Alchemist

The London Bullion Market Association ISSUE 55 July 2009

LBMA

In this Issue:

The Scottish Thistle – First appeared on silver coins in 1470 during the reign of James III and from the early 16th century, it was incorporated into the Royal Arms of Scotland. In this edition, the *Alchemist* looks ahead to the LBMA's annual Precious Metals Conference in Edinburgh.

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How Might Gold Perform During a Period of Deflation?

By Nicholas Brooks, Head of Research and Investment Strategy, ETF Securities

It is well known that gold tends to perform well during periods of high inflation. It is less well known how gold might perform during a period of global deflation.

In a high inflation environment (or in anticipation of one) investors increase in their demand for gold as a hedge against the erosion of the real purchasing power of paper currency. In a period of global deflation investors and the public increase their demand for gold as a hedge against paper currency debasement, a hedge against financial counterparty failure and the rising risk of private and public sector default.

Most analyses have focused on gold's outperformance during periods of high inflation. Less has been written about gold's performance during periods of global deflation, mainly because there are few examples of global deflation in the past century. During the only extended period of global deflation – the Great Depression of the 1930s – the gold price was fixed as most countries were on the gold standard, making it difficult to analyse gold demand during the period.

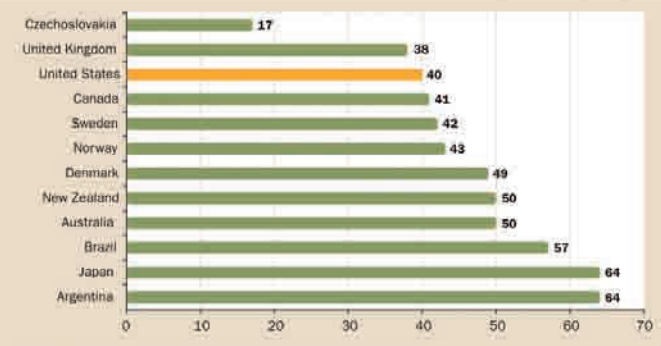
Pent-up Demand for Gold During the Great Depression

One way to get an idea of how gold might have performed if it had been allowed to trade freely is to look at how gold appreciated against individual countries' parity rates as countries went off the gold standard in the 1931-34 period. As can be seen in Figure 1, the gold price surged against most currencies once they freed themselves from the fixed rate, implying substantial pent-up demand built up during the deflationary years.

Loss of Confidence in Paper Money During Periods of Deflation

There is a clear logic to why gold demand should rise during periods of global deflation. Most periods of deflation are accompanied by sharp declines in domestic demand and systemic financial sector problems. Governments and central banks are forced to step in aggressively to offset the slowdown in private sector demand and repair the balance sheets of financial institutions. This generally leads to large injections of paper currency into the financial system and sharply higher government debt levels.

Figure 1: Percent Appreciation of Gold Relative to 1929 Currency Gold Parities (as of March 31 1934)



Source: Golden Fetters: The Gold Standard and the Great Depression, Barry Eichengreen

As the supply of currency rises and concerns about debt levels rise, investors fear paper currency devaluation and look for alternative assets to hold. In addition, concerns about financial institution – and even government – solvency and counterparty risk raises demand for alternatives to paper currency.

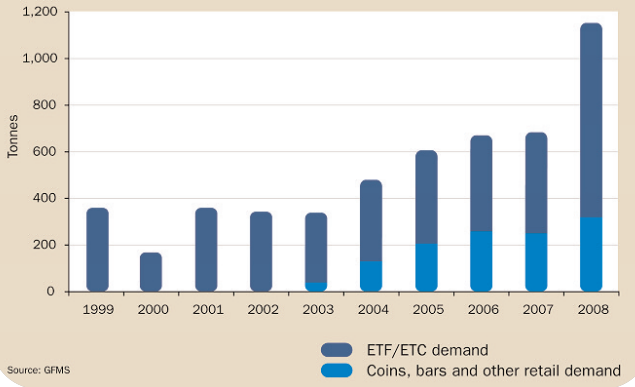
In an environment like today's, when all major economies are facing severe recession, potential deflation, systemic financial sector crisis and the risk of currency devaluation (similar to the situation during the Great Depression), gold stands out as the main alternative to paper currencies.

Confiscation Risk Low as No Policy Link to Gold4

During the Great Depression, when the gold price was fixed, demand for gold manifested itself in large declines in the government's gold stocks as the public and investors (domestic and foreign) demanded gold in exchange for their dollars. Ultimately, as gold reserves fell towards mandatory minimum levels in early 1933, Roosevelt was forced to require the surrender of all gold held by the public at a predetermined price, halt gold exports, and devalue the dollar against gold. It was either that or completely remove the link to gold.

It is important to emphasise that in the current situation, where there is no policy link to gold, there is no similar rationale for governments to confiscate gold as there is no artificial peg to gold restraining their policy options.

Figure 2: Investment Demand for Gold



Source: GFMS

Under the gold standard that prevailed in the run-up to and through much of what is now known as the Great Depression, governments were forced to artificially support their currencies to maintain their parity rates, thus restricting their ability to reflate their economies through aggressive monetary stimulus. It was a classic case of the "macroeconomic trilemma", where policy makers under an open capital account are able to control their monetary policy or their exchange rate, but not both. In fact, many economists directly blame the policy restrictions caused by rigid gold pegs for turning what might have been a modest recession into a severe global depression.

Roosevelt chose to effectively close down the public's ability to convert into gold in order to regain control over monetary policy. Today, with no major currency pegs to gold, there are no artificial constraints on monetary policies and therefore no need for governments to confiscate gold. In fact, any direct meddling in the gold markets by governments would likely be counterproductive by increasing investor anxiety and encouraging a rush to other hard assets such as silver or other precious metals.

While there are no gold pegs to break today, this does not mean that a similar gold price dynamic will not evolve. During the Great Depression, as the pressure on governments to reflate became unbearable, pegs were released and currencies fell sharply against gold, much like water breaking through a dam (see Figure 1).

In a world of relatively flexible exchange rates, there is no dam to break. A more likely scenario is a gradual but steady flow of assets away from paper currencies towards hard assets – particularly gold – as governments step up reflationary policies and their debt levels build. Already this is being reflected in rapidly growing investment demand for gold as illustrated by the GFMS statistics below.

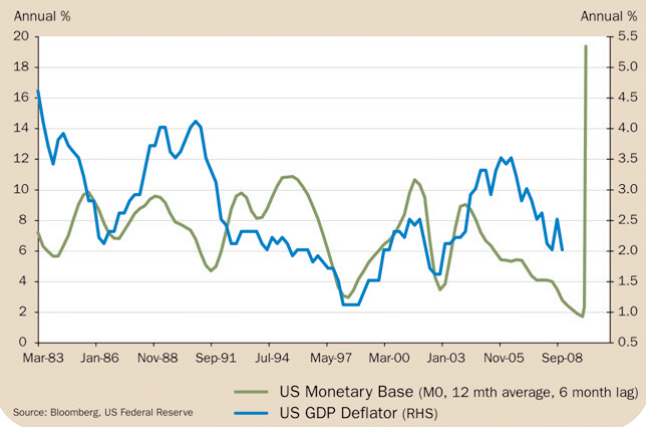
Exchange Traded Commodities (ETCs) and ETFs have become one of the main ways for investors and the public to gain access to physical gold. Assets in gold ETCs rose to over $53bn by the end of May 2009, up from less than $5bn only four years ago. Flows into ETCs have continued to build even during periods when the gold price has been falling, indicating that strategic investors are increasingly using ETCs to build long-term positions in gold.

ETF Securities, physically-backed gold ETCs, ETFS Physical Gold (PHAU) and Gold Bullion Securities (GBS) have seen over $2bn of new inflows over the past 12 months and over $1.4bn since the beginning of the year. Total gold holdings of these two ETCs now stand at $7.1bn, the largest ETF holdings in Europe and second largest in the world.

Deflation Followed By High Inflation

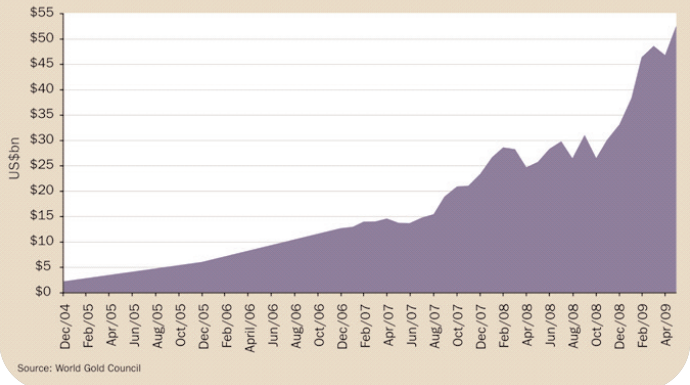
There is a risk that the massive monetary stimulus being injected across world financial systems will eventually find its way into real economies and ultimately into prices. It is hoped, of course, that central banks will be given the political leeway to retract the monetary stimulus before high inflation becomes entrenched. Unfortunately, history shows that great monetary stimulus is often followed by rapid inflation increases. Certainly, this was the case after the Great Depression, when deflation was swiftly followed by high inflation. As Figure 4 shows, we are now seeing an unprecedented surge in US base money growth. Although the lags can be long (depending on economic and policy conditions and the time it takes to repair banks' balance sheets), there is a clear link between money growth and inflation. If history is anything to go by, after a period of deflation, the world may swiftly move into a high inflation environment. If this scenario plays out, gold will likely be a strong outperformer for many years to come. ■

Figure 4: US Base Money Growth and Inflation



Source: Bloomberg, US Federal Reserve

Figure 3: World Physically-Backed Gold ETF/ETC Holdings



Source: World Gold Council

Nicholas Brooks

is Head of Research and investment strategy for the ETF Securities group of companies. Nicholas has over 15 years' experience as a global economist and strategist, covering a wide range of markets and asset classes.

Prior to joining ETF Securities, Nicholas was a senior member of Henderson Global Investors' asset allocation and strategy team based in London. Before that he was senior economist on Deutsche Bank's top- ranked Global Markets strategy and economics team.

He started his career at Citibank in New York. Nicholas has a BA from Brown University, an MA from Columbia University, a MSc in Economics from the University of London. ■

Gold and Silver Clearing

"Loco London" Through the Central Hub Developed by London Precious Metal Clearing Ltd

By Peter L.Smith, Executive Director, JPMorgan Chase Bank NA

The LBMA has requested that I provide some additional clarity on the methodology employed to develop the monthly clearing statistics. Since my original article about London bullion clearing for the Alchemist (issue number 6) written a distant 13 years ago, much has changed, but much has also remained the same.

For example, I said back then that not everyone would be familiar with what was behind the phrase "Loco London" or its significance in comparison to the volume of bullion business worldwide. It was a phrase added routinely at the conclusion of a bullion transaction, or used by commentators when analysing the importance of the London bullion markets.

The then reality of London being the global clearing centre for OTC traded gold and silver remains as true today as ever and, perhaps even more so, with the rising establishment and growth of several new exchange traded bullion markets and platforms around the globe impacting upon London OTC bullion trading volumes. In fact, OTC Loco London is usually the preferred market to use when squaring off any exchange positions, and the general level of bullion cleared "Loco London" remains very robust. To date, in 2009, the average value of gold and silver cleared is in excess of $20 billion each business day (see graph or for detailed bullion clearing statistics, please visit the LBMA website, which publishes the data each month under "Market Statistics").

On the other hand, back in 1996, there were eight Clearing Members but, with some painful realignment of priorities, two members have since decided to exit the Loco London gold and silver clearing business.

Today, the remaining six bullion clearers, each a major bank, are the joint shareholders who created "London Precious Metals Clearing Ltd" (LPMCL), which owns and runs the central clearing system for the daily settlement of gold and silver transfers. These six members of LPMCL are:

- Barclays Bank PLC,
- Deutsche Bank AG – London Branch,
- HSBC Bank USA National Association – London Branch,
- JP Morgan Chase Bank NA – London Branch,
- The Bank of Nova Scotia – ScotiaMocatta,
- UBS AG.

Thirteen years ago, the bullion clearers were exchanging transfers between themselves by telephone instructions – a situation that was causing considerable problems in the control and audit departments within those banks.

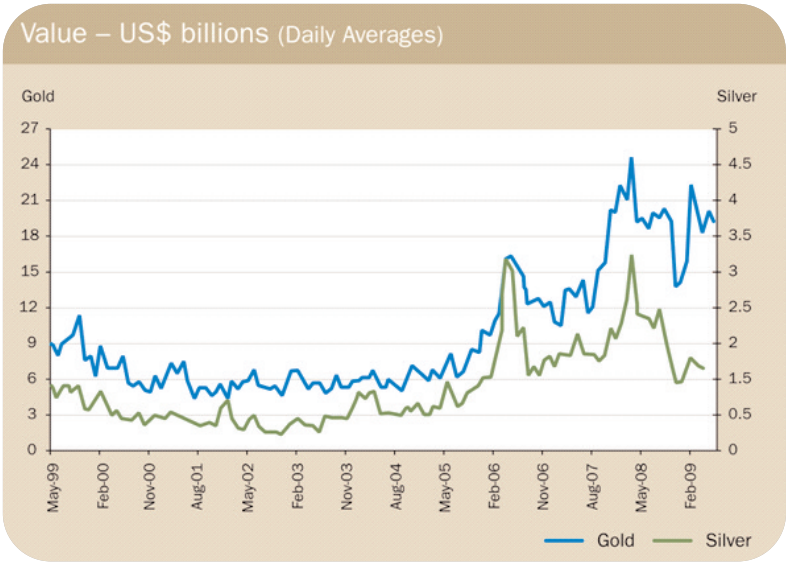
Because of those concerns, the clearers realised that the only sensible and secure solution was to develop a central clearing hub, where transfer instructions could be up loaded and matched. This resulted in the establishment of LPMCL in April 2001.

For more detailed information regarding LPMCL, please visit its website – www.lpmcl.com. The six bullion clearers provide the LBMA with figures for amounts cleared each month, taking three measures for each of gold and silver:

Volume: The amount of metal transferred on average each day measured in millions of troy ounces.

Value: The value measured in USD, calculated by multiplying the voume figure by the monthly average London pm fixing price for gold and the average London fixing price for silver.

Number of Transfers: The average number recorded each day.



For these figures to be correctly understood,it is necessary to give some definitions. The figures contain:

a) Loco London book transfers from one party in a Clearing Member's books to another party in the same member's books or in the books of another Clearing Member

b) Physical transfers and shipments by a Clearing member, both for its own account and on behalf of a client.

c) Transfers between a clearing member and the Bank of England, all such transfers involving the Bank of England are "physical" and may also be for either the account of the clearing member itself or on behalf of a client.

Most importantly, when collating these statistics, in order to eliminate "double counting", only the debit side of each transfer transaction is recorded by each clearing member.

Accordingly, we are confident that the reported statistics are not over-inflated.

However, it should be pointed out that as virtually all gold and silver wholesale traders net all their trades for the same value date, with each of their counterparties, the clearing statistics mask the actual underlying value of daily Loco London OTC trading. In my opinion, the numbers are probably understated by as much as a factor of three times, or possibly even more during busy market periods / periods of high volatility in the market.

Excluded completely from the statistics are: allocated and unallocated balance transfers between clearing members, where the sole purpose is to reduce or eliminate overnight credit risks.

Thus if clearing member "1" has an unallocated gold and/or silver balance at clearing member "2", which when valued at current market prices creates a value in excess of the overnight risk limit, as approved by its Credit Department, then clearing member "1" has two possible options:

a) It can either ask clearing member "2" to transfer an amount of gold and/or silver to another Clearing Member where there is some unused credit capacity sufficient to eliminate the excess credit exposure at Clearing Member "2",

b) or alternatively, they can ask Clearing Member "2" to allocate an amount of gold and/or silver in their own vaults, or an alternative mutually acceptable vault, sufficient to extinguish the excess credit exposure.

London being the global clearing centre for OTC traded gold and silver remains as true today as ever and, perhaps even more so, with the rising establishment and growth of several new exchange traded bullion markets and platforms around the globe impacting upon London OTC bullion trading volumes.

Physical movements arranged by Clearing Members in locations other than London; for example, a shipment of physical gold or silver bars from a Clearing Member's stock held in say Zurich to Istanbul would not be included in the statistics.

This position is treated in the same way for such movements for the Clearing Member for their own account, as well as for movements effected for and on behalf of a Client of the Clearing Member.

The LPMCL Clearing hub (AURUM) has proven to be reliable and, over the last 18 months or so, has been a true boon for the Clearing Members' back office staff who had to cope with significant volume increases as the market heated up in response to the global credit crisis. Without the efficiency of the system, there would have been many more late nights and, with the heightened concentration on risk, the controls people would have been faced with would have created a much more complex task manually trying to determine underlying exposures.

In these fast-moving times, the market through LPMCL is continuing to adapt to events and challenges. A couple of issues that will shortly impact the clearing include a request from The London Platinum and Palladium Market to provide "Loco London" clearing for later this year. Additionally, certain Exchanges are currently developing systems for "cleared gold forwards", the earliest of which is planning to launch imminently.

Fundamentally it is still true that much of the clearing methodology remains unchanged, with the main driver in today's market place being the need to achieve greater efficiency in delivery and accuracy to handle large volumes which, in turn, requires continual technological development. ■

Peter L. Smith

is an Executive Director at JPMorgan Chase Bank NA., London and Global Head of Physical Precious Metals Marketing, Clearing and Vaulting.

Peter joined JPMorgan's credit department in 1970, becoming Department Head in 1974.

Since the development of JPMorgan's bullion trading business in late1979, Peter ran the bullion mid and back office for London. For the last nine years he has marketed JPMorgan's bullion clearing and vaulting services, and been responsible for global physical precious metal transactions.

Peter has been involved with the London Bullion Market Association, since the inauguration of the Physical Committee in 1987, and as the PC Chairman since 1992.

He is Chairman at London Precious Metals Clearing Limited, which runs the centralised system for the daily settlement of precious metals in London. He recently joined the Management Committee of the London Platinum and Palladium Market as Vice Chairman. ■

Jeremy Charles:

HSBC to HSBC via the Scenic Route

By Jeremy Charles, Managing Director, HSBC Bank USA NA

As Jeremy Charles stepped down as the LBMA Chairman in June, the Alchemist retraces his steps to find out about his experiences and views on the London bullion market.

What attracted you to work in bullion in the first place?

A: I think that like many people who are involved in the London market now, it all happened by complete accident. At school, I was interested in maths and geography and had an interest in the natural world, which is about as far away from the bullion business as you could possibly get.

Q: How did you get your first job?

A: I left school at 19 with a very arrogant attitude of "I'm fed up of being told what to do!" I'd spent four years at Trent College, a private school in Nottingham, for the latter part of my education and although I had a wonderful time there, I felt I'd had enough and that the time had come to find a job.

Unfortunately, during the mid 1970s, the UK was not in a strong economic position and there were few jobs available in industry. As a result, I was stuck in deepest darkest Derby with very limited prospects, until I saw an advertisement in one of the newspapers looking for "someone with 2 A levels who enjoys travel". That small ad really appealed and I thought: "That's for me!"

I came down to London for the interview, which turned out to be at HSBC. They offered me the job on the basis that I got two suitable grades at "A"-level, but to my horror, when I finally received the letter informing me of my grades, I'd missed out by the smallest of margins and, as a result, they were unable to offer me the job. So there I was at the end of summer 1975 with no job. I then wrote off to a few other banks on the off-chance and one of those I'd contacted, N M Rothschilds, called me up almost immediately for an interview. I was offered the job on the Friday and I said I'd start on the following Monday, without even thinking about it or talking to my parents about it. I moved down to London over the weekend, and that was it! On my first day in the job, I was told I was in the Bullion Department; I thought the very imposing HR lady said the bullying department, which sounded quite interesting if a little unusual for a bank but anyway, I just wanted to earn some money and be independent.

Q: What were you doing in your first job at Rothschild?

A: My first responsibility in my new job was looking after the Comex margining. Comex was a relatively new exchange at that time: that was where it all began for me. When I joined, the bank had just taken on 12 young people, the result of which was to lower the average employee age, very considerably; I had a fantastic time at Rothschild. The 12 of us, 18/19-year-olds amongst all these mature people, was just great. We'd do childish things like swap the managers' desks around; and for all of us, it was just going straight from school to an environment that we treated just like school, but where I was getting paid for it! It was a lot of fun and we had some hilarious times there. I really look back with great affection and gratitude for the time I spent at that brilliant institution.

Q: How did your career progress?

A: At Rothschild, I covered every aspect of the operations side, which really was a great foundation for me. I was based in Croydon where the operations staff were situated. The dealing room and all the senior people were up at New Court. I was normally in at 7 in the morning, and would pop out for my breakfast and to read the papers at about 9 o'clock. I never asked anyone or told them where I was going; I just went out when everyone else was arriving. I did this every day for three years without even thinking about it, but it turned out to be a bit of a mystery among my colleagues, so much so that one morning they followed me to find out where I was going! I'm sure that the 'English & Continental' still serves up tea and toast in the Whitgift Centre.

Some of the graduates would come down from New Court and spend a morning with us, listening to what we had to say and spending some time in the operations before going to the dealing room. I remember John Bishop, who went on to be a very senior employee at Rothschild, asking me about the Comex margining. He was on the graduate training scheme and was going on to the dealing room. I thought this sounded very exciting and after three years of being there, I had decided that a "dealer" was the career I now wanted, even though I had no idea what that actually entailed.

The English & Continental, Croydon

There weren't any vacancies at that time and I was told to come back in six months, but after waiting for what seemed to be forever, there was still nothing available due to the graduate training scheme, and I left Rothschild to look for pastures new and along came Johnson Matthey Bankers. The average age at Johnson Matthey was much lower than at Rothschilds. I was surrounded by lots of young people all of whom seemed to share a common goal – do a good day's work and then go down the pub for six hours.

When I was interviewed by JMB, I'd said I wanted a chance in the dealing room, but they

wanted me in the operations department. They had a lot of relatively inexperienced people in operations at that time and they said if I spent some time there they'd then give me a chance in the dealing room.

Soon after I joined, I identified a serious flaw in a number of accounts, which I mentioned to a 60-year-old manager, who didn't take too kindly to a 22-year-old telling him he wasn't doing things correctly. To his credit, however, I was given sufficient opportunity to explain the situation and I was proven right. I discovered a $110,000 error on one account alone, which had to go to the board for ratification.

If you wanted a chance in the dealing room, the bank would give you a three-month time frame to prove yourself and for you to find out: a) did you like it and b) did the dealers and managers like you. I got my chance in a memorable year for gold: 1980!

I was very fortunate because half way through my three-month trial, the bank suddenly announced that it was opening an office in New York. All of our senior dealers were sent out to New York, so even though I was a trainee still getting the teas in for the dealers, I was going to have to run one of the books. It really was a case of sink or swim. I remember the first two deals I did, which were in platinum. I made $1,000 and you wouldn't believe how much I boasted to my friends about the fact I'd now "made it", followed of course by a good six-hour session celebrating my new-found career.

Q: Were you involved in the fixing at Johnson Matthey Bankers?

A: Yes: I remember going to the fixing in a very grand room at Rothschild, where you have your Union Jack flag on your desk and you had to perform what was initially a very difficult task, listening to what the other four members were saying as well as taking the instructions you were receiving from your dealing room. Going there for the first time on your own was always a frightening experience given the mystique surrounding the gold fixing.

I remember one day, Martin Stokes, the chief gold trader at that time, telling me he was short of gold and that he was hoping the fixing price would fall sufficiently far for him to take his short position back for a suitable profit. The instruction I received, however, was to sell 40 bars, which at the time was quite a lot of gold. I was also told at the same time that whatever happened "do not let the price fix". I put my declaration in "Johnson Matthey a seller". The figures came over:

Jeremy opening the conference in Kyoto.

"Johnson Matthey offer 40 bars. Rothschild buy 40 bars." Fixed. My heart sank and I thought "Oh dear, I'm sure that's not what Martin wanted… my dealing career has been a short-lived experience and I am going to be fired." On my return to the office, however, Martin was very calm and said that it wasn't my fault in any way. I really respected Martin for taking that attitude and it was one of the many lessons I learned from some of the tremendous people who I worked with.

Q: What memorable experiences did you have during your time at JMB?

A: There were many, but I guess the most memorable would have to be the infamous Brinks-Mat job, a £26 million bullion robbery of 6,800 of our gold bars! We were large players in the physical markets during the 1980s and we had arranged for a large shipment of gold to be sent out to Singapore. The delivery was due to go to two of our clients and had been prepared for shipment over the weekend of the 26 November 1983. The gold had been handed over to the transportation company for delivery and as we left the office on Friday evening, no one had any idea that our gold would become the most high-profile crime ever to take place in the UK! My job was to contact the unfortunate recipients of this delivery to inform them that due to "unforeseen circumstances", there would be a small delay in the delivery of their metal. I don't recall the responses from our clients but I'm sure that they never imagined it would be due to the UK's largest crime!

Q: Are there any people still in the market with you from the JMB days?

A: Yes, there are still a lot of people in the market who will recall those JMB days very well, it was a fantastic grounding. Gerry Robinson and Simon Churchill were both in the operations side with me at JMB. Martin Stokes, David Spraggs, Rupert Prest, David Corcoran and Clive Turner all spent a lot of time at JMB, and of course my great friend David Rose, who I still work with after 26 years.

Q: How did JMB eventually "become" HSBC?

A: Johnson Matthey Bankers were taken over in 1984, after someone managed to lend out pretty much the entire bank's capital and then didn't get paid back. Fortunately for me, JMB held a lot of central bank accounts in gold and so the Bank of England had to step in. The Bank was concerned about systemic risk to the gold market as JMB was such a big clearer. I worked for the Bank of England for about a year before the company was bought by Mase Westpac. Mase was started by Warren Maji, who had come up with a novel idea to offer gold loans for financing gold mines in Australia. It was a very entrepreneurial business and the idea enabled the industry to expand massively across the globe.

Westpac sold the business to Republic National Bank, whose prime business was trading. Republic was not keen on the producer side of the business, but did like the physical and the trading business. The centre of Republic's business was in New York, but as we were based in London, we did give them the global reach they were looking for at that time. There was a very limited management structure at Republic, which enabled it to be extremely dynamic. I don't recall there being a compliance officer at the Bank and I certainly never met one. There were no written contracts that I can recall and it appeared that business was done on the shake of a hand. Oh how times have changed!

At the end of 1999, HSBC bought Republic National Bank primarily for the private bank business. However, with this business came two unusual niche businesses, the Precious Metals and Banknotes, which were both then integrated into HSBC's infrastructure.

It was an Aladdin's cave for me coming from Republic, where we had no corporate customers. Suddenly I had thousands of corporate opportunities. At HSBC, Rep Nat had brought the trading business, but I now had industrial consumers, and all of a sudden there was another area of business that I could turn my attention to and I loved it. HSBC was the icing on my cake as far as career was concerned. I had the world open to me and I had every type of

client, every type of institution, the infrastructure support and the backing to do any sort of business I wanted to do. They did have a compliance officer, many in fact!, and something called documentation that apparently clients all had to sign.

Q: What is the biggest change you have seen since you joined the business?

A: In 2002, someone who I'd never heard of before, Graham Tuckwell, called me up completely out of the blue with an idea he wanted to talk to me about. His idea was to offer securities on the Australian Stock Exchange that would be 100% backed with physical gold. I thought this was an interesting idea but at the time, I never realised it would be as successful as it has become. Together with Graham and two of my HSBC colleagues, we developed the first gold ETF, which was launched on the Australian Stock Exchange in 2002. Other ETFs later came along and, for me, the growth and development of this business has been the most significant change since I joined the business in 1975.

Q: What was your first experience of the LBMA?

A: When I joined the LBMA, there was very much a focus on the physical aspects of the business, which I had always been fascinated by. I felt the LBMA would be good for business, and a good place to make new contacts. As time has passed, however, it became more of an opportunity to use my experience for the benefit of the London market as a whole. There have been a lot of threats to London's position over the years and it would have been easy to ignore that threat. I simply could not do that.

Q: How has London's role changed over the years?

A: The change has been enormous. A number of people tell me that London's influence has diminished, but that is not the case at all. I think the trading volumes may have slowed down but the reason for that is due to the fragmentation. A lot of global markets now compete with the OTC market.

Jeremy receiving his award for his time as Chairman

Spot trading has changed and of course a lot of people focus on spot trading, but that is not only what the OTC market is about. What you can't forget is that London's products and services are much broader than just the spot trading element.

The LBMA's Good Delivery List is used by every major exchange, and people realise globally that the experience and the expertise to know what a physical gold bar actually is basically resides in London's vaults. Government authorities come from around the world and look at how the institutions structure themselves and how the market works here. They come to us from a customer's perspective, from a regulatory perspective and from an operational perspective. This role of the London market is much more important than most people realise. Also the range of products and services has grown enormously and London's influence is greater now than at any time in the past.

Q: What about the role of the forward market and the challenges that lie ahead?

Jeremy in 6-hour mode

A: The forward market is significant and the reason for this is that it provides the foundation for most of the bullion financing that goes on around the world. There are many contracts based on a Libor minus GOFO plus a credit spread and the LBMA's provision of the GOFO benchmark is of crucial importance to all those who make deposits, take loans or trade as a result of these activities. Being responsible for this benchmark is a vital role of the LBMA.

A number of exchanges are interested in providing a solution to mitigate credit risk in the forward OTC market. This is definitely going to happen and the LBMA members need to understand and embrace this idea, and take it forward. In my opinion, it is not appropriate for the LBMA to give direction to the members on this matter. I think when we reach implementation, it will be a big benefit to the OTC market as a whole, but those discussions are ongoing and I'm sure that the winners will be those who are able to provide the right service at the right price in the right regulatory environment.

Q: Now that you are no longer the LBMA Chairman, what are you going to do with all of this spare time?

A: Well perhaps I should start off by saying that the experience I gained at the LBMA was invaluable. It opened my eyes to another aspect of the business and I am extremely grateful to both the Executive and to the Management Committee members for giving me such tremendous support during my time at the LBMA. I would really encourage everyone to participate in some way at the Association.

We are entering a new age and we as a market have got to be forward thinking. That is going to require a new set of people with a fresh set of ideas, who are going to be plugged into the needs of tomorrow's market as well as today's. As for myself, I'm not sure that I will have any spare time. I have a large business to manage at HSBC, which I find extremely enjoyable as well as challenging and that's probably enough to keep me on my toes for the time being. Those six-hour evenings sound quite tempting again too though. Anyone for a pint? ■

2009 LBMA Precious Metals Conference

By Ruth Crowell, Executive Coordinator, LBMA

Conference Programme Announced & Registration Now Open

The tenth annual LBMA Precious Metals Conference will be held at the Balmoral Hotel in Edinburgh Scotland. The Balmoral is a historic British railway hotel, located in the heart of Edinburgh at 1 Princes Street.

Networking opportunities begin with the LBMA Welcome Reception, on Sunday, 1st November, 2009. The Welcome Reception and will take place in the Sir Walter Scott Suite of the Balmoral Hotel. Monday evening delegates will have the opportunity to enjoy authentic Scottish culture as well as networking at the LBMA Drinks Reception and Conference Dinner.

Paul Mercier of the European Central Bank will open the Conference with a keynote speech, followed by Michael Cross of the Bank of England. Sessions will include in-depth discussions of the impact of the financial crisis on the precious metals industry, precious metals investment, silver, PGMs and a panel discussion on the future of the London precious metals market.

There's a place for all market players at the LBMA Conference – make sure to reserve yours now.

Sunday, 1 November

Welcome Reception

Day 1 – Monday, 2 November

Opening Session:

Welcome – LBMA Chief Executive

Introductory Remarks

LBMA Chairman, Kevin Andrew Crisp, Mitsubishi Corporation UK plc

Keynote Speech

Paul Mercier, Deputy Director General of Market Operations, European Central Bank

The Role of the Bank of England – Michael Cross, Head of Foreign Exchange, Bank of England

Session 2: Impact of the Financial Crisis on the Precious Metals Industry

Chairman – Steven Lowe, Bank of Nova Scotia, ScotiaMocatta

Issues Facing Producers – Mark Lynam, Executive Officer, AngloGold Ashanti Limited

Issues Facing the Jewellery Industry – Aram Shishmanian, Chief Executive Officer, World Gold Council

Issues Facing Refiners & Fabricators – Mehdi Barkhordar, Managing Director, PAMP

Session 3: Precious Metals Investment

Chairman – James Cross, Swiss Gold DMCC

Macro Outlook for the World Economy and Currencies

David McWilliams, Economist

The ETF Market – Stephen Mueller, Executive Director, Bank Julius Baer & Co. Ltd

Thoughts on Gold's Place in a Portfolio – Larry Hatheway, UBS

Session 4: PGMs: Looking Forward

Chairman – Edel Tully, Research Analyst, Mitsui Global Precious Metals

The Auto Catalyst Market – The Next Decade, TBA

Chinese Platinum Market – Phillip Klapwijk, Executive Chairman, GFMS

PGMs – The Investor Arena

Michael Sheehen, Portfolio Manager, Red Kite Capital Management LLP

Day Two – Tuesday, 3 November

Session 5: Silver

Chairman – Michael DiRienzo, Executive Director, Silver Institute

Prospects for Silver Supply & Demand – Jessica Cross, CEO, Virtual Metals

London's Role in the Silver Market – James Steel, Precious Metals Analyst, HSBC

Mining in Peru – Roque Benavides, Buenaventura, Silver

Session 6: The Future of the London Precious Metals Market

Chairman – Stephen Branton-Speak, Goldman Sachs

Panel: Phil Clewes-Garner, LPPM Chairman

Raymond Key, Managing Director, Deutsche Bank

Kamal Naqvi, Director, Credit Suisse

Session 7: Delegate Feedback & Closing Session

Chairman – Stewart Murray, Chief Executive, LBMA

Conference Summary – John Reade, Metals Strategist, UBS Investment Bank

Prizes Presentation – Best Speaker and Feedback Session Participant. ■

LBMA Certified Reference Materials

Gold Project Final Update

By Stewart Murray, Chief Executive, LBMA

The LBMA Gold Certified Reference Materials (CRMs) are now being distributed to the purchasers. Full details of the materials are shown in the Analysis Certificate. Here, Stewart Murray (himself a lapsed metallurgist) tells the story of the project's origins, development and successful conclusion.

The real start of the project was in mid-2006 when Dr Mike Hinds suggested that he contribute a paper on the manufacture of silver reference materials for the LBMA's Assaying Seminar in March 2007. This described a collaborative venture between the Royal Canadian Mint and the Rand Refinery to produce solid sample silver reference materials (a venture which had in turn originated at the LBMA's 2005 Assaying Seminar). Dr Hinds also suggested that the LBMA should survey the refiners on the Good Delivery List about their possible interest in an extension of this work. This survey was carried out in early 2007, allowing the scope of a possible project to be outlined. A more detailed survey was initiated in May 2007 which demonstrated a significant level of support for the idea of a cooperative venture to produce and sell solid Certified Reference Materials (CRMs) in high-purity gold and silver. The survey also asked Good Delivery refiners to indicate whether they would be interested in participating in the manufacture or assaying of the materials or serving on the Steering Committee to oversee it.

By mid-2007, the Steering Committee had been established under the Chairmanship of Mike Hinds (the members of the Committee as well as the selected assay laboratories are shown in the Certificate).

The rest of 2007 was devoted to a whole range of issues, including the specification for the materials and a budget for presentation to the LBMA. The budget hurdle was a particularly tough one to overcome, in that the LBMA was concerned about its financial exposure if the project were to fail (whether on technical grounds or from want of purchasers). But Mike Hinds was able to persuade the LBMA Chairman and the Chairman of the Physical Committee that with certain safeguards, the financial exposure of the LBMA would be at an acceptable level. The Management Committee duly endorsed the recommendation that the project should proceed. The next crucial task was the selection of the manufacturers, which took place at the first meeting of the Steering Committee in late January, 2008. Tanaka of Japan and Krastsvetmet of Russia were selected to manufacture the gold and silver materials respectively. During visits by Drs Hinds and Murray to these companies' manufacturing facilities in Japan and Krasnoyarsk, the technical procedures for the manufacture, homogeneity testing and final analysis were agreed. The goal was to produce two reference materials containing different levels of approximately 20 impurity elements (see Certificate).

Manufactoring Challenges

Undoubtedly, the major challenges for the manufacturers were firstly, to ensure that the selected elements were present at the desired concentrations in the two materials and secondly, that the materials were homogeneous. Combining these requirements is difficult. Homogeneity requires that the melt should be maintained (with stirring, in a vacuum furnace) for an extended period. But this can lead to losses of the more volatile elements. Fortunately Tanaka have enormous experience in this area, in that gold bonding wire manufacture requires precise doping of high-purity gold with small quantities of alloying elements. The next challenge was to ensure fast cooling in the mould. Without this, segregation of some of the elements can occur as the metal solidifies. Tanaka used a narrow book-type (vertical) graphite mould to ensure rapid cooling. The complete process used by Tanaka to manufacture and assaying of the materials was described in a presentation to the 2009 LBMA Assaying and Refining Seminar – see http://www.lbma.org.uk/events/assay2009.

Analysis

For the homogeneity test 15 units were selected from representative areas of the ingot and analysed at various depths (surface, centre and halfway between) by Tanaka and the Rand Refinery. The results were examined by means of ANOVA (Analysis of Variance) software, which demonstrated that the elements were distributed homogeneously. Shavings were then analysed by 10 laboratories whose results (using code numbers to maintain anonymity) were sent to the Steering Committee. The final step was the elimination of any results that were considered to be outliers. The remaining results were used to calculate the means and uncertainties shown in the Certificate.

Format of the Materials

The LBMA gold CRMs consist of a set of two rectangular blocks – AuRM1 and AuRM2 – weighing approximately 51 grams and containing different levels of 22 elements.

Ordering LBMA Gold CRMs

The cost for these materials is in two parts: firstly, a fixed cost and a secondly, a variable cost based on the gold content and the current gold price together with the cost of transport.

Fixed cost per set (one unit of AuRM1 plus one unit of AuRM2) LBMA Good Delivery Refiners, Members and Associates: USD3,750*

Other purchasers: USD4,450*

*Additional cost for a set materials in the form of shavings: USD600

Thanks

The LBMA would like to thank all those involved in this project, paticularly, Dr Mike Hinds, the staff of Tanaka and the members of the Steering Committee. ■

Gold Reference Materials

The text of the Certificate of Analysis that accompanies the materials is shown below

General Information

The London Bullion Market Association (LBMA) promotes quality and good practice in the area of gold and silver refining and trade. The production and sale of the Reference Materials referred to herein represent part of this effort. These Reference Materials were produced by Tanaka Kikinzoku Kogyo K.K. on behalf of the LBMA, under the guidance of a Steering Committee. The composition reflects the needs expressed by LBMA accredited refiners.

The following table lists the elements for which certified values have been established with expanded uncertainty ($U_{CRM} = ku_c$, where U_c is the combined standard uncertainty calculated according to the ISO Guide [1] and k=2 is the coverage factor).

Element Concentrations, mg/kg	AuRM1	AuRM2
Ag	20.0 ± 0.8	99.6 ± 5.6
Al	9.6 ± 0.8	28.3 ± 1.8
As	14.5 ± 1.0	47.1 ± 2.8
Bi	30.4 ± 1.5	9.7 ± 0.8
Ca	9.6 ± 1.1	28.0 ± 2.6
Cr	9.4 ± 0.6	27.7 ± 2.2
Cu	13.5 ± 2.7	31.6 ± 2.4
Fe	10.6 ± 1.1	30.1 ± 2.2
Mg	30.1 ± 1.9	9.9 ± 0.9
Mn	9.7 ± 0.4	28.2 ± 1.5
Ni	9.8 ± 1.0	29.2 ± 2.6
Pb	9.8 ± 1.8	28.9 ± 2.4
Pd	9.7 ± 0.6	29.2 ± 1.3
Pt	10.3 ± 1.1	30.2 ± 2.1
Rh	7.3 ± 0.6	39.6 ± 2.4
Sb	35.7 ± 1.6	11.3 ± 1.6
Se	11.8 ± 2.9	37.4 ± 2.8
Si	9.4 ± 1.6	28.0 ± 3.8
Sn	9.7 ± 1.1	29.4 ± 1.8
Te	40.7 ± 2.6	12.0 ± 3.2
Ti	10.5 ± 0.9	31.6 ± 1.3
Zn	10.3 ± 1.2	31.4 ± 2.3

Manufacture of the Reference Materials

These Reference Materials were produced by melting high-purity gold with master alloys in order to include trace impurities of a number of elements in the 2-100 mg/kg range. The target level of each element was agreed upon within the Steering Committee. After casting in a vertical graphite mould designed for rapid cooling, the ingot was rolled to a thickness of 6mm. The surfaces at the top and bottom faces were removed using a milling machine. The rolled ingot was cut into individual pieces with the approximate dimensions of 21x21x6 mm.

Homogeneity

Samples were cut from the rolled ingot according to a grid pattern. Fifteen pieces were selected systematically from the grid pattern, which encompassed three samples from each of five evenly spaced rows of cut pieces. The samples were chosen to cover the edges and the middle of the rolled ingot. Samples were analysed at the top, bottom, and at a 3mm depth for each of the elements in a random order. Concentration data were obtained by two different laboratories: using spark ablation ICP-OES and using spark optical emission spectrometry. Results from these tests were evaluated using ANOVA and found to be satisfactory.

Quantitative analysis of trace elements

Shavings were obtained by milling sample pieces and collecting the shavings. The shavings were acid washed in 50% HCl, rinsed several times with distilled deionised water, and then dried in a clean hood. Portions of the shavings (25g) of each Reference Material were distributed to 10 laboratories for analysis. Each participant laboratory was requested to perform its trace elements determination on at least five sub samples. All the laboratories determined the trace element concentrations by inductively coupled plasma optical emission spectrometry of the solutions prepared from the Reference Materials.

Instructions for the storage, handling and correct use of Reference Materials

Keep the materials in a box to avoid exposure to industrial environment. Metallic dusts or vapour may deposit on the surface. In case of doubt, clean with ethanol, then high-purity water. If not sufficient, it is recommended that possible surface contamination be removed by placing the sample in hot 18% HCl for approximately 10 minutes, followed by rinsing with high purity water. Once impacts of a spark spectrometer cover the surface, remove about 50 micrometers by milling, or by polishing.

Hazardous information

There are no hazards associated with this material.

Intended Use

These Reference Materials are intended to be used for the validation of analytical methods for trace metallic impurities in gold, such as Spark optical emission spectrometry. They can also be used in the calibration of analytical instruments.

Traceability

The results in this certificate are traceable to the SI through gravimetrically prepared standards of established purity and international measurement intercomparisons.

Date of certification: 07.07.2009

Expiration date of the certificate: 31.12.2019. These gold Reference Materials and their certified property values are expected to remain unchanged for more than 50 years, but new analytical techniques or instruments with better characteristics of accuracy and precision are likely to appear as laboratory equipment is renewed. Accordingly, analyses may be performed again by some of the laboratories.

Acknowledgements

The following laboratories participated in the analysis of these Reference Materials: AGR Matthey, Australia; Aurubis, Germany; Cendres+Métaux, Switzerland; Great Wall Gold & Silver Refinery, China; Metalor Technologies, Switzerland; Rand Refinery, South Africa; Royal Canadian Mint, Canada; Tanaka Kikinzoku Kogyo, Japan; Umicore Precious Metals Refining, Belgium. For the LBMA: Stewart Murray, Chief Executive, LBMA. Steering Committee members: Great Wall Gold and Silver Refinery, China, Chen Jie; Metalor Technologies, Switzerland, Dr. Paul Bagnoud and Serge Gambs; Rand Refinery Ltd., South Africa, Neil Harby and Madeleine Theron; Royal Canadian Mint, Canada, Dr. Michael Hinds (Chair); Umicore, Belgium, Dr. Dirk Hofmans; Tanaka Kikinzoku Kogyo, Japan, Nobuyasu Ezawa and Hitoshi Kosai.

References, [1] Guide to Expression of Uncertainty in Measurement, ISBN 92-67-10188-9, 1st ed. ISO, Geneva, Switzerland (1993).

Disclaimer

The LBMA, the Steering Committee, the Manufacturers and the laboratories involved in the chemical analysis of the Reference Materials have used their best endeavours to ensure that the Reference Materials are homogeneous in respect of the contained elements and that their concentrations are accurately determined. However, all assayers will recognise that there can be no absolute guarantees in relation to these parameters. For example, it cannot be ruled out totally that the Reference Materials may contain extraneous inclusions (though such foreign bodies would be readily detected by the using laboratory). In addition, minor deviations from complete homogeneity that are not detected by the homogeneity testing are conceivable. ■

A Day in the Life of a Trader

By Stephen Pender, Chief Dealer, INTL Commodities

In the first of a new series looking at the jobs that make the market tick; the Alchemist looks at a 'Day in the Life of a Trader' through the eyes of Stephen Pender at INTL Commodities, located in London.

1st July 2009

07.15

Gold $929.00 Silver $13.61 Euro $1.4041 Oil $70.20 Copper $5040.00

Arrive in the office with my breakfast. The first thing I do is check out the charts for highs, lows and to see if any key levels or trend lines have been broken. Yesterday was one of the most active days we have had for a while, but there is little to report from the overnight session with both gold and silver climbing steadily.

Following our morning meeting, I start contacting customers to advise them of the overnight ranges and to discuss our views on the day ahead. We usually expect to see money allocated into commodities on the first day of each month, but after yesterday's sharp sell off and weak close, we should also see some technical fund selling. This could make my morning a bit of a battle.

Away from the market we have a few key figures due from the US today. I expect that these will be a catalyst for the market as people start to build their positions for the new month.

08.00

Gold $932.50 Silver $13.67 Euro $1.4063 Oil $70.53 Copper $5060.0

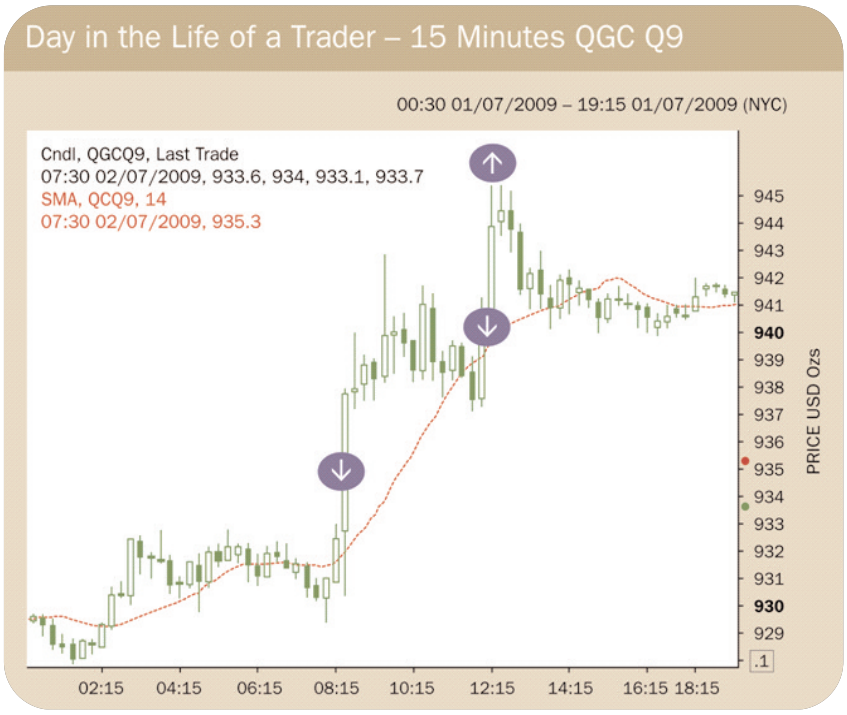
The official start of my trading day. I take control of the orders and responsibility for price-making within my group. Precious metals are already moving higher, which is enticing customers in the Far East to take profit on their day trades.

Position – Flat

10.30

Gold $931.50 Silver $13.69 Euro $1.4062 Oil $71.19 Copper $5076.00

Nothing to report so far. Tomorrow, I must remember to bring a good book, something like *War and Peace* should get me through! Overall I am expecting gold to test $1,000 again this quarter so I have spent my morning looking for a way to reflect this through options, which have moved significantly lower recently. 3m call spreads look interesting, with yesterday's pullback offering better strikes. I decide to wait to see how low gold can go before taking things further.



Position – Flat

12.00

Gold $931.40 Silver $13.63 Euro $1.4062 Oil $71.38 Copper $5070.00

Precious metals have come to a standstill. Whilst most of the other major commodities have continued to tick higher, supporting the start of month allocation view, this has not yet had an effect on the gold market.

At least I have lunch to look forward to. Well, maybe not, it's a tuna sandwich at my desk – not quite the high-flying city life you read about!

Before NY opens, I decide to take a short position looking for gold to give back the $5 overnight gains.

Position – Short

13.30

Gold $938.00 Silver $13.77 Euro $1.4116 Oil $71.32 Copper $5122.0

Action at last! The APT number is released, which is weaker than expected and, as a result, gold turned bid rallying to $10 very quickly. I had covered half of my short before the number was released but I have to stop out of the rest on this move. This is frustrating, but taking a position through figures is always a lottery.

I am receiving plenty of customer calls asking what is behind the move, although it seems, for now at least, that customers are sitting on the sidelines.

Position – Flat

15:00

Gold $938.35 Silver $13.70 Euro $1.4146 Oil $71.64 Copper $5125.0

The fix is relatively quick which is not always the case during the afternoon session as there is a tendency to try (usually unsuccessfully) and play the fix off against the Comex, making it a long drawn-out affair. Gold had tested as high as $943.00 but has now settled into a $4 range below $940.00. The ISM figures are published and are better than expected, providing some positive news for the US dollar at last.

I have been seeing steady selling and I decide to join the bandwagon hoping for better luck this time.

Position – Short

16:58

01 Jul 09 REUTERS-CHINA HAS ASKED FOR G8 ITALY SUMMIT TO DISCUSS ISSUE OF NEW GLOBAL RESERVE CURRENCY-G8 SOURCES

Gold $938.30 Silver $13.82 Euro 1.4188 Oil $69.68 Copper $5135.00

Stopping out again! I scramble to cover my short, fortunately I have some resting orders that I use to get long. This headline sends gold $10 higher to $947.00, and just like in the movies I manage to recover my day's losses and come out with a small profit.

Position – Flat

17:30

Gold $944.60 Silver $13.94 Euro 1.4180 Oil $69.40 Copper $5111.00

The market has pulled back from the highs but still remains bid. After my lucky escape earlier, I decide to call it a day.

Non-Farm Payrolls tomorrow – it seems that there is every chance of the 4 July fireworks starting early this year!

Time to head to the Tube, which has been recorded at a sizzling 35°c today. I decide to heed Transport for London's advice and keep hydrated for my journey…

See you at the bar in 5… ■

If you are interested in taking part in the "Day in the Life of…" series, please contact: Alchemist@lbma.org.uk

Stephen Pender

joined INTL Commodities Inc on 1 June 2009 as Chief Dealer for Precious Metals.

He previously worked at Fortis Bank S.A/N.V, where he covered market-making in both precious metals and base metal derivatives, and before that at JPMorgan as a precious metals spot dealer. Stephen is on the LBMA Public Affairs Committee. ■

LBMA NEWS

By Stewart Murray, Chief Executive, LBMA

MEMBERSHIP

Members

Britannia Refined Metals was admitted as an ordinary Member with effect from 1 June, 2009.

UBS Ltd, an Affiliate of UBS AG, was admitted as an Affiliate Member with effect from 1 July, 2009.

Investec Bank has tendered its resignation as an Ordinary Member with effect from 31 December, 2009.

Associates

Republic Metals Corporation of the USA was admitted as an Associate with effect from 1st July, 2009.

GOOD DELIVERY LIST

Silver

The refinery of Guangxi Chengyuan Mining and Smelting Ltd of China was admitted to the Silver List on 21 July, 2009.

AGM

The Annual General Meeting of the LBMA took place on 11 June, the last official function of the outgoing Chairman, Jeremy Charles of HSBC. As well as the normal statutory business of approving the accounts and reappointing the auditors, the AGM elected the following members of the Management Committee:

- Kevin Crisp, Mitsubishi Corporation (UK) plc (Chairman)
- Stephen Branton-Speak, Goldman Sachs International (Vice Chairman)
- Philip Aubertin, UBS AG
- David Gornall, Natixis Commodity Markets Ltd
- Raymond Key, Deutsche Bank AG
- Steven Lowe, Bank of Nova Scotia – ScotiaMocatta
- Gerhard Schubert, INTL Commodities Inc
- Martyn Whitehead, Barclays Bank Plc

In his report for the past year, the outgoing Chairman, Jeremy Charles of HSBC, commented on the developments he had witnessed at the LBMA; not only during his time as Chairman, but spanning his 12-year involvement with the Association. A copy of his speech can be found on the LBMA website at:www.lbma.org.uk/docs/speeches/AGM2009_Charles_200906.pdf

Speaking immediately after the meeting, Kevin Crisp paid tribute to Jeremy's leadership of the Association during the past three years: "Jeremy has always been a tremendous supporter of everything that the LBMA stands for and has done much to spread its influence and enhance its status in the global market for bullion. During his chairmanship, the LBMA has faced both challenges and opportunities with equal professionalism. I look forward to building on this success with the new Management Committee and our Executive team. I am very conscious of the fact that this is the first time the LBMA has chosen a representative of a non-Market Maker as its Chairman, something that would be a daunting prospect were it not for the experience and market knowledge embodied in our new Vice Chairman and every member of the new Committee."

COMMITTEES

Management

The Committee met in May to prepare for the AGM and also held its first meeting after the AGM in late June.

The Committee reviewed the progress by various institutions towards setting up systems to allow forward transactions to be cleared through a clearing house and, noting the great interest in this subject amongst the Membership, decided that a further seminar should be held, along similar lines to the one held in January this year. This will allow these institutions to give an update to interested Members. The seminar will take place on the afternoon of Tuesday 3, November in Edinburgh immediately following the end of the LBMA's Precious Metals Conference.

On the subject of REACH, the Committee reviewed the discussions that took place at the plenary meeting of the Precious Metals Consortium in Lugano on 19 June. See the sidebar below.

The Committee noted a paper that had been circulated by ISDA concerning forthcoming changes in legislation that could impact on the way that ISDA documentation is used in the bullion market. A copy of this document was circulated to all LBMA Member and Associate contacts in late June.

Physical

The Physical Committee met in early May, June and July.

The Committee's long-running project to find an acceptable electronic alternative to the weighing of gold bars on beam balances has almost reached its conclusion. A prototype scale has been extensively tested by two of the London vaults and found to have the necessary accuracy and durability for vault purposes. The scale comes with software that replicates the London weighing system (which can be found in the Good Delivery rules on the LBMA website). In the coming months, other vaults will be able to try the new scale for themselves and the manufacturers will apply for type approval. The next edition of the *Alchemist* will have a comprehensive review giving details of the trials that have taken place and information about the availability of the new scale.

In addition to approving the listing of the silver refinery of Guanxi Chengyuan as noted above, the Physical Committee is monitoring the processing of a number of other refineries that wish to be listed in London. Particularly for silver, the reason for some refiners wishing to list in London is to allow their bars to be sold to investors. Underlying this is the fact that the industrial market for silver grain has weakened considerably due to the recessionary tendency in many countries.

Correct bar marking has always been an important part of the Good Delivery system. The LBMA was therefore concerned recently when a batch of silver bars with very inadequate markings reached London. Apparently, the bars had been produced with the intention that they would be used in an industrial process by one of the refiner's usual customers. However, they had instead ended up in London, no doubt reflecting the depressed state of fabrication demand. The bars had been marked only

Committee Vacancies

There are currently vacancies on the Public Affairs Committee and the Membership Committee. Anyone interested in applying should send an email to the Chief Executive with a brief statement of their bullion market experience.

superficially and although otherwise complying with the Good Delivery specifications, they were therefore totally unacceptable. In order to clarify the situation, the LBMA has modified the Good Delivery rules to make it clear that if bars are produced in Good Delivery sizes but are not intended for the London market, they should be marked accordingly e.g. with "non-LGD".

The Reference Materials Project for gold has reached its final stage, with the distribution of the materials to the purchasers (mostly members of the Good Delivery List) that ordered them in advance. See the article on page 11 for details. These materials will make a substantial contribution to increasing the accuracy of analytical methods used for determining the gold content of high-purity gold.

The LBMA is greatly indebted to the manufacturers of the Materials, Tanaka Kikinzoku Kogyo, as well as to the members of the Project Steering Committee and in particular, its Chairman, Dr Mike Hinds of the Royal Canadian Mint, for the huge effort involved in bringing this project to fruition.

The LBMA has a stock of materials that can be purchased by members and non-members. The silver project has made progress recently, with the two ingots having been cast, rolled into strip and then cut into units which were then subjected to a full homogeneity analysis.

The data from this analysis is currently being examined by the Project Steering Committee to ensure that the materials meet the requirements for homogeneity. As in the case of the gold project, the units chosen for analysis will also be analysed by a second laboratory.

Public Affairs

Following his election as Chairman of the LBMA, Kevin Crisp stepped down as PAC Chairman, though he will remain on the Committee. The new Chair of the Committee is Dr. Edel Tully of Mitsui who chaired her first meeting of the Committee on 14 July. Another change on the Committee is the resignation of David Holmes following his new appointment at Commerzbank (see Market Moves).

The PAC has met in May, June and July, the busiest period for the Committee given that the programme and registration form for the Annual Conference was to be issued in the final week of July. See the article on page 10.

The LBMA is delighted that the two cocktail receptions during the conference will be sponsored by the World Gold Council (on 1 November) and the Silver Institute (on 2 November).

Membership

The Committee met in June to review progress with a number of applications, including those subsequently approved by the Management Committee as noted above. The Committee also noted that the Associate Review process was often subject to considerable delays and recommended that Associates and their sponsors should be given a definite and more limited time to respond to the reviews initiated by the Executive.

Finance

The Committee met in May to review a number of aspects of the LBMA's finances, including the presentation of the 2008 Accounts at the Annual General Meeting and the aged debtor situation. ■

REACH

The LBMA's REACH Sub-Committee met in June to discuss how the LBMA can provide any further necessary assistance to its Members who have preregistered for REACH in relation to their imports or production of gold and silver.

The Committee agreed that a statement should be prepared on behalf of the LBMA and the Precious Metals Consortium for submission to the UK Competent Authority (the Health and Safety Executive REACH helpdesk). The statement will stress the market's view that large gold bars imported as investments should be outwith the scope of REACH and therefore not included in the REACH tonnage declarations at the time of registration.

Preparation of this statement is now underway and it is hoped to be able to present it to the Competent Authority in early September. ■

London Precious Metals Clearing Limited has announced that the cut-off time for the acceptance of transfer instructions on Christmas Eve, Thursday 24 December, and New Year's Eve Thursday 31 December, 2009, will be 14:00 G.M.T.

The London Gold Market Fixing Limited has announced that there will be no afternoon gold fixings on Christmas Eve, Thursday 24 December, and New Year's Eve Thursday 31 December, 2009.

Obituary Peter Häsler

by Dr Theo Gautschi

Management and employees of Cendres+Métaux have the painful duty to announce the death of our highly esteemed CEO Peter Häsler. After a severe heart attack and a short stay in hospital, he left in full activity, much too early – a few days before his 54th birthday – and leaves a tremendous emptiness.

The clear goals and visions of Peter Häsler, as well as his exceptional ability to integrate, shaped the company.

Under his leadership, the Swiss company Cendres+Métaux, doubled its business activities within a few years. The receipt of the Entrepreneur Award of the Swiss Midland Economic Espace and the acquisition of two companies along the value-adding chain, are just the most recent highlights in Peter's career.

His motto "cool head, warm heart and working hands" was not just a saying – he exemplified it through his own life. With Peter, we did not only lose a successful CEO, but also a friend and father to everybody in our company. His engagement, his amiability, his affability and his helpfulness will remain in our hearts forever. ■

A New Committee and a New Chairman

Editorial Comment by Kevin Crisp, LBMA Chairman

It is a great pleasure to be writing this Editorial for the Alchemist and to have been given an early opportunity to express some initial thoughts as the incoming Chairman of your Association.

Although I have served previously as Vice Chairman, it is a great honour to be elected as Chairman, perhaps even more so in that I am the first to hold this position from a non-Market Making member of the LBMA. It's something that has been mentioned to me by many and I see it as perhaps another example of the changes underway in the bullion market.

First of all though, I must offer thanks on behalf of the entire membership to your outgoing Chairman, Jeremy Charles of HSBC. I can say from first-hand experience that throughout his Chairmanship, over a period of three tumultuous years in the market, Jeremy has always had the best interests of this Association and its membership at heart. He has shown a steady hand in guiding the LBMA and devoted a great deal of his time to the Association during some very testing times. If you haven't read Jeremy's final report as Chairman, presented to this year's AGM on 11 June, I encourage you to do so. It is available on the LBMA's website.

Of course, no Chairman works alone and Jeremy was supported very ably by our Executive under the management of Stewart Murray and by an active Management Committee. I am very confident that the new Management Committee will be equally active and very vocal in their contribution to discussions, with representatives from across the market, each of whom brings immense experience and knowledge to the table. Each of them in standing for the Management Committee is demonstrating a willingness to represent the wider interests of the bullion market.

We held our first Management Committee meeting on 24 June and it was definitely a case of hitting the ground running in terms of issues to be addressed. Of course, we continue to benefit from Stewart's tremendous knowledge and experience, supported by Ruth Crowell and the rest of the Executive. The LBMA has to address a very wide range of day-to-day issues while, at the same time, keeping the bigger picture in mind.

While the nature of bullion trading is undergoing dramatic change, there are two constants underlying the global bullion market irrespective of the platform, namely the key pillars of Good Delivery and the Clearing System. This is why the LBMA has in recent years paid so much attention to issues such as Proactive Monitoring and Reference Materials, and why it has responded when issues such as REACH have presented challenges to the smooth operation of the market. While I perceive my role as Chairman as one of developing consensus, at the top of my personal list of priorities is to continue and, where possible, improve the level of communication between the LBMA's "Organisation" and its membership and with the wider marketplace too.

As Jeremy and his predecessors have commented over the years, the bullion market continues to become more international with each passing year, as exemplified by the emergence of many new Exchanges around the world. To some extent, the process of internationalisation has accelerated of late as the impact of the global financial crisis has contributed to the renaissance in precious metals investment.

We see new market participants applying to join our membership list and refineries wishing to become accredited to the Good Delivery Lists for gold and silver. This means that the Physical and Membership Committees remain very busy handling a wide range of issues: again we have a very committed and talented group of individuals giving their time to ensure that the standards of this Association are maintained and improved. There are a number of important initiatives now coming toward fruition, including the Reference Materials Project and the electronic weighing of gold, which you will be hearing more about in the near future.

Our Finance Committee is charged with oversight of the Association's coffers and while these were dented last year from a combination of events, close attention is being paid to ensure that the finances of the LBMA remain on a sound footing. Of course, the Public Affairs Committee under its new Chair, Edel Tully, is busy working on the upcoming LBMA Precious Metals Conference in Edinburgh at the start of November and is making good progress on the 2010 Conference. We look forward to seeing many of you in Edinburgh.

I would like to emphasise that the Committees and the Executive welcome your comments, ideas and suggestions about the Association.

In conclusion, as we all continue to feel the effects of the economic maelstrom, it is important to remember that the London bullion market is something more than the sum of its parts. The Management Committee will strive to work for the benefit of not just the London market but the wider bullion market, while ensuring that the foundations of the LBMA remain strong. ■

Kevin Crisp, *Deputy General Manager, Metals Division Manager, Precious Metals Department at Mitsubishi Corporation, has been a member of the LBMA's Management Committee since 2007 and became Chairman in June 2009. He worked as senior analyst for metals consultancy GFMS, covering the Middle East and Asia, before joining JPMorgan, working as precious metals strategist and later working for Credit Suisse First Boston, Dresdner Kleinwort and Koch Supply and Trading. Crisp joined Mitsubishi Corporation in 2006 and now manages its precious metals department in London.* ■

DIARY OF EVENTS

SEPTEMBER

4-6

6th India International Gold Convention 2009
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F: +91 80 25276154
foretell@fbspl.com
www.goldconvention.in

7-11

GeoAnalysis 2009
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21 - 23

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OCTOBER

1-2

Metals, Minerals, Mining and Markets - 3rd Global Capital Conference and Exhibition
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T: +44 (0)20 7248 4444
F: +44 (0)20 7489 0391
lc@londonchamber.co.uk
www.propubs.com/glo-cap

5-7

Commodities Week
London, U.K.
T: +44 (0)20 7827 5997
F: +44 (0)20 7242 1508
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www.terrapinn.com/2009/ciwuk/

NOVEMBER

1-3

LBMA Precious Metals Conference
Edinburgh, Scotland
T: +44 20 7796 3067
F: +44 20 7796 2112
conference@lbma.org.uk
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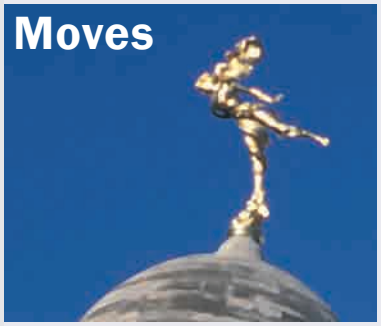
Market Moves



Tony Dobra has joined **Baird & Co.** from Standard Chartered Bank, where he was Director, Global Commodity Derivatives.
He commenced his career at Sharps Pixley Ltd in 1980 and has worked for ScotiaMocatta and Marc Rich Investments.

David Holmes has been appointed Co-Head of Commodity Solutions and Head of Commodity Sales at **Commerzbank** Corporates & Markets. His appointment is a result of Commerzbank's acquisition of Dresdner Bank, and the consolidation of its commodity business into a single unit. The Commodity Solutions Group is responsible for Sales and Structuring and the Bank's Carbon Trade Finance business. Recently, David reluctantly took the decision to resign from the LBMA's Public Affairs Committee, after four years, to dedicate his energies to this new challenge. Commerzbank's Commodity business, which includes both Precious and Base Metals, Energy and Agricultural products, continues to be headed by David Burns. Adrien Biondi heads the Group's combined Precious Metals business and continues to be based in Luxembourg, reporting to David Burns.

Andy Huxtable has joined **RBS Sempra Metals** with responsibility for management of the Precious Metals Back Office. Andy worked for JP Morgan from 1980 to 2000, beginning in the Forex Back Office and then moving to the Bullion Operations Department in 1982.
After leaving JP Morgan, Andy worked for Mitsui & Co (UK) London as Mid/Back Office Manager, Investec Bank (UK) London as Commodities Back Office Manager, Brinks Ltd London as Precious Metals Sales Manager and Fortis Bank SA/NV as Commodity Derivatives Settlements Manager. ■

Facing Facts

By Paul Burton
Managing Director
GFMS World Gold Ltd

It's been some nine months since the markets witnessed the collapse of Lehman Brothers, probably the one event in the whole banking liquidity crisis that had the most profound impact on the fortunes of, and sentiment within, the gold market. In the immediate aftermath of the dramatic events of late Q3 and early Q4 last year, the world's stock markets were decimated.

All sectors were hit and gold stocks were not excluded. In fact, they were probably hit harder than most sectors, other than banking that is, as they represented an escape route for investors desperate to become liquid in the face of redemptions and cash calls in other areas. The majors, in particular, offered trading volumes and profit opportunities, and were sold off in a frenzy that saw the XAU, the index of major gold companies, plummet.

The following chart shows the XAU plotted alongside the gold price, both indexed to 100 in January 2004. The chart

highlights two features of gold stocks over the last five years. Firstly, it is clear that they have underperformed the gold price over most of the period, so the leverage that gold stocks traditionally carried over the underlying metal price is no longer apparent. Secondly, gold stocks did display some leverage late last year when the markets collapsed but, unfortunately, it was on the downside and stocks fell by a much greater percentage than the gold price itself.

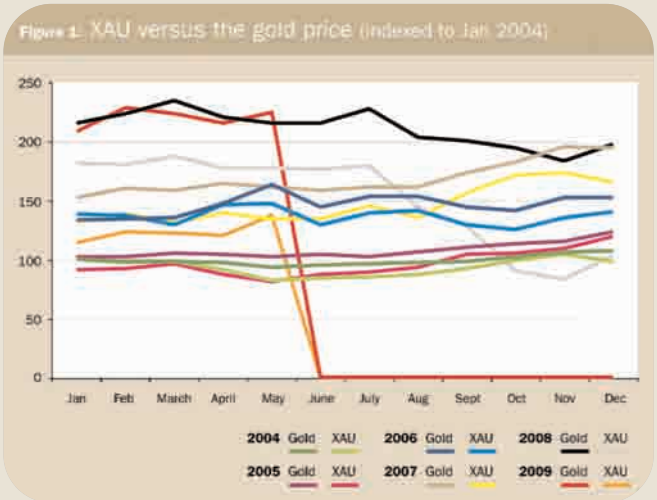


Figure 1: XAU versus the gold price (indexed to Jan 2004)

Cash costs have been rising

One other reason to account for the poor relative performance of the gold producers in a rising price market is the fact that operating costs, on a per ounce basis, rose dramatically for several years up until the end of 2008. The combined effects of increases in the cost of labour (skills shortage as the industry expanded), commodity prices rising steeply (huge demand from China) and power prices in an upward spiral (oil price soaring) led to cash costs rising at a rate of at least 25% per year.

However, since Q3 last year the industry has witnessed something of a pull back in activity as a result of the liquidity crisis and the market downturn, which in conjunction with the dramatic decline in the price of oil, has meant that labour, consumables and power costs have all fallen and reduced the inflation rate in unit costs.

Q1 2009 average industry costs were USD432/oz just 7% up on Q1 2008 and down marginally from Q4 2008, when they averaged USD439/oz.

This performance is impressive given that a number of important Canadian gold companies, who use revenue from by-product metals to offset costs, saw their cash costs rise significantly. When the prices of by-product metals such as silver, copper, lead and zinc were soaring, a number of Canadians were able to report negative cash costs as revenue from base metal sales exceeded gold costs. That has now changed and lower base metal revenue meant that in Q1 2009, Yamana and Agnico-Eagle Mines, two of the largest Canadians, saw cash costs flip from negative to positive, although to be fair, the change also represents a greater gold focus from new mines in their production portfolios. Yamana's costs rose from – USD124/oz to USD379/oz and Agnico-Eagle's from – USD399/oz to USD312/oz.

Exchange rate movements also continue to influence cash costs determined in USD terms. The South African producers, for example, saw their costs fall by 4% in USD terms but in local currency terms, costs rose significantly as the Rand/USD rate weakened by 33%.

AngloGold Ashanti reported costs up 36%, at R141,582/kg; Gold Fields' costs increased from R122,920/kg to R150,301/kg, and Harmony's cash costs rose 17%.

...but so have margins

But, in fact, while rising costs might have seemed a constraint on profitability, the gold price has outpaced the cost inflation. Thus margins have actually improved since the start of the gold bull run and the recent fall in cash costs will reinforce the trend.

Cash margins averaged USD477/oz in the March quarter (based on the average market spot price). The following graph, which charts the spot gold price and average cash costs, shows how margins have improved over the years by some 402%, up from USD95/oz in 2001.

Figure 2: Cash margins have improved by 402% since 2001

Now, as we near the middle of 2009, gold stocks are reclaiming some of the lost ground after what was a brutal and tough nine months. Investors are perhaps realising that wider margins should mean greater operating profits and thus we may see a return to the days when gold equities guaranteed a performance that eclipsed the metal price. ■

Paul Burton

is Managing Director of GFMS World Gold, based in London.

Paul has over 30 years' experience in various positions within the mining industry. After initially working as a mining engineer, he spent much of his career in mineral economics and minerals marketing, in South Africa, before joining the Mining Journal in 1996, where he became Editor of World Gold Analyst.

In 2008, Paul formed a joint venture with GFMS, under the banner of GFMS World Gold.

Paul graduated from the Camborne School of Mines in 1975 as a mining engineer and subsequently obtained an MSc in Mining Engineering and an MBA, from the University of the Witwatersrand, South Africa. ■

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