

Gold Market at a Glance – July 2008

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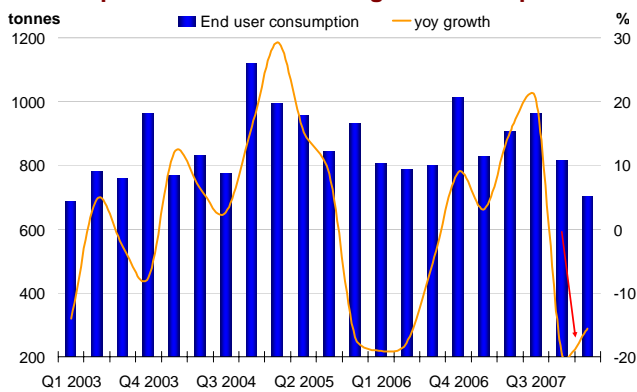
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Summary – weak physical demand dampens gold in the short term; trend forward is lower on US dollar

- End user gold consumption has fallen in year on year terms since late 2007. Highly volatile movements in gold prices have deterred consumption in India – the world’s largest gold consumer – leading to weaker global demand in 2008. In the first quarter of 2008, world consumer gold demand – consisting of jewellery and retail investment – was down around 23 per cent year on year.
- Dehedging has limited the downward pressure on gold prices – effectively removing gold from the spot market. However, reflecting the size of the global hedge book, dehedging is likely to slow in coming quarters, which may allow further softening in gold prices.
- Gold prices – in US dollar terms – are forecast to average US\$920 an ounce in 2008, a year on year increase of 32 per cent. Prices are expected to soften moderately in 2009, but remain at historically high levels. An appreciation in the US dollar and the expected reduction in dehedging are the key drivers to this decline.

Volatile price movements deter gold consumption – leading to weaker gold markets



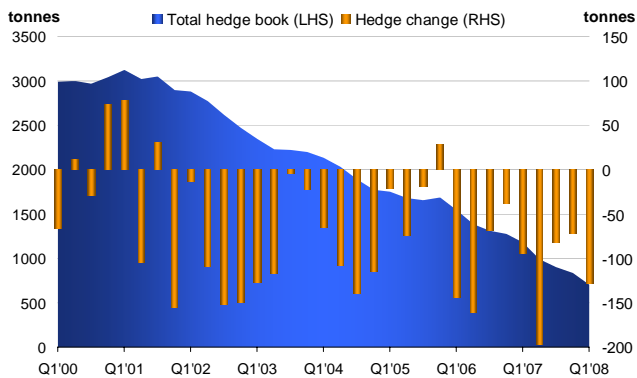
Gold prices reached nominal highs above US\$1000 an ounce in mid March 2008 – albeit these prices were well below the real price levels of 1980. The increasing volatility of prices in the first quarter contributed to weakening demand conditions in key regions – most notably India. According to the World Gold Council, Indian gold demand contracted by 50 per cent in the March quarter. As the largest single market for gold, the reduction had a significant impact on world consumer demand – which declined by 23 per cent year on year in the first quarter of 2008 (GFMS).

Total end user consumption of declined strongly in both the December quarter 2007 – traditionally the peak demand period for gold – and the March quarter 2008. Industrial use and total investment has also contracted over this period – though more gradually than jewellery demand.

Source: GFMS, NAB Group Economics

Dehedging by gold producers has limited the downward pressure in the short term, but should begin to slow

Gold producers have continued the trend of reducing the level of hedged production. By closing out forward obligations with



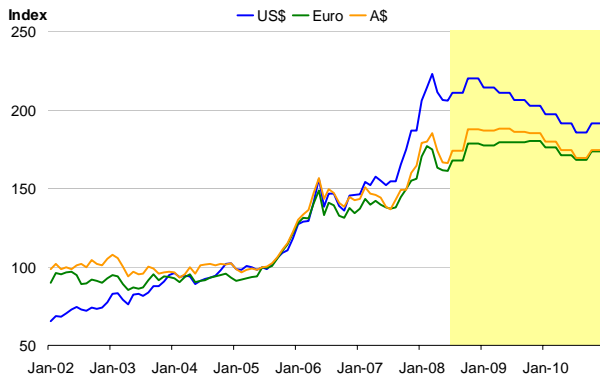
current production, the practice effectively reduces the available gold supply to the spot market. Hedging has been out of favour this decade, with the total global hedge book estimated at just 706 tonnes in the March quarter, compared with around 3000 tonnes at the start of 2000 (GFMS).

Reflecting the size of the global hedge book, dehedging is likely to slow in coming quarters – all else being equal, this will boost spot gold supply.

While dehedging has reduced spot supply, the increased availability of scrap gold – which tends to be closely tied to price movements – has helped to meet market demand. Scrap supply has increased by around 30 per cent in the first quarter of 2008 (GFMS). That said, scrap supply is highly variable.

Source: GFMS, NAB Group Economics

Gold prices to move moderately higher in the short term, but set to weaken on a strengthening US dollar



In the short term, gold prices are forecast to rise moderately – in line with concerns around energy markets and geopolitical tensions in the Middle East. Any further weakness in the US dollar is also likely to contribute to upward pressure in gold prices.

However, NAB forecasts an appreciation of the US dollar – in line with expectations of a recovery in the US economy in 2009 and the potential negative impact on European economies of ECB interest rate increases. This is likely to place some downward pressure on US dollar dominated gold prices, combined with a reduction in hedging.

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Source: Datastream, NAB Group Economics

Quarterly price profile

	Q1 08	Q2 08 f	Q3 08 f	Q4 08 f	Q1 09 f	Q2 09 f	Q3 09 f	Q4 09 f	Q1 10 f	Q2 10 f	Q3 10 f	Q4 10 f
Gold – USD	925.2	896.4	910.0	950.0	925.0	910.0	890.0	875.0	850.0	825.0	800.0	825.0
Gold - AUD	1020.7	949.7	978.5	1055.6	1051.1	1058.1	1047.1	1041.7	1011.9	982.1	952.4	982.1

Annual price profile

	2004	2005	2006	2007	2008 f	2009 f	2010 f
Gold – USD	409.79	445.09	604.09	697.14	920.41	900.00	825.00
Gold - AUD	556.42	584.45	801.50	830.46	1001.11	1049.50	982.14

Source: Datastream, NAB Group Economics