Investment	4.0	2.0	0.3	0.4	0.6	0.8	0.3	*10.0*	*13.0*
Egypt	129.9	117.4	29.1	32.0	26.3	26.3	24.7	*-15.0*	*-13.7*
Jewellery	128.1	115.9	28.8	31.5	25.9	26.3	24.9	*-13.4*	*-12.5*
Investment	1.8	1.5	0.3	0.5	0.4	0.0	-0.2	...	...
Total Gulf	151.8	155.4	42.4	30.0	37.4	41.4	37.5	*-11.7*	*-10.5*
Jewellery	150.3	150.0	41.5	28.8	35.5	39.4	36.4	*-12.3*	*-11.6*
Investment	1.5	5.4	0.9	1.2	1.9	2.0	1.1	*15.9*	*30.7*
UAE	96.0	97.6	26.2	17.0	23.3	28.0	23.2	*-11.5*	*-10.9*
Jewellery	94.3	94.9	25.8	16.4	22.2	27.1	22.7	*-11.9*	*-11.5*
Investment	1.7	2.7	0.4	0.6	1.1	0.9	0.5	*13.8*	*26.7*
Kuwait	27.2	28.6	8.5	6.1	7.3	6.2	7.5	*-11.8*	*-10.1*
Jewellery	28.5	27.1	8.3	5.7	6.8	5.7	7.2	*-12.8*	*-11.3*
Investment	-1.3	1.5	0.3	0.4	0.5	0.5	0.3	*20.0*	*14.3*
Other Gulf	28.6	29.2	7.7	6.8	6.9	7.2	6.8	*-12.0*	*-9.4*
Jewellery *of which:*	27.5	28.0	7.5	6.6	6.5	6.6	6.5	*-12.9*	*-12.0*
Bahrain	12.3	12.7	3.2	2.8	3.2	3.1	2.8	*-12.6*	*-13.7*
Oman	7.8	8.0	2.0	2.1	1.7	2.0	1.8	*-11.0*	*-10.0*
Qatar	7.4	7.3	2.3	1.7	1.6	1.6	2.0	*-15.1*	*-11.2*
Investment	1.1	1.2	0.3	0.2	0.4	0.6	0.3	*15.4*	*57.9*

Egypt accounted for the majority of scrap supply throughout the region as a result. There are, however, some tentative signs that tourism is starting to recover. This may help improve demand in the rest of the year.

Muted demand in Gulf States

The rising price of gold was also a key factor in limiting gold jewellery consumption across the Gulf States. Compared with 2001, both Q2 and year-to-date jewellery consumption in the Gulf States in 2002 was lower by around 12% overall, while investment offtake was notably stronger (+16% and +31% respectively). Gold jewellery offtake in the UAE was almost 12% down year-on-year, largely as a result of the price holding above the psychologically significant level of $300/oz. Similar trends were apparent in Kuwait, although here there was a slightly larger drop in jewellery consumption of 13%. However, prospects look rather more positive in light of the fact that the Kuwaiti government have taken measures to boost tourism.

Higher gold prices and regional political uncertainties also took their toll on gold offtake in Oman, Qatar and Bahrain, although the latter has since launched a summer festival to promote tourism and again this bodes more positively for Q3.

Gold investment demand in the Gulf States gained support from the same factors that put pressure on jewellery demand - the rising price of the metal and political concerns - increasing net offtake by almost 16% compared to a year earlier.

Turkey

Gold demand nearly doubles

The economic upturn in Turkey boosted demand for gold in both the jewellery and investment sectors, resulting in year-on-year increases of around 95% across the board.

Investment interest remained strong, particularly in light of the improved but still fragile economic scenario, the rising gold price and political tensions in the Middle East. First-half investment demand of 19.0 tonnes was more than double that of 2001.

The quarter witnessed a marked fall in the distress selling of jewellery which had characterised the first half of 2001. As a result, jewellery offtake of 20 tonnes was 97% higher than the same quarter of 2001. As sizeable as this rise is, the high price of gold and still-fragile nature of the economic recovery mean that jewellery demand nevertheless has some way to go before resuming the levels seen in the first half of 2000. The year-to-date picture has begun to turn positive, however, and a satisfactory tourist season is likely to have reinforced the gains during Q3.

The new statistics for Turkey exclude demand attributed to the "luggage trade"(see insert).

Jewellery, bar and coin investment in Turkey

Consumer demand in Turkey

1. *Q2% change over year earlier* **2**. *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2 % change*	2 *to date %*
Turkey	177.4	114.1	14.1	38.3	33.7	28.8	27.7	*96.3*	*34.1*
Jewellery	147.7	87.4	10.2	30.6	24.0	17.4	20.1	*97.4*	*14.4*
Investment	29.7	26.7	3.9	7.7	9.6	11.4	7.6	*93.6*	*103.2*

The Americas

Jewellery, bar and coin demand in USA, Mexico and Brazil

Demand holds up in USA; slips in Mexico and Brazil

Gold demand in the Americas was marginally lower in the second quarter than a year earlier. Growth was concentrated in the USA – and particularly in US investment – with falls in demand in both Mexico and Brazil. Year to date, total gold consumption in the region was broadly neutral, lower by just 1% versus the first half of 2001.

Statistics on investment in the USA (previously only sales of new bullion coins) now include both bars and coins. Statistics for all three countries are now on a net basis showing the effect of dishoarding as well as new purchases.

Political and economic worries support gold investment in USA but limit growth in jewellery sales

Total gold offtake rose 2.8% year-on-year in Q2, with a 41% surge in investment demand. The rising gold price, along with concerns over corporate governance, the global political scenario and a still shaky economy, underpinned interest in investment gold although the rising price also saw increased selling back.

Jewellery demand was mildly positive, despite the damage to consumer sentiment caused by collapsing equity markets and geo-political tensions. Purchases were concentrated in lower cost items with higher price items suffering from the slow demand for luxury goods generally.

Trade purchases showed somewhat stronger growth as retailers rebuilt stock. As economic recovery becomes more firmly based, demand should improve although growth in the next few months is expected to be modest.

Economic problems limit gold demand in Mexico and Brazil

A depreciating local currency, coupled with a high and generally rising gold price, created consumer uncertainty in Mexico and thus reduced demand for gold. The domestic economic scenario, responding to the US economic slowdown, remains uncertain and it is therefore unsurprising that gold jewellery offtake weakened in the second quarter, easing back 9% to 14.7 tonnes. Investment demand was likewise affected, down by 20% year-on-year.

As economic difficulties continued to hit Brazil in the second quarter, gold demand fell victim

Consumer demand in the Americas

1. *Q2% change over year earlier* **2.** *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2 % change*	2 *Year to date %*
All countries shown	473.1	510.6	94.6	114.1	203.6	97.9	93.1	*-1.6*	*-1.0*
Jewellery	493.1	483.2	91.2	99.0	198.6	94.8	89.4	*-2.0*	*-0.8*
Investment	-20.0	27.4	3.4	15.1	5.0	3.1	3.7	*8.8*	*-6.8*
USA	368.5	412.9	68.3	98.0	165.2	82.8	70.2	*2.8*	*2.2*
Jewellery	387.3	389.3	65.4	84.9	161.1	80.2	66.1	*1.1*	*2.1*
Investment	-18.8	23.6	2.9	13.1	4.1	2.6	4.1	*41.4*	*4.7*
Mexico	60.4	57.2	16.6	7.9	22.9	8.6	15.1	*-9.0*	*-10.2*
Jewellery	57.8	53.7	16.1	6.2	22.1	8.1	14.7	*-8.7*	*-10.2*
Investment	2.6	3.5	0.5	1.7	0.8	0.5	0.4	*-20.0*	*-10.0*
Brazil	44.2	40.5	9.8	8.2	15.5	6.5	7.8	*-19.9*	*-14.8*
Jewellery	48.0	40.2	9.8	7.9	15.4	6.5	8.6	*-11.7*	*-10.6*
Investment	-3.8	0.3	0.0	0.3	0.1	0.0	-0.8	...	...

to rising unemployment and interest rates and slower growth. Total gold consumption was two tonnes lower than the same quarter a year earlier.

While jewellery demand dropped 12% in response to the negative economic environment, investment demand turned negative as higher gold prices were exaggerated by the decline in the real against the dollar, encouraging investors to sell their physical holdings of coin and bar. Brazilian consumers have been net dishoarders of gold bars and coins for most of the past decade, with net investment turning just positive in 2001. The persistence of the economic downturn and concerns over the upcoming presidential elections are likely to restrain gold jewellery sales for the rest of the year. The climate for gold investment is more positive although high interest rates on competing investments may limit its appeal to retail investors.

Europe

A number of factors with a negative impact on gold demand were evident in Europe during Q2, including pessimism over economic growth prospects, higher unemployment and continued uncertainty over the changeover to the euro with the rise in prices that occurred at that time hurting consumer purchasing power. The result was a general decline in gold jewellery spending and dishoarding of gold bars and coins in some countries.

Statistics on investment in Europe (previously only sales of new bullion coins) now include both bars and coins and are on a net basis showing the effect of dishoarding as well as new purchases.

The economy, changing fashions restrain Italian demand

In Italy, the unsupportive macroeconomic scenario joined forces with rising prices to push gold jewellery demand down by 6% in the second quarter to 17.1 tonnes. Changing fashions and tastes were also an influencing factor, as purchases of yellow gold tend to be concentrated among the higher end of the

Jewellery in Italy, UK, France and Germany; bar and coin demand in France, Germany and other European countries.

Consumer demand in Europe

1. *Q2% change over year earlier* 2. *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2 % change*	2 *Year to date %*
All countries shown	142.1	274.9	37.8	69.3	139.9	29.4	34.2	-9.6	-3.3
Jewellery	264.6	264.8	46.2	42.4	134.8	40.6	43.5	-5.9	-4.1
Investment	-122.5	10.1	-8.4	26.9	5.1	-11.2	-9.3	...	...
Italy									
Jewellery	92.0	91.2	18.2	15.5	42.9	14.4	17.1	-6.1	-3.8
UK									
Jewellery	75.0	81.9	11.4	13.1	46.0	11.4	10.9	-5.2	-2.3
France	19.0	30.3	3.1	4.1	20.6	0.8	2.1	-34.3	-50.1
Jewellery	54.0	52.4	9.4	7.9	26.2	8.8	9.0	-5.0	-3.4
Investment	-35.0	-22.1	-6.3	-3.8	-5.6	-8.0	-6.9	...	...
Germany	15.6	61.3	7.1	22.9	26.7	1.7	2.2	-68.8	-67.0
Jewellery	43.6	39.3	7.1	5.9	19.7	6.1	6.5	-8.0	-8.6
Investment	-28.0	22.0	0.0	17.0	7.0	-4.4	-4.3	...	...
Other Investment	-59.5	10.2	-2.1	13.7	3.7	1.2	1.9	...	...

Europe (continued)

market, while jewellery in silver, steel and other metals are emerging as low cost fashion alternatives, which cater to the lower end.

Six-year boom in UK interrupted

The prolonged growth in consumer spending in the UK started to fade in Q2 and this had its effect on gold jewellery, demand for which fell in Q2 after a nearly-uninterrupted boom of six years. Plummeting stock markets added to consumer caution. Consumer spending remained more buoyant here than in the rest of Europe, however, and gold jewellery consumption at 10.9 tonnes was just 5% down year-on-year, 2% lower on a year-to-date comparison. Purchases of 22 carat were more affected by the higher price than demand for lower caratage. Nevertheless prospects for consumer spending, while somewhat subdued, remain generally hopeful.

Political problems added to economic worries in France

Economic uncertainty was also a negative influence in France; added to this was the political uncertainty caused by presidential and parliamentary elections, notably the unexpected results from the first presidential round. This combination put a constraint on gold jewellery consumption, which amounted to 9.0 tonnes for the quarter. However, there is some optimism that tax reductions by the new government will stimulate demand in the latter part of the year.

Fragile consumer sentiment carried over to the investment sector with intensified dishoarding during the first six months of 2002 - also stimulated by the rise in the euro price of gold in the early part of the year - almost offsetting positive jewellery consumption. Over the past decade individuals in France have been consistent net dishoarders of gold bars and coins.

Economic gloom in Germany but the euro commemorative coin is oversubscribed

As the German economy stayed in the doldrums, so gold consumption reacted accordingly. The jewellery sector suffered as consumers felt the pinch of euro price increases and jewellery consumption fell by 8% to 6.5 tonnes. Dishoarding once again outweighed new gold investment in the early part of the year after a period of net purchases in the second half of 2001. The Germans, unlike the French, have normally been net investors rather than dishoarders in recent years but from the end of 1999 until early 2001 the rise in the euro price of gold stimulated net dishoarding.

Despite the net dishoarding during the first half year, an underlying appetite for gold was demonstrated by the reaction to the gold euro commemorative coin issued on May 9th. Like the commemorative Deutsche Mark coin released in July 2001, this 10.9 tonne issue was oversubscribed (six times). However most retailers did not receive the coin until July and August so its impact will be primarily reflected in the figures for Q3.

Positive gold investment elsewhere

Investment offtake throughout the rest of Europe remained in positive territory – notably in Switzerland and Austria – during the first half of 2002. Given the onset of global stock market weakness, gold offered a relatively attractive investment opportunity, although there were also reports that a good part of demand for small Swiss gold bars was for gift purposes.

Industrial demand

Recovery starts in the East

The fragility of the global economic recovery prolonged the downturn in overall industrial demand for gold. But the pattern was not uniform across countries and the quarter brought the first signs of upturn in demand in countries in East Asia where growth rates were universally positive. Factors at play throughout the region included the fact that the semi-conductor market seems to have stabilised and established a base for itself, while electronics goods manufacturers have also been seen to re-stock inventories, which further boosted offtake of gold bonding wire and electroplating solutions.

Electronics revival boosts demand in East Asia

Japan remains the largest global market for industrial gold and the electronics sector has begun to show signs of revival after suffering throughout 2001. Q2 industrial offtake of 22.7 tonnes was 18% higher than the same period in 2001. Electronics demand for gold in South Korea registered similar strength in Q2, higher by 14% year-on-year. Areas where growth was particularly concentrated included semi-conductor chips used in colour screen displays and 'system-on-a-chip' devices used in smart cards and other electronics.

In Taiwan industrial demand for gold was also stronger on both a year-on-year and quarter-on-quarter basis, but remained shy of the levels seen in 2000. The primary reason for the improved numbers was the export of computer chips and other electronic items to China, which according to official data were up 29% year-on-year. The combined electronics demand of China and Hong Kong posted a modest year-on-year rise in the second quarter, the reasons being strong exports and fabrication of plating salts for electronic uses.

In Singapore, the supportive factors mentioned above fed through to a 50% rise in electronics demand for gold in the second quarter, at 3.9 tonnes the highest showing since Q3 2000.

With economic recovery clearly underway in a number of East Asian countries and an end to the electronics shakeout, prospects for further gains in demand in the region look promising. This will be boosted by the relocation of production units from the USA and Europe.

Price rises hit demand in India

The disappointing year-on-year decline in India (-58%) represents a continuation of the trend started in Q1 and feeds through into a first

Industrial demand in the world and selected countries

Industrial demand

1. *Q2% change over year earlier* 2. *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2 % change*	2 *Year to date %*
Total*	387.3	305.2	79.4	68.1	78.3	66.6	74.4	*-6.4*	*-11.2*
India	26.0	30.0	8.8	5.3	6.5	3.3	3.7	*-58.3*	*-61.7*
China/Hong Kong	17.0	12.9	2.8	3.4	3.9	2.9	2.9	*0.8*	*1.9*
Taiwan	13.9	10.8	2.7	2.7	2.6	2.6	2.9	*8.8*	*0.4*
Japan	115.6	75.2	19.2	16.1	21.4	18.0	22.7	*18.0*	*7.9*
South Korea	33.1	25.1	5.8	6.4	6.4	6.4	6.6	*13.7*	*5.3*
Singapore	12.0	9.5	2.6	1.9	2.0	2.2	3.9	*50.0*	*8.9*
USA	73.5	44.0	12.1	9.7	11.7	11.7	11.6	*-4.1*	*2.8*
France	14.6	13.8	3.4	3.5	3.5	2.9	2.9	*-15.6*	*-15.6*
Germany	18.9	16.0	4.6	3.5	3.5	3.4	3.4	*-25.3*	*-25.3*
Italy	6.8	6.8	1.8	1.7	1.7	1.7	1.7	*-3.6*	*-3.6*
Switzerland	16.4	16.6	4.2	4.0	4.0	4.0	4.0	*-4.8*	*-7.0*
UK	6.6	4.9	1.2	1.3	1.2	1.3	1.2	*0.8*	*2.0*

* Including non-specified countries

Industrial demand (continued)

half-year comparison of -62%. The rising international price was likely to have contributed to this fall. Interestingly, demand in the second quarter was higher than in the first, with seasonal factors (including the wedding season) cited as the main cause, and strong demand for jari (gold thread).

Economic recovery yet to show through in USA and Europe; relocation also a factor

While industrial gold demand in the USA managed to avoid a repeat of the collapse seen in 2001, the year-to-date comparison was negative nonetheless, in response to a reversal of the inventory build-up witnessed during the first quarter. Relocation of manufacturing facilities to the Asian region was also a factor.

Industrial demand for gold in western Europe was highest in Switzerland in the first half of this year, but the only place to show (modest) growth was the UK, with offtake marginally above 2001 levels. Sluggish demand in areas such as the telecommunications sector resulted in significant weakness in both France and Germany. Demand for gold in decorative uses, although less fragile, was nevertheless weak as fashion tastes continued to shift away from decorative gold; in addition a trend has emerged for gold industries to relocate to other countries, e.g. China.

Dental demand

Dental demand in the world and selected countries

Shifting trends in dental demand

Global dental demand was marginally higher (up 0.6%) in Q2 than a year earlier. However, the neutral global picture disguised the movements that occurred on an individual country basis.

In Japan, a rise of 0.3 tonnes to 5.5 tonnes was in part prompted by the lower prices of palladium, which sparked an increase in the popularity of an alloy consisting of 12% gold and 20% palladium. The slight rise in South Korean dental demand was in line with strong consumer confidence encouraged by the healthy domestic economy.

After holding flat at 3.5 tonnes in the first quarter, dental demand for gold in the USA was 3% weaker in Q2, losing market share to palladium-based alloys and ceramic-based materials. In Europe, there were also minor losses across the board, as the previous trend for replacing palladium with gold seems to have exhausted itself while non-precious metals and ceramics gained popularity as gold substitutes.

Dental demand

1. *Q2% change over year earlier* **2**. *Year to date% change over year earlier*

Tonnes	2000	2001	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	1 *Q2 % change*	2 *Year to date %*
Total*	68.8	67.8	16.9	16.9	17.1	17.1	17.0	*0.6*	*0.9*
Japan	20.8	21.2	5.2	5.4	5.5	5.5	5.5	*4.8*	*4.8*
South Korea	3.7	3.6	0.9	0.9	0.9	0.9	0.9	*2.2*	*2.2*
USA	14.0	14.3	3.5	3.6	3.7	3.5	3.4	*-2.9*	*-1.4*
Germany	13.5	13.9	3.5	3.5	3.5	3.5	3.5	*-1.4*	*-1.4*
Italy	4.0	3.9	1.0	1.0	1.0	1.0	1.0	*-5.0*	*-5.0*
Netherlands	3.0	2.9	0.8	0.7	0.7	0.7	0.7	*-7.0*	*-7.0*
Switzerland	3.1	2.6	0.7	0.6	0.6	0.6	0.6	*-14.3*	*-14.3*

* including non-specified countries

Market developments May-August

The May high reflected widespread financial nervousness

During most of this period gold prices, expressed in most of the major currencies, have been on the retreat, although the relative weakness of the dollar has softened the effect in dollar terms. Essentially the period has been characterised by a reduction in professionally-led activity and by late August the market was trading to a large extent on its own fundamentals with minimal professional activity (although this is partly a typical seasonal characteristic for the northern hemisphere summer). Prices effectively ranged between \$300/ounce and \$330/ounce, with solid support building in the \$305/ounce region as the summer wore on.

The middle of May saw prices run up to test the \$330/ounce level. Continued concerns over corporate governance exercised the minds of a number of US investors in particular. Dollar weakness caused considerable unease at the time – probably more so than during the rest of the period. It was in the second half of May that the Bank of Japan intervened four times against the yen in an effort to prevent currency movements undermining Japan's export-led economic recovery. It was also at this time that the markets, which until then had been expecting a rise in US interest rates in August, started to take a different view. (As we write, far from looking for an increase, the fed funds futures are discounting a 60% chance of further cuts before the end of the year.) Comments from Federal Reserve Chairman Alan Greenspan affected sentiment also. He had said in mid-May that the outlook for the US economy had not changed "materially" in the previous six months – but implied also that it remained uncertain as to whether consumer and business demand were sufficiently resilient to propel a strong recovery.

Gold thus hit its highs at a time of economic and currency-based fears, with equity markets under renewed pressure and an air of uncertainty about the outlook for currencies and interest rates. The professional market was still active in gold at that time, although the participation has receded since then, as illustrated to some extent by the chart of the net positions held by large-scale speculators on COMEX (for these purposes, large-scale holders are those who have 100 contracts or more open in any one delivery month). The largest net open long position was registered on May 21, when it was just under 146 tonnes. This coincided with the largest outright long position held by the large speculators, which was of 234.4t (being offset, logically, by an outright short position of 88.4t).

Spot gold in major currencies 2002: (Jan 2 2002 = 100)

Market developments (continued)

"Professionals" withdraw in summer and allow fundamentals to take over

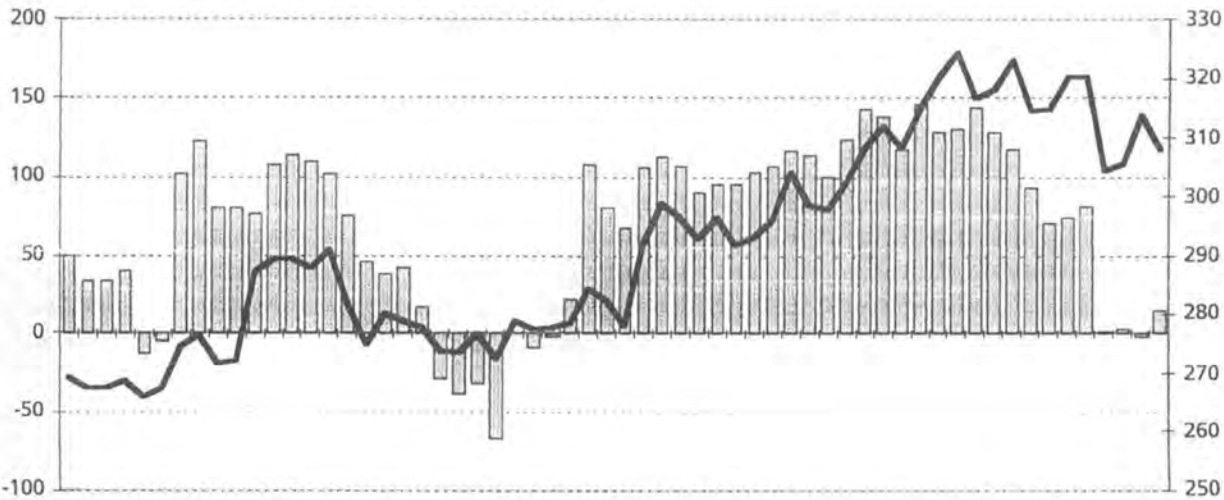
Since then the activity of the professionals has been reduced, occasionally in dribs and drabs, and occasionally in bursts of selling, although the latter have tended to be triggered when important support levels have given way (notably the $316/ounce and $310/ounce levels). By the middle of August the net COMEX position had crept very marginally onto the short side, but this was changed within the week as fresh longs were established and some shorts were covered.

In early June the easing in price was attributed to reduced tension between India and Pakistan and also an announcement of a reduction in Russian official gold holdings, although the phraseology of the statement implied that this was a swap or deposit rather than an outright sale; later in the summer the Deputy Head of Gokhran stated that the government wished to increase its gold holdings by 25 to 30 tonnes this year. In addition the physical market had withdrawn to the sidelines while prices were volatile between $315/ounce and $330/ounce and this reduced some of the market's natural support.

This physical support re-emerged initially from the Middle East when gold dropped towards the $315 level in late June, and was subsequently augmented by Indian buying which developed through the course of August in advance of the Festival season. Generally speaking the physical buyers in these regions tend not to buy into volatile market conditions, but their re-appearance when prices were dropping suggests either that they felt that they could wait no longer in the face of pent-up demand, or that local prices were perceived to be too tempting to resist.

Among the "professionals", corporate governance remained a factor during June and July, although the subsequent passage of US legislation thereafter, which tightened the rules significantly, has helped to allay concerns to some extent.

COMEX: net large-scale speculative positions vs spot gold



Economic and political concerns remain a dominant factor

The degree of concern over the outlook for the US economy remains high. Economic releases have been mixed, but have generally tended to undermine confidence in the outlook, as implied by the comment above about the prognosis offered by fed funds futures. While this tends to reduce expectations for purchasing strength on the one hand, it continues to put some pressure on the dollar on the other. Although some bargain hunting developed in the equity markets during August, experts' views are still mixed as to whether this was a pause in an extended equity fall, or whether the market was indeed purchasing value.

This was one of the factors that was a topic for debate when gold was on the path down from \$330/ounce towards \$315/ounce. There is no doubt that some of the fall was due to profit taking and subsequent stale bull liquidation. There was, however, clear evidence in some dealers' minds that there were two other forms of sale occurring: one, deliberate sectoral rotation where those taking profits were using the money to find value in the equity (and to some extent Treasury) markets; and two, distress sales by some investors who were using gold and its 48-hour settlement period as a means of raising cash to meet margin calls in the equity markets.

On balance therefore, gold's performance through the northern hemisphere summer reflected initial market concerns about the dollar and the interest rate outlook, and then saw a retreat towards physically-driven support as professional money either sought other areas out of disappointment, or crystallised its benefit from gold exposure in order to seek value in potentially oversold equity markets. The physical market has been quiet in the volatile times at higher levels, but has been solid between \$305/ounce and \$310/ounce. Political conditions have played their part with the changes in the India/Pakistan position having an effect on purchases and the US stance with respect to the Middle East coming increasingly to the fore as we go to press.

Gold versus the Dow Jones (Jan 2001=100)