Gold Report - 2

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Gold Study

Gold Production Through History

All the gold ever mined would easily fit under the Eiffel Tower, forming a cube of nearly 19 m each side!

In the last 6,000 years a little over125,000 tonnes of gold has been mined. But this history is clearly divided into two eras - before and after the California gold rush of 1848. Some calculations suggest that up until then scarcely 10,000 tonnes of gold had been excavated since the beginning of time. Thus more than 90% of the world's gold has been produced since 1848.

Early gold mining by the Egyptians, from around 2000 BC, (in the areas which are now Egypt, the Sudan and Saudi Arabia), is thought to have produced no more than 1 tonne annually. Perhaps 5-10 were produced during the time of the Roman Empire, (mainly from Spain, Portugal and Africa), but in the Dark and Middle Ages (500-1400 AD) production, from the mountains of central Europe, probably fell back to less than a tonne. Throughout all this time gold was also being mined and worked in South America, where the goldsmith's art reached very high standards.

From the middle of the 15th century the Gold Coast of West Africa (now known as Ghana) became an important source of gold, providing perhaps 5-8 tonnes per year. In the early 16th century the Spanish conquests of Mexico and Peru opened up a further source of gold. By the close of the 17th century, 10-12 tonnes a year were provided by the Gold Coast and South America together. Gold was first discovered in Brazil in the mid-16th century but significant output did not emerge until the early 18th century. Towards the end of that century, considerable supplies began to come from Russia as well, and annual world production was up to 25 tonnes. By 1847, the year before the Californian gold rush, Russian output accounted for 30-35 tonnes of the world total of about 75 tonnes.

The gold rushes, and later the South African discoveries, radically altered the picture but Russian production continued to rise, reaching around 60 tonnes in 1914.

The crucial turning point in the history of the gold mining industry came with the discovery at Sutter's Mill on the American River in January 1848, which ushered in a new age of gold. Gold mining now took on a quite different dimension. Output from California soared, reaching 77 tonnes in 1851 (the year gold was also discovered in Australia) and peaked in 1853 at 93 tonnes. The Australian find triggered a gold rush there, which reached a climax in 1856 with 95 tonnes. World production at this time climbed to 280 tonnes in 1852 and thence to almost 300 tonnes as Australia flourished.

Production was lifted on to an even higher plane in 1886 with the discovery of the huge gold reefs in the Witwatersrand Basin of South Africa. Gold had first been found in eastern Transvaal in 1873, but from the outset it was obvious that the Witwatersrand deposits were of a completely different order. South Africa ousted the United States as the world's premier producer in 1898, a position it has held almost continuously ever since. From 1884, the first year of recorded output, South Africa has been the source of close to 40% of all the gold ever produced. The most productive year was 1970 when over 1,000 tonnes were mined, representing more than three-quarters of western world output.

While the South African gold mining industry was taking off, two further gold rushes occurred. In 1893 gold was found at Kalgoorlie in Western Australia, since when over 1,300 tonnes have been extracted from Kalgoorlie's "Golden Mile" alone. Australian output peaked in 1903 at 119 tonnes, a level not reached again until 1988. And in 1896, alluvial deposits were found in the Yukon territories of Canada, initiating the Klondike gold rush, which yielded 75 tonnes over the next three years. By the turn of the century, world production was averaging 400 tonnes annually.

Through much of the twentieth century the gold mining industry was in decline in many countries. There was a brief revival after the rise in the price of gold in the late 1930s; in 1940 United States production was 155 tonnes and the following year, Canadian output reached 172 tonnes, a record which stood until 1991. However, it was not until the dramatic price rise of 1980 that the industry experienced another transformation. Old mines were revived and exploration activity exploded.

Western world production almost doubled during the 1980s, rising from 962 tonnes in 1980 to around 1,744 tonnes ten years later. A new era of gold rushes occurred, with prospectors swarming to alluvial deposits in various countries including Brazil, Venezuela and the Philippines. Serra Pelada in Brazil proved to be one of the richest placer deposits ever found, yielding 13 tonnes in 1983 alone.

The introduction of new technologies such as heap leaching, carbon-in-pulp recovery and mobile milling plants also contributed to the boom. They enabled the development of orebodies that would previously have been considered uneconomic, notably in Nevada, USA, which accounted for over 60% of US production in the late 1980s, and in Western Australia. Australian output is over 240 tonnes a year, 70% coming from Western Australia, and is forecast to increase further by the end of the century.

Canadian output trebled in the years following the gold price rise, from 51.6 tonnes in 1980 to peak at 176.7 tonnes in 1991. The industry there is more traditional with underground operations rather than open pits. The most significant new discovery was the Hemlo field in northern Ontario whose three mines produce nearly 35 tonnes annually. The potential for the development of future mines is promising, particularly low-grade epithermal deposits on the Pacific "rim of fire", in the greenstone belt of South Ameri ca, in sub-Saharan Africa (especially Ghana) and in such CI S republics as Kazakhstan and Uzbekistan. Although the industry faced major challenges in the early 1990s, with a lower gold price and tighter environmental controls, improved prices after 1993 provided new incentives. The period of rapid growth is over, but with less South African output, worldwide production is expected to remain fairly stable for the rest of the century.

Frequently Asked Questions

1.What is Gold and why is its chemical symbol Au?

Gold is a rare metallic element with a melting point of 1064 degrees centigrade and a boiling point of 2808 degrees centigrade. Its chemical symbol, Au, is short for the Latin word for gold, 'Aurum', which literally means 'Glowing Dawn'. It has several properties that have made it very useful to mankind over the years, notably its excellent conductive properties and its inability to react with water or oxygen.

2.Where does the word Gold come from?

The word gold appears to be derived from the Indo-European root 'yellow', reflecting one of the most obvious properties of gold. This is reflected in the similarities of the word gold in various languages: Gold (English), Gold (German), Guld (Danish), Gulden (Dutch), Goud (Afrikaans), Gull (Norwegian) and Kulta (Finnish).

3. How much gold is there in the world?

At the end of 2001, it is estimated that all the gold ever mined amounts to about 145,000 tonnes.

4. Why is gold measured in carats?

This stems back to ancient times in the Mediterranean /Middle East, when a carat became used as a measure of the purity of gold alloys (see next Question 5). The purity of gold is now measured also in terms if fineness, i. e. parts per thousand. Thus 18 carats is 18/24th of 1000 parts = 750 fineness.

5. What is a Carat?

A Carat (Karat in USA & Germany) was originally a unit of mass (weight) based on the Carob seed or bean used by ancient merchants in the Middle East. The Carob seed is from the Carob or locust bean tree. The carat is still used as such for the weight of gem stones (1 carat is about 200 mg). For gold, it has come to be used for measuring the purity of gold where pure gold is defined as 24 carats. How and when this change occurred is not clear. It does involve the Romans who also used the name Siliqua Graeca (Keration in Greek, Qirat in Arabic, now Carat in modern times) for the bean of the Carob tree. The Romans also used the name Siliqua for a small silver coin, which was one-twentyfourth of the golden solidus of Constantine. This latter had a mass of about 4.54 grammes, so the Siliqua was approximately equivalent in value to the mass of 1 Keration or Siliqua Graeca of gold, i.e the value of 1/24th of a Solidus is about 1 Keration of gold, i.e 1 carat.

6. Who owns most gold?

If we take national gold reserves, then most gold is owned by the USA followed by Germany and the IMF. If we include jewellery ownership, then India is the largest repository of gold in terms of total gold within the national boundaries. In terms of personal ownership, it is not known who owns the most, but is possibly a member of a ruling royal family in the East.

7. If all the gold was laid around the world, how far would it stretch?

If we make all the gold ever produced into a thin wire of 5 microns (millionths of a metre) diameter - the finest one can draw a gold wire, then all the gold would stretch around the circumference of the world an astounding 72 million times approximately!

8. How much new gold is produced per year?

In 2001, mine production amounted to 2,604 tonnes or 67% of total gold demand in that year. Gold production has been growing for years, but the real acceleration took place after the late 1970s, when output was in the region of 1,500tpa. This year output will fall short of production levels in 2001. This is partly for specific operational reasons at some of the larger mines (Grasberg and Porgera), along with lower grades at some of the operations in Nevada. The reduction in exploration and development expenditure over the past five years is leading a number of analysts to suggest that, with other operations nearing the end of their lives, global production is likely to drop slightly over the next two to three years subject always of course to price.

9. How much does it cost to run a gold mine?

Gold mining is very capital intensive, particularly in the deep mines of South Africa where mining is carried out at depths of 3000 meters and proposals to mine even deeper at 4,500 meters are being pursued. Typical mining costs are US $238/troy ounce gold average but these can vary widely depending on mining type and ore quality. Richer ores mined at the surface (open cast mining) is considerably cheaper to mine than underground mining at depth. Such mining requires expensive sinking of shafts deep into the ground.

10. How does a gold mine work?

The gold-containing ore has to be dug from the surface or blasted from the rock face underground. This is then hauled to the surface and milled to release the gold. The gold is then separated from the rock (gangue) by techniques such as flotation, smelted to a gold-rich doré and cast into bars. These are then refined to gold bars by the Miller chlorination process to a purity of 99.5%. If higher purity is needed or platinum group metal contaminants are present, this gold is further refined by the Wohlwill electrlytic process to 99.9% purity. Mine tailings containing low amounts of gold may be treated with cyanide to dissolve the gold and this is then extracted by the carbon in pulp technique before smelting and refining.

12. How big is a tonne of gold?

Gold is traditionally weighed in Troy Ounces (31.1035 grammes). With the density of gold at 19.32 g/cm3, a troy ounce of gold would have a volume of 1.64 cm3. A tonne of gold would therefore have a volume of 51, 760 cm3, which would be equivalent to a cube of side 37.27cm (Approx. 1' 3").

China Gold rush hurdles cleared

China's gold market has been given another major boost with the recent abolition of policy barriers by regulators.

"The removal of the barriers will play a key role in spurring the country's gold market, and it could forge closer integration with that of the world," said Roland Wang, general manger of the China branch of the World Gold Council, an organization formed and funded by the world's leading gold mining companies with the aim of stimulating and maximizing demand and consumption of gold.

The new policy, which was released by the People's Bank of China, cancels more than 20 regulations barring gold production, processing and sales.

It loosens the central bank's control over trading in China's gold market.

Previously, any companies wanting to engage in trading had to file documents with the central bank first and await approval.

The move marks another milestone in the opening up of China's gold market, which was under the monopoly of China's central regulators following the debut of the Shanghai Gold Exchange (SGE) - the country's first national gold market - last October.

It means both foreign and domestic investors can gain free entry to the promising market without going through application procedures for licences.

China's gold market can now be viewed as a free market to corporate investors, apart from gold exports and imports, which remain the exceptions. But the market remains closed to individual investors.

"The founding of the SGE is the first step towards a liberalization of the gold market in China, and the abolition of the rules play a key role in reforming China's gold market in a wide range of areas, such as investment, manufacturing, processing and sales," said Wang.

China has outperformed a number of key players on the global gold market, becoming the world's third-largest gold consumer. China's gold demand reached 202.3 tons last year, putting it behind only India and the United States.

Gold is mainly used to make jewellery in China, and its function as an investment tool remains limited, Wang said.

There could be a considerable amount of investment, including foreign investment, flooding into gold sectors in the near future, sparked by the removal of the policy hurdles, Wang declared.

It is likely that many foreign gold firms will enter the market. Wang added that fluctuations of the market could ease to some extent as more players jump in.

Most of the processing and manufacturing sections of Hong Kong's leading gold firms are currently transferred to the Chinese mainland market, due to cheaper labour costs.

However, industrial competition is expected to intensify owing to the rising number of market players, said Wang.

"Intensified competition will bring sweeping changes to the market, including consumption and the quality of gold products," he said.
Gold is highly valued as a precious metal in China and appreciated as a symbol of wealth.

Growth of jewellery gold consumption has slowed down in recent years after being hit by intensified competition from other forms of jewellery, such as platinum jewellery - preferred by young Chinese in particular.

China outpaced Japan to become the world's largest platinum market a few years ago.

However, experts believe the gold market will see explosive growth once it opens to individual investors as the major use of gold is still for jewellery. Statistics reveal China's demand for gold could increase by 100 tons a year after full liberalization, constituting 30 per cent of the annual increase in gold consumption in the world.

"The proposal to open the market to individual investors has been under close consideration for a number of years," said Wang.

He estimated there will be the green light to open the market to personal investors fairly soon.

But Wang said China will not loosen its control over imports and exports of gold in the near future due to a number of important issues, such as foreign exchange management. According to official statistics, China's gold output stood at 190 tons last year, just below demand of 202.3 tons in 2002.

Gold prices stood at US$326 per ounce last week on the international market, but the price is expected to rise as the global economy remains gloomy and many investors tend to choose gold as a better investment choice.

China started deregulating its gold market in 2000 and gradually liberalized the domestic market.

The process gathered momentum last year when it officially launched its first national gold exchange in Shanghai. The move ended heated debate over the home of the long-awaited exchange among a number of big cities, including Beijing, Shanghai, Tianjin and Shenzhen.

With the launch of the exchange, the central government ceased purchasing gold directly from mining companies. Previously, domestic gold firms had to sell all of their gold to the central bank.

Currently, big gold producers and qualified financial institutions are allowed to conduct trading using renminbi in the exchange.

"The removal of the barriers is also billed as a rosy sign for gold product processors and dealers applying for seats at SGE," said an SGE executive.

The gold exchange has 108 members at present, but many companies are hoping to become members of the gold exchange within a short period of time in an effort to get more direct trading opportunities in the market.

But they have to rely on other companies or banking institutions, which could be brokerage firms, to trade gold on their behalf.

Indian Government Policy for Bullion

- 1947 - Complete ban on Import of Bullion
- 1956 - Mysore Government controlled production of Gold
- 1962 - Govt. floated 15 years 6.5% Gold Bond by which around 16.30 MT Gold was collected
- 1962 - Ban on Forwarding Trading
- 1963 - Declaration of Gold holding made compulsory for individual. Restriction on manufacturing of jewellery above 14 Ct.
- 1964 - Restriction on private trade, Gold handling canalised by Govt only
- 1965 - Floating of 15 years 7% Gold Bonds (6.1 MT Gold Collected)
- 1965 - Floating of 15 years 6.5% National Defence Gold Bond (13.7 MT Gold Collected)
- 1966 - Restriction on manufacturing of jewellery above 14 Ct removed

- 1966 - Ceiling on holding of Gold by individual
- 1966 - Control imposed on refinery & dealer
- 1968 - Formulation of Gold Control Act, 1968
- 1975 - Introduction of Voluntary disclosure of Income and Wealth (amendment) Ordinance 1975 for declaration of income and wealth in the form of Gold
- 1978 - Govt. auctioned Gold through RBI to control inflation and banned further auction
- 1991 - Amendment brought into Gold Control Act permitting holding of Gold not only in the form of jewellery but also in the form of bars
- 1991 - Import of Gold against SIL permitted
- 1991 - NRI to bring 5-Kgs Gold against payment of Custom duty @ Rs.220/= per 10 Gram
- 1992 - Recommendation by RBI to Govt for Formation of Gold Management corporation
- 1992 - Proposal of formation of Gold Bank rejected
- 1992 - Formation of Gold Standing committee to keep track of movement of Gold and other precious metals
- 1993 - 41 MT of Gold mobilised under gold Bond Scheme
- 1997 - Gold Import put under OGL through nominated agencies
- 1997 - Gold import by NRI increased to 10 Kgs.
- 1998 – Custom duty increased to Rs.250/- per 10 Gram of Gold against Rs.220/=
- 1999 - Gold Bond Scheme announced by RBI (15/9/99)
- 2003 – Custom duty reduced to Rs.100/- per 10

Gram on Gold bearing engraved serial number and weight expressed in metric units and gold coins. TTB and ornaments continue to attract higher duty of Rs.250/= per 10 Grams

ABOUT THE LONDON BULLION MARKET

THE LONDON GOLD & SILVER FIXINGS

What is the guiding principle behind the London Gold and Silver Fixings?
The Fixings are an open process at which market participants can transact business on the basis of a single quoted price. Orders can be changed throughout the proceedings as the price is moved higher and lower until such time as buyers' and sellers' orders are satisfied and the price is said to be 'fixed'.
Orders executed at the fixings are conducted as principal-to-principal transactions between the client and the dealer through whom the order is placed.

How are the fixings used in the market? The fixings are the internationally published benchmarks for precious metals. They are fully transparent and are therefore used to deal in large amounts, or to achieve the accepted average price of the metal. As a benchmark, many other financial instruments are priced off the fixing, including cash-settled swaps and options. The silver fixing started in 1897 and the gold fixing in 1919.

Who are the members of the London Gold Fixing? There are five members of the Gold Fixing – all of whom are Market Making members of the LBMA. They meet twice each London business day at 10.30 a.m. and 3.00 p.m. at the offices of the Fixing Chairman, NM Rothschild & Sons Limited. The other four members of the Gold Fixing are the Bank of Nova Scotia–ScotiaMocatta, Deutsche Bank AG, HSBC Bank USA and Société Générale.

Who are the members of the London Silver Fixing? Three Market Making members of the LBMA conduct the Silver Fixing meeting under the chairmanship of The Bank of Nova Scotia–ScotiaMocatta by telephone at 12.00 noon each working day. The other two members of the Silver Fixing are Deutsche Bank AG and HSBC Bank USA.

What is the procedure for arriving at the Fixing price? Clients place orders with the dealing rooms of fixing members, who net all orders before communicating their interest to their representative at the fixing. The metal price is then adjusted to reflect whether there are more buyers or sellers at a given price until such time as supply and demand is seen to be balanced. Throughout the proceedings customers may change their orders, at which point the fixing member will raise a small flag to visually convey to the other members that they are changing their order. The price cannot be 'fixed' whilst a flag is raised.

The fixing is an open transparent process that allows customers to be kept advised of price movements, together with the changes in the level of interest, while the fixing is in progress such that they may cancel, increase or decrease their interest dependent upon this information.

Gold Jewellery

From the first discoveries of gold in ancient times, its beauty and the ease with which it could be worked inspired craftsmen to create it into ornaments, not just for adornment, but as symbols of wealth and power. The skills of the goldsmith from ancient Egypt to Benvenuto Cellini or Carl Faberge still amaze us. As Pihder wrote nearly 2,500 years ago, "Gold is the child of Zeus, neither moth nor rust devoureth it". Today, gold jewellery is more a mass- market product, although in many countries still treasured as a basic form of saving. jewellery fabrication is the crucial cornerstone of the gold market, annually consuming all gold that is newly mined. Pure gold is used in those parts of the world where jewellery is purchased as much for in- vestment as it is for adornment, but it tends to be vulnerable to scratching. Elsewhere, it is usually mixed, or alloyed, with other metals. Not only do they harden it, but influence the colour; white shades are achieved by alloying gold with silver, nickel or palladium; red alloys contain mainly copper. A harder alloy is made by adding nickel or a tiny percentage of titanium. The proportion of gold in jewellery is measured on the carat (or karat) scale. The word carat comes from the carob seed, which was originally used to balance scales in Oriental bazaars. Pure gold is designated 24 carat, which compares with the "fineness" by which bar gold is defined.

The most widely used alloys for jewellery in Europe are 18 and 14 carat, although 9 carat is popular in Britain. Portugal has a unique designation of 19.2 carats. In the United States 14 carat predominates, with some 10 carat. In the Middle East, India and South East Asia, jewellery is traditionally 22 carat (sometimes even 23 carat). In China, Hong Kong and some other parts of Asia, "chuk kam" or pure gold jewellery of 990 fineness (almost 24 carat) is popular.

In many countries the law requires that every item of gold jewellery is clearly stamped with its caratage. This is often controlled through hallmarking, a system which originated in London at Goldsmiths' Hall in the 14th century. Today it is compulsory in such countries as Britain, France, the Netherlands, Morocco, Egypt, and Bahrain. Where there is no compulsory marking manufacturers themselves usually stamp the jewellery both with their own individual identifying mark and the caratage or fineness. The European Commission wants to introduce a common system for guaranteeing standards of fineness within member countries of the European Community. Three strictly supervised systems are possible; either I) Hall- marking, 2) Quality control, according to the European norm on quality (EN 29000), or 3) Certificate of conformity by manufacturers, control- led by an independent third party.

The earliest known gold jewellery dates from the Sumer civilisation, which inhabited what is now southern Iraq around 3000 BC. Articles displaying various techniques such as repousse, chain- making, alloying and casting have been found in ancient Egyptian tombs, with the best known examples coming from the treasures of King Tutankhamun who died in 1352 BC. The Minoans on Crete produced the first known cable chain, still very popular today, and the Etruscans in Italy had developed granulation, whereby items are decorated with tiny granules of gold, by the 7th century BC.

Italy has remained at the forefront of the gold jewellery industry. The Italian Renaissance coincided with the discoveries of the New World sources of gold, and wealthy Italian patrons encouraged goldsmiths as they did painters and sculptors. The Spanish acquisition of South American gold, however, was achieved at the expense of the ancient heritage of Pre-Columbian goldsmiths. These craftsmen were producing exquisite items as early as 1200 BC and their art reached its zenith during the Chimu civilisation from the 12th to the I5th centuries AD, halted only by the mass looting and slaughter by the "conquistadors".

Historically, gold was a rare metal, afforded only by the wealthy. But the gold rushes to California and Australia in the mid- 19th century ushered in a new dimension of gold supply. They coincided, too, with the development of machinery for making chain and other articles and of a much wider consumer market. In the 20th century gold jewellery has come within the pocket of most people.

The way ahead was pointed by Italy, which has become jewellery manufacturer to the world, using over 400 tonnes of gold annually, more than two- thirds of it for export. Factories often housing several hundred ma- chines that "knit" gold wire into chain flourish in the towns of Aires, Bassoon del Grape and Vicenza. Important new centres emerged in the early 1990s, notably in Hong Kong, Singapore, Malaysia and Thailand, catering particularly for the rapidly growing market for chukka am (pure gold) jewellery in China, which requires several hundred tonnes a year. In Japan jewellery fabrication for the domestic market has become a major industry, using around 100 tonnes a year. Attitudes to jewellery still vary. In the industrial countries gold jewellery is primarily a fashion item. But in the Middle East and much of Asia gold ornaments are seen equally as investment; 22 carat articles are bought on a low mark-up of only 10-20 per cent over the gold price of the day, and may be traded in at a profit if the price rises or, more often, for new articles.

The importance of jewellery to the gold mining industry cannot be under-estimated. Between 1970 and 1992 around 65 per cent of all gold available to the market was used in jewellery, and from the late 1980's into the 1990's, it absorbed much of the rise in production. Since 1991 over 2,000 tonnes of gold has been used annually. The continuing success of the mining industry is inextricably linked with the fortunes of the jewellery trade.

Fifteen Fundamental Reasons for bullish run of Gold

1. Global Currency Debasement:

The US dollar is fundamentally & technically very weak and should fall dramatically. However, other countries are very reluctant to see their currencies appreciate and are resisting the fall of the US dollar. Thus, we are in the early stages of a massive global currency debasement, which will see tangibles, and most particularly gold, rise significantly in price.

2. Investment Demand for Gold is Accelerating:

When the crowd recognizes what is unfolding, they will seek an alternative to paper currencies and financial assets and this will create an enormous investment demand for gold. To facilitate this demand, a number of new vehicles like Central Gold Trust and gold Exchange Traded Funds (Elf's) are being created.

3. Alarming Financial Deterioration in the US:

In the space of two years, the federal government budget surplus has been transformed into a yawning deficit, which will persist as far as the eye can see. At the same time, the current account deficit has reached levels which have portended currency collapse in virtually every other instance in history.

4. Negative Real Interest Rates in Reserve Currency (US dollar):

To combat the deteriorating financial conditions in the US, interest rates have been dropped to rock bottom levels, real interest rates are now negative and, according to statements from the Fed spokesmen, are expected to remain so for some time. There has been a very strong historical relationship between negative real interest rates and stronger gold prices.

5. Dramatic Increases in Money Supply in the US and Other Nations:

US authorities are terrified about the prospects for deflation given the unprecedented debt burden at all levels of society in the US. Fed Governor Ben Bernanke is on record as saying the Fed has a printing press and will use it to combat deflation if necessary. Other nations are following in the US's footsteps and global money supply is accelerating. This is very gold friendly.

6. Existence of a Huge and Growing Gap between Mine Supply and Traditional Demand:

Gold mine supply is roughly 2500 tonnes per annum and traditional demand (jewellery, industrial users, etc.) has exceeded this by a considerable margin for a number of years. Some of this gap has been filled by recycled scrap but central bank gold has been the primary source of above-ground supply.

7. Mine Supply is Anticipated to Decline in the next Three to Four Years:

Even if traditional demand continues to erode due to ongoing worldwide economic weakness, the supply-demand imbalance is expected to persist due to a decline in mine supply. Mine supply will contract in the next several years, irrespective of gold prices, due to a dearth of exploration in the post Bre-X era, a shift away from high grading which was necessary for survival in the sub-economic gold price environment of the past five years and the natural exhaustion of existing mines.

8. Large Short Positions:

To fill the gap between mine supply and demand, central bank gold has been mobilized primarily through the leasing mechanism, which facilitated producer hedging and financial speculation. Strong evidence suggests that between 10,000 and 16,000 tonnes (30- 50% of all central bank gold) is currently in the market. This is owed to the central banks by the bullion banks, which are the counter party in the transactions.

9. Low Interest Rates Discourage Hedging:

Rates are low and falling. With low rates, there isn't sufficient contango to create higher prices in the out years. Thus there is little incentive to hedge, and gold producers are not only hedging, they are reducing their existing hedge positions, thus removing gold from the market.

10. Rising Gold Prices and Low Interest Rates Discourage Financial Speculation on the Short Side:

When gold prices were continuously falling and financial speculators could access central bank gold at a minimal leasing rate (0.5 - 1% per annum), sell it and reinvest the proceeds in a high yielding bond or Treasury bill, the trade was viewed as a lay up. Everyone did it and now there are numerous stale short positions. However, these trades now make no sense with a rising gold price and declining interest rates.

11. The Central Banks are Nearing an Inflection Point when they will be Reluctant to Provide more Gold to the Market:

The central banks have supplied too much already via the leasing mechanism. In addition, Far Eastern central banks who are accumulating enormous quantities of US dollars are rumored to be buyers of gold to diversify away from the US dollar.

12. Gold is Increasing in Popularity:

Gold is seen in a much more positive light in countries beginning to come to the forefront on the world scene. Prominent developing countries such as China, India and Russia have been accumulating gold. In fact, China with its 1.3 billion people recently established a National Gold Exchange and relaxed control over the asset. Demand in China is expected to rise sharply and could reach 500 tonnes in the next few years.

13. Gold as Money is Gaining Credence:

Islamic nations are investigating a currency backed by gold (the Gold Dinar), the new President of Argentina proposed, during his campaign, a gold backed peso as an antidote for the financial catastrophe which his country has experienced and Russia is talking about a fully convertible currency with gold backing.

14. Rising Geopolitical Tensions:

The deteriorating conditions in the Middle East, the US occupation of Iraq, the nuclear ambitions of North Korea and the growing conflict between the US and China due to China's refusal to allow its currency to appreciate against the US dollar headline the geopolitical issues, which could explode at anytime. A fearful public has a tendency to gravitate towards gold.

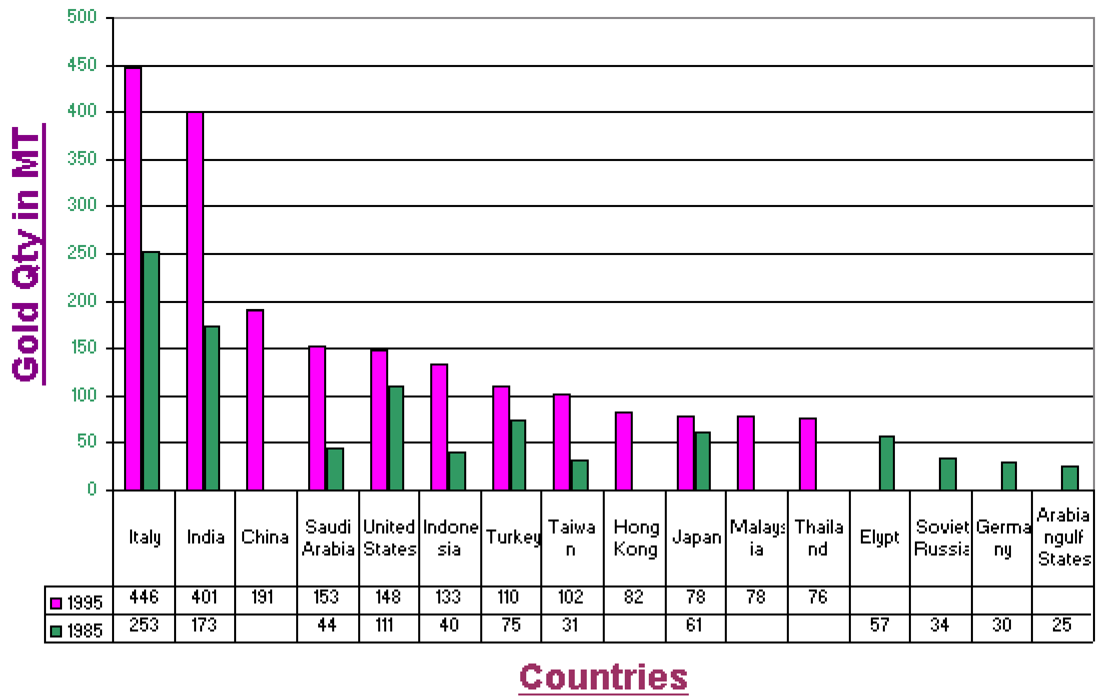
15. Limited Size of the Total Gold Market Provides Tremendous Leverage:

All the physical gold in existence is worth somewhat more than $1 trillion US dollars while the value of all the publicly traded gold companies in the world is less than $100 billion US dollars. When the fundamentals ultimately encourage a strong flow of capital towards gold and gold equities, the trillions upon trillions worth of paper money could propel both to unfathomably high levels.

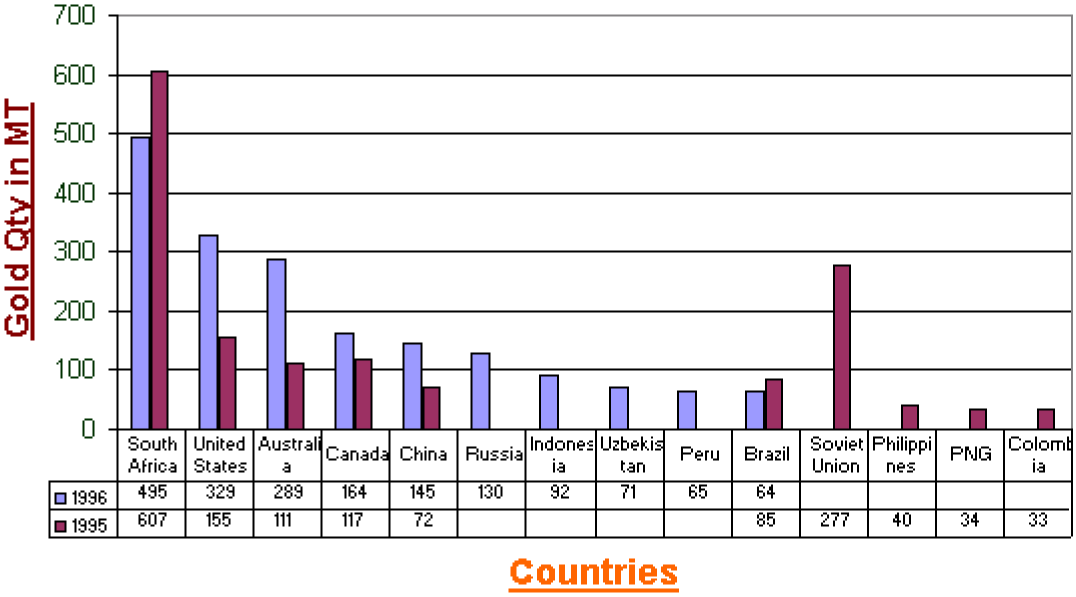
Conversion Tables

32.1507425 troy Ozs	1000 Grams (1-Kg)
1 Tr.oz	31.10348 Grams
3.74625 Tr.Oz.	1 TTB 0.999 purity
116.638 Grams	1 Ten Tola Bar
3.21186 Tr.Oz.	100 Grams 0.999 purity
3.19890 Tr.Oz	100 Grams 0.995 Purity

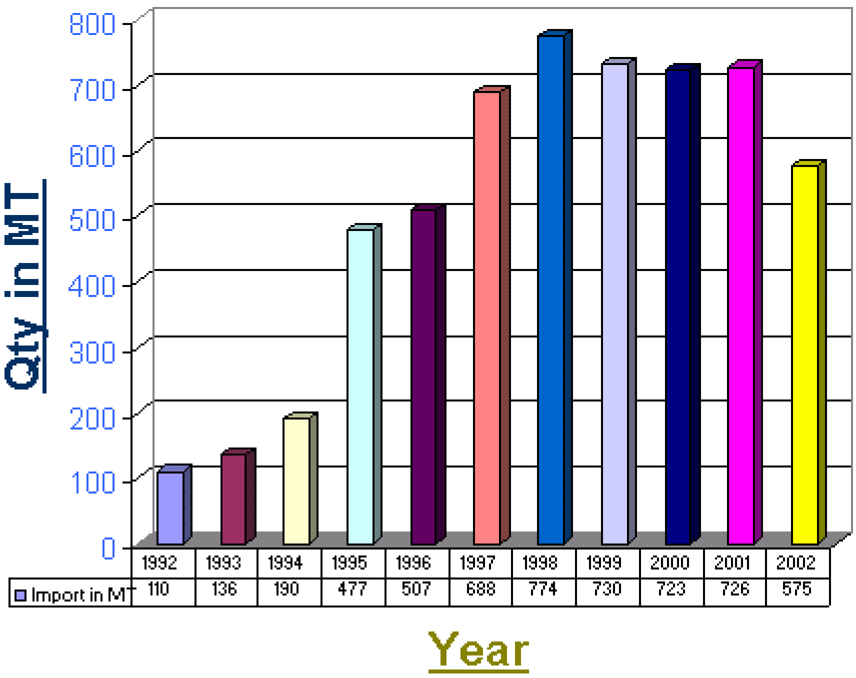
Top 12 Jewellery Fabricating Countries : 1985 & 1995



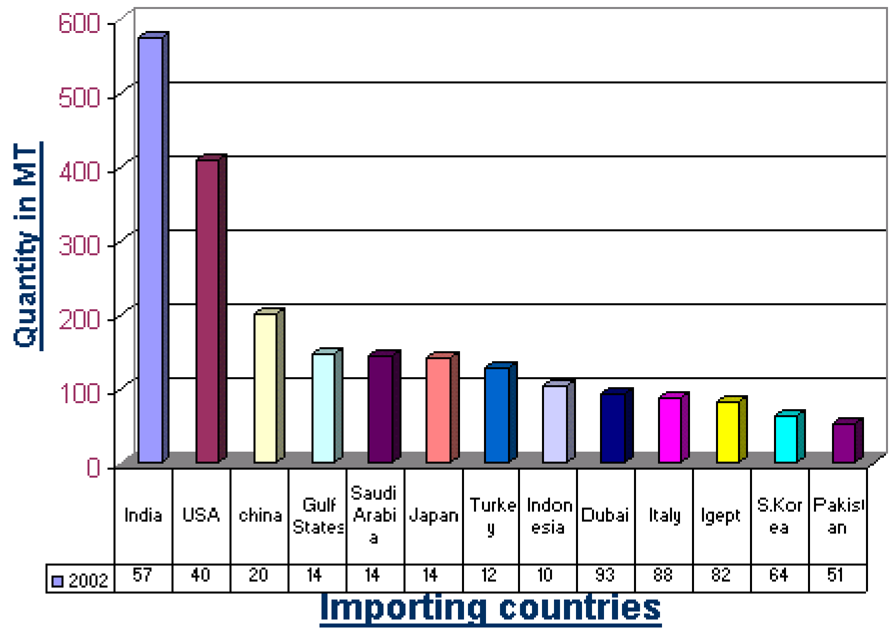
Top 10 Gold Producing Countries : 1995 & 1996



Gold Import in India



India as Largest Consumer of Gold - 2002



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