Alchemist

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LBMA

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A rare Genovese Ducat, minted during the rule of Galeazzo Maria (1466-1476)
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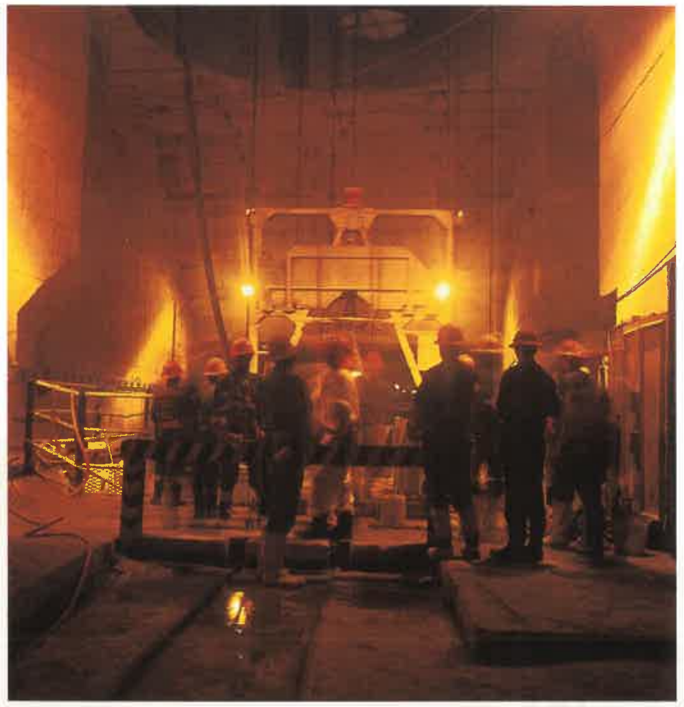
The South African Chamber of Mines

Meeting Challenges in an Era of Change

By Mzolisi Diliza, Chief Executive, Chamber of Mines

The substantial changes in the South African mining industry over the past five years are mirrored in the changes that have occurred in the industry's oldest institution – the Chamber of Mines of South Africa. In this globalising world those who stand by and watch will not be the active shapers of the South African mining industry.

Over the past nine years, since the release of Nelson Mandela and the move towards democracy in South Africa, the South African mining industry has faced a number of significant challenges. A traditional parochial focus in an environment of significant changes on the global mining scene coupled with declining commodity prices, rising costs, historically poor management practices and poor productivity levels all pointed towards the need for change. The restructuring that has taken place in the South African mining industry, particularly the gold sector, is encapsulated in five overarching strategies that have been followed at different stages of evolution for each of the mining groups. These strategies include:

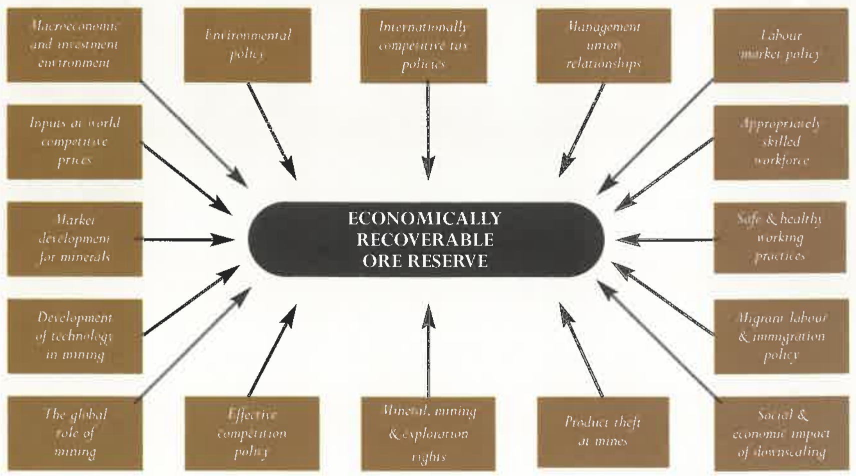


- Leadership. Changing the industry for the better required leaders capable of globalising the local industry while at the same time helping to transform the local mines into globally competitive operating units.

- Restructuring mining houses and mines. Mining houses were restructured for more globalised operations. Foreign listings for certain mining houses have been used to tap global markets while at the same time testing South African companies against global best practice. Areas not considered core competencies have been contracted out. At mine level the elimination of the farm-fence boundary system coupled with the elimination of duplicated infrastructure has led to much greater economies of scale and lower unit costs.

- Human capital development. Some 50 per cent of the working costs of the average South African gold mines is labour costs. There was a definite need to move away from treating labour not just as a cost, but rather as an integral component of the productivity and viability of mining operations. The provision of career paths and the equipping of workers with the necessary tools to progress up a career path have been key areas of focus.

- Restructuring work practices. This encompasses the whole gamut of management practices. The elimination of unnecessarily high levels of management hierarchies to devolve decision making back to the rock-face has been one area of action. Incentivising the work place and ensuring productivity bargaining in negotiations has been another. The better management of people, stores, materials, logistics, safety, the ore body, etc., have been critical areas of attention.



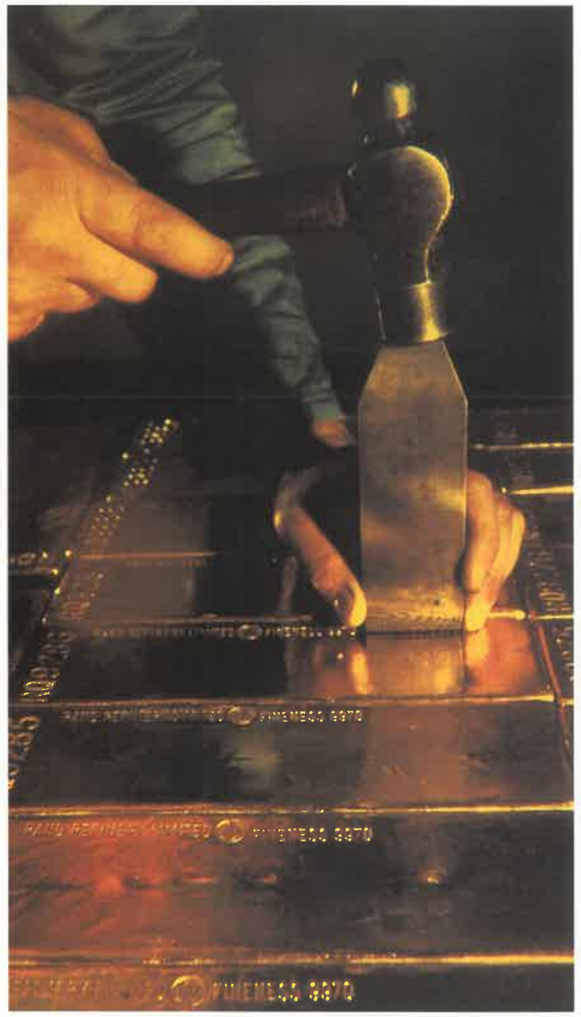
- The application of appropriate technologies. The use of technologies that reduce costs and improve efficiencies has been a change strategy.

For the South African gold mining sector these change strategies have had significantly positive results. More globally oriented companies with new leadership, better management practices, a more skilled and more productive workforce coupled with appropriate technologies has managed to reduce total production costs by 22 per cent in US dollar terms when comparing 1998 to 1997. By the first quarter of 1999 average total production costs for South African gold mines were US$269.80 per ounce. What is critical is that the Chamber of Mines organisation has itself also changed and restructured along similar lines to reflect the interests and needs of members.

In February 1998, South African mining industry leaders came together with key Chamber advisers in a "bosberaad" (or bush meeting) at a place called Mbulwa in Kwa-Zulu Natal to determine the key issues confronting the South African mining industry, and how best to deal with these challenges. What resulted was a list of 16 key policy areas that needed to be tackled by the industry through the Chamber. These key areas are commonly referred to as the Mbulwa Minute and are reflected in the diagram on the opposite page.

In essence, these sixteen points were considered the key policy areas that the Chamber should focus on to allow the South African mining industry to be able to mine the tremendous resource endowment of South Africa in a safe, environmentally friendly and profitable manner. With this mandate the Chamber's core focus has become advocacy.

The Chamber has been significantly restructured. Internal committees have been revamped and reorganised to reduce time spent in meetings and to ensure greater progress on Chamber-focused activities. The many Chamber-affiliated companies have been spun off into stand-alone units with independent boards of directors. All non-core functions have been hived out – although Chamber officials do participate on some boards. Management layers have been reduced and the workplace has been more incentivised. The Chamber is a well-known receptacle of knowledge and skills. A key management challenge has been how to channel these skills and the knowledge base to the greatest effect. The Chamber has kept its core advisory functions to advise the industry, formulate positions, to mandate and thus advocate these positions. These core advisory functions include: communications, economics, education and training, health, industrial relations, legal, nuclear, safety projects and technology.



The Chamber continues to play a critical role in policy developments locally, regionally and globally. On the local policy front the organisation has played a role in many policy debates and across a wide spectrum of processes. From the negotiation of a new Skills Development Bill for South Africa through to the negotiation of a new Energy Policy for the country, the Chamber has been involved. At a regional level the Chamber of Mines is actively interacting with the various Southern African Development Community (SADC) governments through the Mining Industry Association of Southern Africa's (MIASA's) permanent seat on the SADC Mining Ministers technical committee. Issues such as accreditation of skills across borders, standards, geology, mining investment codes, etc. have been discussed. At the international level the Chamber has participated in a number of forums, including interactions with other mining associations and multilateral institutions on issues ranging from official sector gold holdings to multilateral environmental agreements.

The Chamber of Mines will play an important role in the future as the South African mining industry meets the challenges of mining into the 21st century. Not only are we helping to provide a better environment for the South African mining industry in the future, but we are also helping tell the world that our mining industry has come of age and is becoming more and more competitive. ■

Mzolisi Diliza

Mzolisi started his career with the Transkei Government in 1971, working for various departments and progressing from clerk to hospital administrator. From 1976 to 1994, he worked for various corporations in South Africa in an industrial and employee relations capacity. During this period, he undertook post-graduate studies in employment promotion at Oxford University. Mzolisi was appointed as the first director of human resources and administration for the Independent Development Trust in 1994. In March 1998, he became Chief Executive of the Chamber of Mines of South Africa, the first non-white and non-mining industry incumbent ever to be appointed Chief Executive of this century-old organisation.

The London Gold Fix

By Helen McCaffrey, Treasury Analyst, NM Rothschild & Sons Limited

The outbreak of World War I resulted in most countries suspending gold payments, except for urgent settlements. The gold standard collapsed during the war as central banks started keeping reserves in currencies that could be exchanged for gold. With the war's end, South African mining companies sought a means of open marketing for their gold rather than dealing exclusively through the Bank of England's set sterling price. They approached NM Rothschild & Sons, instructing them to market the gold 'at best price obtainable, giving the London market and the Bullion Brokers an opportunity to bid'. The first fix took place on 12 September 1919 at a price of £4.18.9d per ounce (in dollar terms, $20.67).

Today the gold fixings take place at 10:30 am and 3:00 pm at the premises of N M Rothschild & Sons Limited, the Chairman. In keeping with the principle of the original memo of 1919, all members of the fix participate on an equal basis. Market participants can buy or sell gold through the members at a single quoted price in US Dollars. The fix provides a published price level, which is used as an official pricing medium by producers, consumers and central banks. It is the only market benchmark that can actually be dealt on. The narrow spread between bid and offer on the fix (25 cents) becomes even more attractive during times of market volatility, when market spreads tend to widen.

Mechanics of the Fix

- Each bank sends a representative who remains in telephone contact with his own dealing room throughout the fixing. The Chairman of the fixing, a representative of N M Rothschild & Sons Ltd (currently Neil Jackman), announces an opening price which is reported back to the dealing rooms of the five members. They in turn relay this figure to their customers and, on the basis of orders received, instruct their representative as to whether they are a buyer or a seller. Members are then asked to state the number of bars (of 400 ounces of gold each) which they wish to trade at that price.

- If the number of bars bought and sold does not balance, the price is moved and the same procedure is repeated until a balance is achieved, at which time the Chairman declares the price as fixed. In normal market conditions this takes about five minutes.

- Customers may leave orders in advance of the fixings. Alternatively, they may choose to be advised of the price changes throughout the fixing, and may alter their orders accordingly at any time until the price is fixed. To ensure that any order change is communicated quickly to the Chairman, each representative has a small Union Jack flag on his desk, which he raises immediately upon hearing of the change from his dealing room. As long as any flag is raised, the Chairman may not declare the price fixed. ■

The five fixing members: *Deutsche Bank AG/ HSBC Bank plc/ N M Rothschild & Sons Ltd Republic National Bank of New York / The Bank of Nova Scotia – ScotiaMocatta*

1919-1999
80 Years of the Gold Fixing

Fix Chart Timeline

1) *1933 – President Roosevelt bans US gold exports and forbids Americans to hold gold.*

2) *1935 – Fort Knox built to store gold flowing into US attracted by US$35 price.*

3) *1944 – Bretton Woods Agreement confirms US dollar exchange standard, creates IMF*

4) *1961 – International gold pool formed to 'hold' gold at US$35 an ounce.*

5) *1968 – Collapse of the gold pool. On 15th March 1968, the authorities closed the London gold market for two weeks, following an unprecedented three-day speculative surge of buying. On 1st April 1968, the primary fixing changed from sterling to dollars and took place twice a day.*

6) *1972 – Federal Reserve closes gold 'window' ending gold exchange standard.*

7) *1974 – Gold hits high of US$197.50 in anticipation of Americans being allowed to buy gold.*

8) *1975 – US Treasury starts gold auctions.*

9) *1976 – IMF begins four year gold sales programme.*

10) *1980 – On 21st January gold hits record US$850. Combination of political crisis in the Middle East, high oil prices and inflation prompts strong physical and speculative buying.*

11) *1985 – Gold hits low of us$284.25.*

12) *1986 – Japan buys 323 tonnes for Hirohito coin.*

13) *1987 – Black Monday stock market crash.*

14) *1990 – Large Soviet 'distress' sale in May. Iraq invades Kuwait in August.*

15) *1991 – Desert Storm starts, but gold price collapses.*

16) *1992 – Highest level central bank gold sales since 1968.*

17) *1993 – Soros and Goldsmith gold deal sparks fund buying.*

18) *1996 – US Federal Reserve Chairman Greenspan warns of 'irrational exuberance' in US stock markets.*

– IMG proposes to sell a proportion of its gold reserves to fund debt relief.

– Investment interest together with reduction in producer hedge positions pushes gold to highs of US$414.80.

19) *1997 – Reserve Bank of Australia announces sale of 167 tonnes.*

– Group of Swiss experts recommend sale of 1,400 tonnes of Swiss National Bank Gold.

20) *1998 – Belgian National Bank announces sale of 299 tonnes of gold to other central banks.*

21) *1999 – UK Treasury announce sale of 415 tonnes of gold.*

– On 20th July the gold price fixes (PM) at a 21-year low of US$252.80.

The Millennium in Gold and Silver

Timothy Green introduces two booklets he has written on prices, production and key events in gold and silver from 1000 AD – 1999

The story of gold and silver over the last one thousand years is almost that of the millennium itself.

It embraces the building of nation states, like England and France, as kings sought to control the minting of gold and silver coin to enhance their power...growth of great trading cities such as Venice, Amsterdam and London...and the discovery of the Americas which ushered in new dimensions of gold and silver production after 1500. That metal, in turn, increased the flows to India and China, paying for the expansion of international trade. And ultimately the search for fresh sources of gold and silver prompted the opening up of new frontiers in Africa, Brazil, Siberia, California, Australia and Canada.

In the beginning, the Crusades of the 12th and 13th centuries, bringing pilgrims and traders in their wake, nourished the interchange of gold, which Europe lacked, and silver, which the east always sought. The Fourth Crusade aided the rise of Venice after 1204 by paying the city 300,000 ounces of silver to build its invasion fleet. Once the Crusaders had also captured Constantinople – then the main, but small, gold market – coin from there was remelted into new Venetian gold ducats that became so widely accepted throughout the Mediterranean world for the next 400 years.

In tracking the metals through the millennium, it is astonishing how much statistical information is available, dug out by diligent historians with all the verve of a modern market analyst. Thus, the output of the main UK mints at London and Canterbury is available from 1220; the two mints used 450,000 ounces of silver for sterling pennies between 1220 and 1222. Similarly for 1344, in the first great gold boom of the millennium from new mines in Hungary, the mints of London, Bruges, Florence, Venice and Genoa coined between them 170,000 ounces, a record since Roman times and, probably, for all previous history.

Half the fascination of putting together these two booklets was to get on the trail of a young American academic, Earl J. Hamilton, who took his wife and baby daughter to Seville in the late 1920s and spent six years ferreting out precise details of gold and silver flows from the Americas to Spain from 1521 (when imports began) until 1660, in all 540,417,107 ounces. Then there was K. N. Chauduri, who devoted much of his academic life to tracking over 200 million ounces of silver and nearly 700,000 ounces of gold carried to India by the East India Company from 1600 to 1760. Consequently, it has been possible to make a rough 'scorecard' of precious metal to India for the last four hundred years.

Through it all, there are tales of political intrigue, such as Henry VIII debasing English coin (silver slipped briefly to 250 fine, compared with the usual sterling silver at 925 fine), or the 1810 Bullion Committee of the House of Commons charging that the Bank of England was printing too much paper money while cash payments in gold were suspended during the Napoleonic wars. Among political battles was that fought by the silver lobby in the United States from 1870 to 1896 to retain bimetallic coinage of silver and gold, which culminated in their defeat in the US presidential election of 1896.

The champions of the millennium have been Venice as the great market through 1500, and London since 1700; Mexico as the dominant silver producer for the last three hundred years; and India as the foremost consumer of both metals for at least seven hundred years. It is also tempting to nominate silver as precious metal of the millennium because, for 900 years, it was the coinage for most people's daily use and then, in the 20th century, as coinage was phased out, it gained an entirely new lease of life as its natural properties of sensitivity to light and electrical and thermal conductivity made it indispensable in photography, electronics and industry. Silver goes into the new millennium with a broadly-based demand. Gold, meanwhile, has been less certain of its destiny, although the recent announcement of the five-year moratorium on European central bank sales has given the market fresh confidence going into the millennium.

London prices 1000 AD

Gold: £0.864 ($1.40*) troy ounce fine
Silver: £0.096 ($0.15) troy ounce
at 1999 exchange rate

London prices 1500 AD

Gold: £2.01 ($3.22*) troy ounce fine
Silver: £0.185 ($0.30*) troy ounce
at 1999 exchange rate

Millennium Milestones – Excerpts

1327
The Worshipful Company of Goldsmiths in London received its first royal charter from Edward III.

1337
In France, Philip VI issued a new ecu gold coin which gained large circulation.

1338-9 Total production by French mints has been put at 350,000 ounces, but this must include considerable recoinage.

1342-45
Very large shipments of silver from Venice to the Black Sea port of Trebizond for onward transport to Armenia and Iran, also to Syria and Egypt from where it was sent to India and China. Thus, in a peak period of European silver output, India was already a key destination. Venice had special galleys built for silver convoys.

1489
In England, Henry VII minted the first sovereign of 0.5 oz (15.55 grams) at 958 fine, valued at £1.00.

1671
Moses Mocatta moved from Amsterdam to London, establishing the oldest member of today's London market (now Scotia-Mocatta). By the 1680s Mocatta was sending silver privately to India to pay for diamonds.

1718
New discoveries in Brazil at Cuyaba in Matto Grosso and later at Itabira in Minas Gereas in 1720, at Goyaz in 1725 and on the Rio Sarare further west in 1734 kept up the level of output. As one area was worked out, another was found. Production fluctuated between 350,000 and 500,000 ounces annually. Britain was the major destination with up to 200,000 ounces a year being converted to guineas. Portuguese moydores also circulated widely in southern England. This regular flow of gold did much to get the gold standard firmly established.

1789
The French Revolution triggered a major flow of gold coin and bars from Paris to London. The Bank of England opened accounts for Louis d'or coins. Over 100,000 ounces of French gold came into the Bank within six months of the storming of the Bastille while, in 1791, over 400,000 ounces were smuggled from France, taking the Bank's total stocks to two million ounces.

The era of the silver penny
At the beginning of this millennium, the silver penny (or denarius) was the basis of coinage in western Europe, though produced in many mints owned by kings, princes, feudal barons, and bishops.

New silver was in short supply. Despite small discoveries in Germany's Black Forest, most European silver came from melting coins from central Asia. Although Europe favoured silver coinage, the eastern Mediterranean, notably the Byzantine empire of Constantinople, was using primarily gold coin and was short of silver. However, the two regions were inextricably bound together by trade. The story of both metals for the next five hundred years is closely entwined with the commerce between Europe, Constantinople and the Black Sea, the Middle East and thence India and China and North Africa. The Mediterranean world was the hub.

A new dimension in silver
During the 16th century the world of silver entered a new era with a level of production exceeding anything previously conceived In 1500 output was probably 1.5 to 1.7 million ounces a year; by the 1590s it was close to 10 million, with nearly 90% of the silver coming from the Americas. The abundance of silver contributed to a price revolution in Europe and much wider use of silver and silver/copper coinage, while the development of the sea route to India opened the way for large silver shipments to the east.

Venice regulates its gold market
Although Venice did not follow Florence or Genoa in minting its own gold coin until 1285, the government was determined to match or exceed their standards to attract more gold. In 1269 they ruled that gold was not to be re-exported by Venetians or foreigners unless it had been refined to at least 23 karatis (958 fine) and ideally 233/4 karatis (990 fine). All gold (and silver) imported had to be registered at the official Assay Office on the Rialto. The gold was assayed by touch with an array of gold needles, one for each carat, which were scratched on a touchstone for comparison with the gold for sale. If the grade was too low (under 23 karatis) the metal had to be refined and re-assayed.

1797
The Bank of England's gold stocks, drained by war payments in gold to European allies, were down to £1 million (235,000 ounces) against liabilities of £15.5 million. Gold was vanishing at £100,000 a day. On Sunday 26th February 1797 cash payments in gold against bank

15th century – A century of bullion 'famine'
After a century in which gold mining and coinage had got into their stride, the 15th century, by contrast, was an era of tight supplies of gold and silver, caused by wars, disruption of trade routes (especially across the Sahara), bad harvests, and the aftermath of the Black Death which had almost halved the population of some European countries in the second half of the 14th century. In 1409 the moneychangers of Paris complained they had no bullion for the mint at any price. Indeed, the pattern of coinage across Europe in the mints of London, Bruges, Paris, Montpellier, Valencia, Florence and Genoa shows almost constant decline (except in years of recoinage). Only in Venice, then in its prime, did substantial quantities of gold and silver pass through the market and the mint, although elsewhere more gold was also available by 1420.

India gold & silver imports 1900-1999
Gold: 245 million ounces
Silver: 2,800 million ounces

notes were suspended. It was twenty-four years before notes could be freely redeemed for gold coin. The unofficial gold standard was in limbo.

1850
World gold output was up to 4.4 m.oz, a completely new dimension. Ultimately, ten times as much gold was produced in the second half of the 19th century as in the first.

1851
Gold discovered in New South Wales, Australia, by Edward Hammond Hargraves, with finds at Ballarat and Bendigo in Victoria later the same year. Australian output peaked around 3 m.oz in 1856.

1852
The London market took most of the Australian gold, and membership grew with Pixley & Haggard and Samuel Montagu as new brokers; N.M. Rothschild took over the Royal Mint refinery, Henry Raphael set up a new refinery (good delivery status in 1856) and Johnson Matthey were made acceptable assayers to the Bank of England.

1919
On 12 September the first 'fixing' was held at Rothschild's in London. The price was quoted for 995 fine 'good delivery', instead of standard gold of 916 fine, and although in sterling, reflected the sterling-dollar rate in New York. The fix was £4.18s.9d (£4.94), equal to the New York price of $20.67 per ounce.

1931
In the aftermath of 1929 Wall Street crash, and collapse of Credit Anstalt in Austria, strain on UK gold reserves at the old price was too great. Britain came off the gold standard, along with several other countries. Sterling devalued, creating a gold price between £5.50 and £6.34, although US price remained $20.67 per ounce. The collapse ofthe gold standard set off a gold hoarding rush of 100 m.oz in the next five years, while high sterling price encouraged Indian dishoarding of 40 m.oz from 1931to 1938.

1931
With the depression, the silver price fell to 1s. ($0.24) per ounce, the lowest in the millennium.

1934 On 31 January Roosevelt set a new price of $35 per ounce. The US Assay Office bought all gold offered at that price, pushing US reserves from 90 m.oz to 364 m.oz by 1938, and to 650 m.oz in 1942.

1934
The Silver Purchase Act in the US decreed silver would form 25% of official reserves, with the silver coming from domestic stocks and abroad. The price revived to 2s.4d ($0.63) with US Treasury as the only buyer, getting 390 m.oz in 1935. The London silver fix often stayed in session until the Treasury opened. China abandoned silver standard for paper money.

The world-wide gold standard
In 1900 the United States went onto the gold standard, the last major nation to do so. Only China remained on a silver standard. The essence of the standard was a fixed price for gold, gold coin forming either the currency or with notes redeemable in gold. Internationally, free import and export of gold existed with balance of payments deficits settled in the metal. In 1900 central banks held 102 m. oz, while 131.5 m.oz of gold coin was in circulation or with commercial banks, making total 'monetary' gold 233.5 m.oz. The fact that the public held more monetary gold than central banks showed how the increase in gold output since 1848 had been absorbed.

1980
Record London fixing at $850 an ounce on 21 January ended an inflationary decade of oil price shocks, freezing of Iran's assets and Soviet invasion of Afghanistan, which sent investors rushing for gold. Average London price for the year was $614.63.

1980
With gold at $850, silver price hit $49.45 (£21.65) on 21 January, giving a ratio of 1:17, the narrowest since 1875 (Hunt aimed for 1:5). Margin calls swamped Hunt, market swiftly collapsed to $10.89 (£4.68) and by 1982, $4.90 (£2.85).

1999
European currency, the Euro, launched, with new European Central Bank holding 15% of its reserves in gold. Bank of England announced sale of half of UK's gold stocks, but in September, 15 European central banks announced a five-year moratorium on new gold sales, giving the market much needed support and a price rally to end the millennium. ■

• The Millennium in Gold and The Millennium in Silver by Timothy Green, each 32 pages, can be ordered from Rosendale Press, 8 Ponsonby Place, London SW1P 4PT, tel: (44) 020 7 834 1123; fax: (44) 020 7 834 1240 or e-mail: info@rosendal.demon.co.uk Price £15 each. Discounts available for corporate orders as millennium gifts. In the US and Canada, available through The Gold Institute, Washington DC, fax (202) 835 0155; e-mail: info@goldinstitute.org

Isaac Newton's gold policy
Sir Isaac Newton, as Master of the Mint, was asked to report to Parliament on the price and relationship of gold to silver, in view of the huge inflow of gold, while a large quantity of silver continued to flow out to India (the East India Company shipped over three million ounces of silver that year). Newton noted that the value of gold coin being made at the mint was thirty times that of silver. His answer was to write down the value of the guinea to £1.05 (£1.1s.0d) which was equivalent to a price of £3.89 (£3.17s.10d) per standard ounce of 916 gold in which the guinea was minted, equivalent to a fine gold price of £4.25 (£4.4s.11d). That famous price was to remain for two hundred years, except during the Napoleonic wars when cash payment in gold was suspended. It was the stability of that price as a benchmark until the early 20th century that gave gold its best credential.

This was not an official declaration of a gold standard. Indeed, Newton's intention was the opposite; to lower the gold price to make silver more attractive. It did not work. Gold was still over-valued at the mint and that was what people brought in for coining. Gold was the preferred coin in Britain; silver went to India and China.

** coin imagery courtesy of SPINK Numismatists, London*

Y2K Recommendations

By Peter L Smith, Chairman, LBMA Physical Committee

Following are the Physical Committee's recommendations for transactions over the turn of the year, which have been ratified by the Management Committee and the Bank of England.

There will be no PM fixes on the 24th and 30th December 1999. Credit clearing will close at 2 pm and interbroker transfers at 3 pm.

It is recommended that any spot trades transacted on the 29th and 30th December 1999 will be for value 5th January 2000. Trades incepted on 4th January 2000 will be for value 6th January 2000.

It is generally recommended, and is already policy in many member institutions, that any maturing bullion forward trade should try to avoid the 24th, 29th and 30th December 1999, together with the period 4th January to the 7th January 2000 inclusive, where possible and practicable.

Clearing Members suggest that all bullion transfers value 4th and 5th January should be advised to them by 4pm London time on the 30th December 1999.

Contingency Arrangements

- **The office of the LBMA** will be used as a contingency meeting site in the event that one or more members are unable to enter their own offices or communicate with other clearing members due to telephone line problems. The Bank of England has agreed to provide a secondary contingency site. It is anticipated that each Clearing Member will likewise offer contingency space to any other Clearing Member(s) in the event of difficulties to the extent that is practicable.

- **Each Clearing Member** will lodge client statements, balance sheets and physical stock records in sealed confidential envelopes, together with a contact list detailing phone numbers of key bullion clearing staff with both the Bank of England and the LBMA Executive, as at close of business 29th December 1999.

- **The LBMA Executive** will call each Clearing Member by 9.00am on the 4th January to ensure that they are able to communicate and operate systems without major problems. If the LBMA Executive itself is facing problems, Peter Smith will call the other Clearing Members from 9.15am on the 4th January 2000.

It is recommended that Clearing Members avoid, whenever possible and practicable, the movement of physical precious metals between the 23rd December 1999 and the 7th January 2000. Allocations should be used between Clearing Members where practicable. ■

Central Banks and Gold

By Martin Murenbeeld, President, M. Murenbeeld & Associates Inc.

The central bank community is undergoing vast changes, moving towards the formation of currency blocks. The best example is Europe, where one central bank is replacing 11. Once the euro is fully adopted, the 11 will become purely advisory institutions. A similar situation is emerging in North and South America, where the US dollar is becoming an increasingly dominant currency. The Argentinean peso, fully backed by the dollar, is now only used for domestic transactions. If the peso were to be entirely replaced by the US dollar, the Argentinean central bank would be reduced to a watchdog capacity. And Asia is drifting towards two blocks, one based on the yen and one based on the Chinese yuan.

A Trend Towards Currency Blocs

Unlike in Europe, national currencies will not necessarily soon disappear. And banks such as the Bank of Canada and the Bank of Thailand will continue to look after domestic monetary policy. But their principle external role will be reduced to managing the cross-rate of the Canadian dollar and the baht against the US dollar and the yen respectively. The dominant central banks – setting overall monetary policy for the Bloc – will be the Fed and the Bank of Japan, respectively.

In other words, present trends suggest the central bank community is evolving into a small group of 'dominant' central banks (such as the ECB, the Fed and the Bank of Japan) and a large group of 'satellite' central banks (including the Bank of Canada, the Bank of Thailand, etc.).

Central Banks Will Need Fewer Reserves

What does this mean for reserves, and gold reserves specifically? In short, central banks will need fewer reserves. In today's international monetary system reserves simply allow a central bank to buy its own currency in the foreign exchange market, thereby enabling a country to stave off currency devaluation. Sometimes this is desirable; more often it isn't, and central banks are beginning to realise this.

Note that the ECB chose not to stop the euro from weakening over the spring and summer this year. Why? For one thing, the European economy was weak, and a weaker euro stimulates exports. For another, there is a historic policy bias in Europe to stop a domestic currency from rising, but not falling, against the dollar. (To stop a currency from rising, the central bank sells its own currency and buys US dollars, thereby adding to reserves). The ECB may, in fact, never need to call on the remaining reserves of its members. A 50 billion euro reserve pot, of which the US dollar makes up the majority, may well prove to be more than sufficient for any eventual intervention the ECB might reluctantly decide upon.

The Role for Gold is Diminished

Is there a role for gold in the emerging central bank system? Probably not in the reserves of the satellite central banks. The Bank of Thailand will in future need some yen in order to support the baht against the yen; the Bank of Canada likewise needs US dollars, but neither needs much else. Indeed, 'satellite' central banks have little direct need for large reserve balances, and little direct use for gold. (The Bank of Canada, as one of the early, true satellite central banks, figured this out a long time ago. It started selling gold in 1980.) 'Satellite' central banks will in future borrow the reserve currency from their respective dominant central banks as needed. And they will adopt a policy of greater exchange rate flexibility, which lessens the overall need for currency reserves. (The Asian Crisis has taught a number of Asian countries not to fix their currencies too firmly, in fact, and to focus in future more on the Yen.)

There is, however, a use for gold in the reserves of dominant central banks. The ECB, for example, has little choice but to hold US dollars and yen, the two other dominant currencies, in its reserves. The first argument in favour of gold is therefore one of portfolio diversification. Since gold and the US dollar are negatively correlated, a reserve portfolio is more efficient with gold than without it.

There is a second, political argument in favour of gold for these central banks. Trade frictions, indeed future economic wars, will be fought between the dominant economic powers, so a dominant central bank may decide to hold more gold in its reserves and less of the other dominant currencies. Gold, after all, is not another

OFFICIAL GOLD HOLDINGS - How Much Can be Sold?

Country/Region	latest reporting period	GOLD million ounces	GOLD metric tonnes
World Total	Jun-99	**1,079.89**	**33,587.9**
Subject to Sept. 26, 1999 Agreement to Limit Gold Sales			
Austria	Jul-99	13.00	404.3
Belgium	Jul-99	8.00	248.8
Finland	Jul-99	2.00	62.2
France	Jul-99	97.00	3,017.0
Germany	Jul-99	111.52	3,468.6
Ireland	Jul-99	0.19	5.9
Italy	Jul-99	79.00	2,457.2
Luxembourg	Jul-99	0.08	2.5
Netherlands	Jul-99	32.53	1,011.8
Portugal	Jul-99	20.00	622.1
Spain	Jul-99	17.00	528.8
Sweden	Jul-99	5.96	185.4
Switzerland	Jul-99	83.28	2,590.3
UK	Apr-99	22.98	714.8
ECB	Jul-99	24.03	747.4
Total		**516.57**	**16,067.0**
Countries Unlikely to Sell Gold - "Dominant" Central Banks			
US	Jun-99	261.69	8,139.4
Japan	Jul-99	24.23	753.6
China	Jun-99	12.70	395.0
Russia	Jun-99	13.21	410.9
India	Jul-99	11.50	357.7
Total		**323.33**	**10,056.6**
Organizations Unlikely to sell Gold Directly Into the Market			
IMF	Jul-99	103.43	3,217.0
BIS	Jun-99	6.43	199.9
Total		109.86	3,416.9
Total of Above		**949.76**	**29,540.5**
Gold Subject to Unconstrained Selling			
World less Total Above		**130.13**	**4,047.5**

Source: IMF

dominant central bank's liability. It is this argument, I believe, which underlies a US reluctance to even consider selling gold. This is also the heart of an argument that China should hold less of its reserves in US dollars and at least three to four times more gold in its reserves (an argument which surfaced in China last year).

If the ECB's formula of 15% gold reserves were adopted by the Bank of Japan and the Peoples Bank of China (due to become a dominant bank by virtue of the size of the domestic economy), 3,400 and 2,700 tonnes of additional gold would be required by each respectively. While a significant amount, it is less than the nearly 16,000 tonnes of gold in 'satellite' European bank reserves that is potentially 'excess'– plus all the gold in satellite central bank reserves in Asia and Latin America (see Table).

To be sure, some small central banks have bought gold – Poland is one. The National Bank of Poland may not be prepared, yet, to accept satellite status to the ECB. But this will change in time. With the Bank of England signalling its desire to hold fewer gold reserves (in preparation for its satellite status to the ECB?) it is difficult to imagine central banks of minor economies remaining totally outside the orbit of some dominant central bank. Rather, present trends suggest that the evolving role for gold in central bank reserves comes down to the a role in 'dominant' central bank reserves only - for reasons of portfolio diversification and political independence.

The European Agreement to Limit Gold Sales

The recent announcement that the ECB and 14 other European central banks will limit their gold sales to 400 tonnes – and cap their lending activities – does not change the conclusions above. Indeed, the statement might even be interpreted as confirmation of the trend to lower gold reserves. Furthermore, Gold Fields Mineral Services Ltd. has estimated that western central banks sold an average of almost 350 tonnes of gold per year over the last 10 years. And IMF data suggest that the euro area has sold an average of about 240 tonnes per year over the last six years. Limiting European gold sales to 400 tonnes over the next five years would therefore appear to "lock in" a trend already firmly in place, if not also raise the amount of gold to be sold each year.

That is not to say that the Agreement was not welcome, of course. It removes the possibility that first one, then another, and then yet another central bank rushes out to sell gold before the price sinks yet further. I don't need to remind the reader just how depressed the gold price was in the wake of the UK announcement to sell gold. The UK was not expected to sell gold; if the UK decides to sell gold which country is next? Germany? The Agreement cut through this negative speculation; regardless of which country might follow the UK (and Switzerland), total gold sales would be limited to 400 tonnes per year.

Indeed, the gold market can handle 400 tonnes of European gold each year. We estimate that the price of gold can comfortably move into the low $300's, despite what on the surface would appear to be an agreement for a modest increase in European central bank gold selling. The danger to the market was uncontrolled selling from Europe, where most of the official gold resides. That danger has been contained. (Table1 shows that there are only about 3000 tonnes of gold outside the European area, the IMF and the BIS that could potentially add to the 400 tonne limit.)

Provided that the Agreement is rolled over every five years, the selling of gold by the world's satellite central banks need not worry the market unduly. Depending upon the macro-economic environment – inflation, the U.S. Dollar, etc. there will be a gap between basic supply and demand at gold prices below $400. Mine supply is simply unable to keep up with demand for gold jewellery. Some form of above-ground gold supply is accordingly required if the price of gold is to be kept below $400. The wealth that will be created in the world over the next generation means that demand for gold products will inexorably rise. Satellite central banks can thus ensure themselves of a decent price for their gold over the next 20 to 30 years, provided they take that long to sell their gold reserves. ■

Dr. Martin Murenbeeld, Principal, M. Murenbeeld & Associates Inc. M. Murenbeeld & Associates Inc. consults on gold markets, foreign exchange markets and international financial and economic trends. The company's reports include the Gold Monitor which forecasts gold market trends and the Financial Monitor which forecasts economic, interest rate and foreign exchange market trends. The firm's clients include gold miners, investment counselors, corporate treasurers, financial institutions, government treasuries, and international gold organizations. Dr. Murenbeeld is frequently quoted in the financial press and speaks regularly at international foreign exchange and precious metals conferences. Dr. Murenbeeld is also a member of the Board of Trustees of the University of Victoria Pension Fund and teaches an international finance course in the University's MBA program.

CENTRAL BANK GOLD RESERVES

(Classified by Dominant or Satellite Status

	Latest Date Reported	(a) Gold Reserves (mill. oz.)	(a) Gold Reserves (tonnes)	(b) Foreign Exchange Reserves (bn$)	(c) Gold as Percent of (a)+(b)	(d) Gold required for 15% reserve ratio (mill ounces)	(a)-(d) Excess Gold at 15% (mill. oz)	(a)-(d) Excess Gold at 15% (tonnes)
"DOMINANT" CENTRAL BANKS								
ECB	Jul-99	24.03	747	41.43	14.82	24.37	-0.34	-11
Japan	Jul-99	24.23	754	236.13	2.99	138.90	-114.67	-3,567
US	Jun-99	261.69	8,139	29.75	72.52	17.50	244.19	7,595
China	Jun-99	12.70	395	147.20	2.52	86.59	-73.89	-2,298
Russia	Jun-99	13.21	411	8.21	32.55	4.83	8.38	261
India	Jul-99	11.50	358	30.65	10.12	18.03	-6.53	-203
Sub Total		*347.36*	*10,804*	*493.38*	*17.44*	*290.22*	*57.14*	*1,777*
Sub Total	*(ex US)*	*85.67*	*2,665*	*463.63*	*5.25*	*272.72*	*-187.05*	*-5,818*
"SATELLITE" CENTRAL BANKS of the ECB (no gold reserves required)								
Germany	Jul-99	111.52	3,469	52.08	39.11		111.52	3,469
France	Jul-99	97.00	3,017	33.24	46.68		97.00	3,017
Switzerland	Jul-99	83.28	2,590	33.62	42.63		83.28	2,590
Italy	Jul-99	79.00	2,457	16.78	58.55		79.00	2,457
Netherlands	Jul-99	32.53	1,012	6.42	60.31		32.53	1,012
UK	Apr-99	22.98	715	23.80	22.46		22.98	715
Portugal	Jul-99	20.00	622	7.49	44.48		20.00	622
Spain	Jul-99	17.00	529	32.98	13.39		17.00	529
Austria	Jul-99	13.00	404	13.60	22.29		13.00	404
Belgium	Jul-99	8.00	249	8.90	21.25		8.00	249
Sweden	Jul-99	5.96	185	11.90	13.06		5.96	185
Greece	Jul-99	4.54	141	19.79	6.44		4.54	141
Turkey	Jul-99	3.75	117	21.54	4.96		3.75	117
Poland	Jul-99	3.31	103	24.82	3.85		3.31	103
Romania	May-99	3.25	101	1.93	33.60		3.25	101
Denmark	Jul-99	2.14	67	13.69	4.48		2.14	67
Finland	Jul-99	2.00	62	5.98	9.11		2.00	62
Sub Total		*509.26*	*15,840*	*328.55*	*31.74*		*509.26*	*15,840*
of China or Japan								
Taiwan	May-99	13.57	422	89.60	4.35		13.57	422
Philippines	Jun-99	5.83	181	12.11	12.62	5.83	181	
Indonesia	Jul-99	3.10	96	26.20	3.43		3.10	96
Thailand	Jul-99	2.47	77	30.50	2.37		2.47	77
Malaysia	Jul-99	2.34	73	29.78	2.30		2.34	73
Sub Total		*27.31*	*849*	*188.19*	*4.17*		*27.31*	*849*
of the U.S.								
Venezuela	Jul-99	9.55	297	11.03	20.63		9.55	297
Brazil	Jun-99	4.18	130	42.58	2.86		4.18	130
Canada	Jul-99	2.11	66	21.87	2.81		2.11	66
Sub Total		*15.84*	*493*	*75.48*	*5.92*		*15.84*	*493*
Rest of World	Jun-99	47.39	1,474	472.41	2.92		47.39	1,474
IMF	Jul-99	103.43	3,217				103.43	3,217
BIS	Jun-99	6.43	200				6.43	200
Sub Total		*157.25*	*4,891*				*157.25*	*4,891*
Grand Total		*1,057.02*	*32,877*				*766.79*	*23,850*
Grand Total	*(ex. US)*	*795.33*	*24,737*				*522.61*	*16,255*

Source: IMF, International Financial Statistics
Gold is valued at $300

Signed Sept 26'99 agreement to limit gold sales (plus Ireland and Luxembourg)

Clips and Quotes since the previous edition of the *Alchemist*

Gold Quotes

- Attempts to stop UK gold auction ignored, *Financial Times, 6 July 1999*

- Gold slumps after auction, *Times, 7 July 1999*

- US Congress opposes gold sales by IMF, *Financial Times, 6 July 1999*

- **There seems to be something of a herd instinct developing among the central bankers** *Is It Goodbye to Gold, or Just 'See Ua Later?', Wall Street Journal, 13 July 1999*

- **Put mildly, gold has an image problem right now.** All That Glitters Isn't Golden for Investors, *Wall Street Journal, 16-17 July 1999*

- Bank governor outvoted on sale of gold reserves, *Guardian, 6 August 1999*

- AngloGold pleads with Bank to scrap auctions, *Times, 9 August 1999*

- IMF refuses to rule out gold sales, *Financial Times, 10 August 1999*

- Alternative to auctions offered, Financial Times, *14 September 1999*

- **Bullion analysts predict that the UK auction of another 25 tonnes will be a quiet success.** Bank poised for second gold auction, *Financial Times, 20 September 1999*

- Gold Trading Remains Subdued Ahead of U.K.'s Tuesday Auction, *Wall Street Journal, 20 September 1999*

- Gold breaks $260 barrier, *Financial Times, 22 September 1999*

- Rise in price lifts shares, *Financial Times, 23 September 1999*

- Glitter fades as price plummets, *Financial Times, 24 September 1999*

- IMF to revalue gold stocks to finance debt relief scheme, *Financial Times, 24 September 1999*

- **Wim Duisenberg…said the intention was to maximise certainty in the gold market following recent volatility.** Central banks in ban on gold sales, *Financial Times, 27 September 1999*

- Big clouds clear over gold, *Financial Times, 28 September 1999*

- Gold price jumps $11 after banks limit sales, *Financial Times, 28 September 1999*

- Gold price regains its glister, *Times, 28 September 1999*

- **The important part of the agreement is that there has been agreement.** Gold sales, *Financial Times, 28 September 1999*

- Rate fears weigh as golds continue to shine, *Financial Times, 29 September 1999*

- **It was probably one of the longest stints ever endured by a patient in intensive care. After having been admitted to the ward in 1997, courtesy of the Australian government, with acute symptoms of price depression and lack of immunity to speculation, the death of gold appeared imminent.** Patient on the brink of death makes a surprising recovery, *Financial Times, 30 September 1999*

- Gold Volatility Doesn't Worry EU Minister, *Wall Street Journal, 30 September 1999*

- Banks urged to rethink gold sales, *Financial Times, 30 September 1999*

- Ashanti hedging deal calms bullion, *Financial Times, 1 October 1999*

- Gold price jumps to two-year peak, *Financial Times, 6 October 1999*

- **Imagine slamming a moving car into reverse gear. You can expect lots of grinding noises, and probably some damage to the machinery.** Gold regains a little of its lustre, *Financial Times, 2 October 1999*

- **But this week, some gold investors have put away their party hats.** As Gold Price Soars, Firms Find 'Hedges' Can Be Thorny, *Wall Street Journal, 7 October 1999*

- **You might expect this to benefit the companies that dig the stuff out of the ground.** *Gold Hedging: Bugs, Economist, 26 October 1999*

To the editor:

The joint central bank announcement of 26 September setting limits to sales and lending of gold reserves sent shock waves through every sector of the market. Following are some reactions.

We confess to being absolutely astounded by the Central Bank moratorium. We would never have expected such a development. We still want to know why they really did what they did!

We view the moratorium as really only a reprieve for the gold mining industry. It has created a higher trading range with $300 to $340 representing the extremes of the range. We think prices will move sideways within that range for some months to come. Such high average prices will take their toll on physical demand in India, the Middle East, and Asia. We would not be at all surprised to see a 10 % drop in physical offtake as a result of the Central Bank action. We strongly suspect that the central banks will begin to cheat on the lending side of the agreement within a year or two. But we see high lease rates remaining.

We would be amazed if rallies too much over $340 can be sustained. The bottom line is that good rallies should still be sold. But now it is important to remember to cover in the shorts as well!

– **Ted Arnold**
Minerals Strategist, Prudential-Bache Int Ltd. London

In my view the September 27th announcement on behalf of 15 European Central Banks was a seminal event.

On another September Friday in 1869 US President Grant unexpectedly released government gold to break an attempted corner on the market. This time the Europeans unexpectedly withheld government gold to stop persistent bear raids.

The first and cardinal point of the central banks' communiqué was 'Gold will remain an important element of global monetary reserves'. Their decision has lifted a huge weight from the market, not because of the extent of their activities but because of the negative sentiment gold leasing in particular created.

Central banks may co-operate temporarily to see that some combatants remain standing. Another reversal of central bank policy on an issue so basic to central bank management as gold, however, would risk the loss of public confidence in central banking itself.

That is why central bank lending, once central banks retrieve all their gold in five or so years, is destined for the dust-bin of history. Gold will remain the ultimate measuring rod for all government-issued notes.

Oh happy days.

– Harry Bingham
Van Eck Global, New York

The sharp rise in the gold price has brought welcome relief to those of us who invest in the gold mining industry. Workers, governments and gold mine shareholders are all immediate and clear-cut beneficiaries.

Sadly any abrupt change in market direction these days seems to be accompanied by a casualty list. For some years now we at Mercury have warned that alongside every hedge there runs a ditch – and the higher the hedge the deeper the ditch. Gold mining companies of course were never keen to hear our views.

Having been seemingly proved right in the end we nonetheless take no pleasure in reading grim headlines, which deter fresh investment in the gold industry at the very moment when it is needed most. Ashanti and others similarly snared by the abrupt change in direction of the market are presumably now wishing for a return to the depressed and calm market conditions of earlier in the year. This would allow them to repair the damage done to their companies. How sad!

There is however a silver lining to the hedging cloud. The gold mining industry has obviously had a very bad fright and some will doubtless lose their jobs as a result. We therefore expect to see their successors adopt a much more responsible approach to gold derivatives trading by mining companies in the future.

For their part we expect that the banks will look much more carefully at such issues as counter-party risk and margin conditions.

In our view, a higher gold price plus a reduction in hedge books makes for a healthier, more attractive industry in which gold fund investors can try to make some money.

– **Graham Birch**
Mercury Asset Management, London

After the joint statement by the 15 European central banks, the market sees more speculative trading and short covering. However, the surge has brought dishoarding in the Asian jewellery market and a temporary discount will prevail until the correction of price. If the price continues to be volatile, more hedging or arbitrage opportunities will be out in Asia. See you all back in Hong Kong again, like those good old days in the '80s.

– **Raymond Chan**
President
The Chinese Gold & Silver Exchange Society, Hong Kong

The ECB gold announcement was pure theatre.

The ECB banks agreed to limit their gold sales to no more than 400 mt per year for the next five years. That is roughly double what these banks have been expected to sell during this time. It is easy to promise not to exceed a limit that is far above what you intend to do. Similarly, the wording regarding central bank gold leasing practices was strong enough to reassure the markets but vague enough to give the central banks all of the discretion they desire.

That, in the end, is the purpose of central bank pontifications: to be reassuring to markets, but vague enough to allow ultimate discretion to the banks' managers. In this regard, the ECB announcement was standard central bank issue. It appeased the gold producers and World Gold Council. It helped push up gold prices, which already were rising. It hurt the shorts, which have been irritating the European central banks by continually using false rumors about possible central bank gold sales to push prices lower. That's not bad for an empty promise.

–**Jeffrey Christian**
CPM Group New York

he sudden flare-up in international gold prices saw casualties in the Indian market. It is reported that importers of gold in Bombay, Delhi, Madras and Ahmedabad suffered heavy losses of up to Rps 3,000 million due to turmoil. These dealers had bought more than 600,000 ten-tola bars from banks when prices were near $255 per ounce but under open fixing (without fixing a final price). They then sold the gold in India at a price of around Rps 46,600 per ten tola bar. But these importers ended up covering their purchases at $285-313 per ounce and thus suffered heavy losses. In the meantime, Indian prices shot up to Rps 57,000 per ten tola bar but there were no buyers. Instead, there was a spurt in the inflow of scrap to the market, all pointing to the possibility that India could see a return to the situation of 1980 when significant quantities of gold were illegally exported.

Madhusudan Daga
Consultant, Bombay

> *"Alongside every hedge there runs a ditch."*

> *"It is the most important development in the gold industry in the past 10 years."*

The World Gold Council welcomes the Washington Agreement. It has put paid to suggestions that the world's central bankers no longer believe in gold as a reserve asset. Furthermore, the signing of this pact should be applauded because it was rather a courageous thing to do, to forge unanimity in the face of a very hostile bear market. We hope that when the time comes it will be renewed and elaborated.

–Haruko Fukuda
Chief Executive
World Gold Council

Ultimately the decision by the European central banks to limit gold sales for the next five years will be seen as one of the landmarks in the gold market in our generation. Although central banks have been net sellers into the market since 1965 (prior to that they were regular net buyers), the uncertainty about the timing and amount of their sales has hung over the market for much of the 1990s. That fear has now been dissipated. True, sales will continue, but modest and controlled. And I hope with that precedent that, in five years' time, a similar sales policy will be repeated.

Thus, the market, and perhaps even the elusive investor, will have a rather clearer picture of the prospect for the gold price than has been apparent in recent years. In 1985 Louise du Boulay, then editing the Consolidated Goldfields Gold Survey, shrewdly predicted there would be no increase in the gold price in real terms for the rest of the century. She was right. I now believe, in the new century, we may see a slightly better outlook.

– Timothy Green
London

It is unlikely that the European agreement to limit gold sales will reduce the supply of official sector bullion sold directly into the market. Certainly, the decision to restrict sales to no more than 400 tonnes per annum over the next five years has removed the threat of a collective rush to the exits by European central banks, although this nightmare scenario was always improbable, and all the more so after Monetary Union. But it is still remarkable how many people are ignoring the fact that 400 tonnes per annum is actually quite a high number. GFMS's research shows that from 1989-98 annual net official sector sales averaged 313 tonnes. Even more significantly, over the same period, net sales from Europe averaged 184 tonnes per annum. Thus the new 400 tonne 'limit' is quite generous compared to the recent past. Furthermore, having found a politically acceptable means to resolve their mutual 'gold problem', we would not be surprised if in five years' time the European central banks were to prolong their arrangement allowing new sellers to take advantage of the available quotas.

Perhaps of greater importance to the market and the prospects for higher gold prices is the European decision to limit lending to existing levels. This self denying ordinance has already had a tremendous impact on leasing rates and thereby on the gold price itself. We expect the cap on lending to lead to higher equilibrium levels for both leasing rates and the price in future. Even though rates should come down as many speculative and some producer positions are unwound, borrowing costs will still be higher than they would have been were there good prospects for fresh lending from Europe. In addition, for the rest of this year at least Y2K concerns will continue to boost leasing rates. Finally, as regards the price, although we do expect gold to lose some of its gains (partly due to the price-sensitivity of demand), a less aggressive stance from producer hedgers and speculative short sellers should lead to somewhat higher price levels than appeared likely prior to the dramatic market developments seen in recent weeks.

– Philip Klapwijk
Managing Director
Gold Fields Mineral Services
London

The recent decisions by the IMF and 15 European central banks have brought about a fundamental shift in the gold market. The gold price had been held hostage by the threat of open-ended sales, frightening many investors about the possibility of an over supply of gold on the market. This perception encouraged speculators to 'short' the market using inexpensive leased gold, driving the price even lower. Not only did speculation drive down the value of gold, but it also had severe adverse effects on employment and the economies of many poor gold producing countries. Clearly, continued uncontrolled speculation could have led to an economic and humanitarian disaster. The IMF and these 15 central banks are to be commended for their responsible actions. The combined and concerted efforts of the organisations that work for the gold industry to successfully curtail institutional gold sales, is a wonderful example of what can be achieved when the global gold industry works together. It is also an important reminder of the need to have strong industry associations, which serve as both forums for discussion and as catalysts for action on gold-specific issues.

– John Lutley
President, The Gold Institute

> *"The new 400 tonne 'limit' is quite generous."*

The Washington agreement of 15 European central banks to limit sales of gold and, more significantly, the pool of gold available for leasing, is the most important development in the gold industry in the past 10 years. The signatories collectively hold over 70% of official sector gold stocks. It was the uncertainty over what they would do with their gold and the expanding pool of gold being loaned at very low lease rates that fuelled speculator short selling and aggressive producer hedging. The agreement also clarifies gold's role as a monetary asset. In limiting the lending pool, lease rates are higher. This decreases the motivation for speculators to short gold, and for producers to sell forward. With growing US dollar trade deficits, increasing concerns about inflation and stock market valuations, the stage is now set for a strengthening gold market.

– Rex McLennan
Executive Vice-President and Chief Financial Officer, Placer Dome

The world's leading financial policy makers have declared affirmatively that gold is a monetary asset. In agreeing to limit both their future sales and lending of gold, fifteen European central banks, supported by the United States, Japan and the IMF, have reasserted control over their assets and helped return rational behaviour to the gold market. Since 1996, gold has been hammered by speculators, hedgers and bullion analysts who have proclaimed gold a relic that should be sold or lent out at cheap rates. The price of such advice, a \$150-an-ounce drop in the gold price to a 20-year low, cost holders of the metal and shareholders of gold mining companies dearly. It is significant that a few producers, acting through the World Gold Council, were able to lobby the central bankers to reconsider their past practices with respect to sales and leasing of bullion.

For mining companies like Newmont, this means that supply and demand will again be the determinant of market price, and that decisions to invest in exploration or new mines will be based on true economics, rather than artificially inflated values supported, in some cases, only by forward selling. The above-ground stocks of gold will always be a factor in supply/demand fundamentals, but the rational management of these assets will inure to the benefit of both the central banks and the gold mining stakeholders. The market clearing price of gold will determine which properties are developed or stay in production. Over the long term, this will be good for our industry.

– Wayne W. Murdy
President, Newmont Mining Corporation

Spare the rod and spoil the child.

The Central Banks' September announcement, while painful for some participants, restores some lost integrity to a market that was starting to buckle under the weight of paper.

Through their comments on future lending policy, the Banks are effectively converting a de facto situation into de jure, but with the implicit approach of a jaded father who is forced to tell a greedy child "enough". Other Central Banks are likely to continue to tread their own paths in this respect, but this signal from these sizeable holders serves as a timely reminder that gold resources, unlike synthetic financial instruments, are finite. They have used the rod to save the child.

With respect to sales, the ESCB banks (including the ECB itself) merely reiterated the points that senior officials made in January, and which also were clear in the Protocols to the Maastricht Treaty, i.e., that large-scale gold sales from within the group were very unlikely. The manner of the Statement, though, with the significant inclusion of Switzerland and the UK, as well Sweden, spelt it out with force – and the embrace of gold as a vital part of the monetary system serves to reassure the market of the acceptance that fiat money, unlike physical gold, carries an identifiable liability.

– Rhona O'Connell
T. Hoare Canaccord, London

> *"Liquidity is the lifeblood of any market"*

The price and leasing rate surge resulting from the joint central bank announcement threatens irreparable damage to the jewellery trade – the only sector that can absorb the future supply emanating from the mining industry and the official sector. Attention has focused on the problems of producers facing margin calls on their large hedge books, but many jewellery wholesalers and retailers face an equally serious threat.

Following announcements by the Swiss National Bank and the Bank of England and the probability of mobilisation of IMF gold, many jewellery dealers were persuaded to hedge their stocks of gold – often by means of the same so-called "zero-cost" option packages the mining industry has used. But what would have represented cautious protection in the prevailing negative price environment rapidly turned into a potentially fatal exposure to the sharp rally after the naïve, not to say irresponsible announcement of the European central banks.

Judging by the mood in many physical gold markets, where demand is now non-existent and huge reverse flows of scrap jewellery are starting, it is likely that the present tone of triumph exhibited by some representatives of the producing industry will prove to be short-lived.

–Harish Pawani
Bin Sabt Jewellery, Dubai

"Like Dead Sea fruits that delight the eye but turn to ashes on the lips", so too the ECB's attempt to redress the damage to the gold market and mining industry caused by the British government's ill-considered sales announcement in May. While the certainty to be provided by the controlled sales programme is to be welcomed, albeit at twice the level the market has absorbed over the past decade, the limitation on lending is not. Liquidity is the lifeblood of any market and restricting it can be painful, as we see now. Central banks are planning to be generous in providing liquidity to other markets over the millennium period and gold needs to benefit from the same pragmatism.

– Terry Smeeton
Standard Bank London Ltd.

Best not to read between the lines. Or indeed the lines themselves. Instead, two cheers for central banks: saying anything, collectively and not so negatively about gold; and for timing their oral intervention with the acumen – just after the successful UK auction – we thought only applied to their nudges and winks to forex markets.

The devil, at best, is in the detail. Motive for 'Goldpec'? The rush to the door caused by the UK sale, perhaps. Endorsement for gold? 'We think gold is important', but want to sell 2000 tonnes, for starters. And we clearly could not find official buyers or we wouldn't have had to go through this 'Solomon Binding' business. And, at 400 ÷ 15 = 27 tonnes per signatory per annum of sales, this speaks less than volumes for gold's marketability. Not to mention (though someone will, probably) the sustainability of Switzerland's selfless position as the Saudi Arabia of Goldpec, with twice as much to sell as the other 14 put together.

– Will it work? It must. If price and lease rates fall back to pre-Goldpec levels, then 'square one' – fears of central bank sales the market was just starting to live with – will be looked upon wistfully.

– Andy Smith
Mitsui

Two cheers for Euroland's central bankers (three for Flash Gordon and Steady Eddie) for opting for the quiet life, for a while, by establishing the last commodity buffer stock. Near term, it's a messy end for the short-selling game and a floor under the market. Medium term, it keeps analysts in business, looking at other things than the central banks. Long term, the problem comes right back again, magnified, in five years time.

– Tony Warwick-Ching
Virtual Gold London

The ECB moratorium on gold sales comes as a welcome relief. No more turning up to the office to find the Bank of Wherever has sold off its gold reserves in order to earn an extra few dollars and no more wondering if the Bank of Nextdoor will be the next to sell in order to reduces its gold holdings towards the (ever diminishing) world average.

In the short term, questions over producer hedge books, fund positions and bullion bank exposure are likely to dominate the headlines. Over the medium term, however, the key question will be what will bring physical supply and demand back to balance? Over the last ten years the "gold gap" between physical offtake and new mine production/scrap arisings has averaged 535t – met through central bank sales (315tpa), producer hedging (212tpa) and dis-investment. With central bank sales and hedging likely to be lower following the moratorium, and with the funds wary of shorting the market, it is unclear how this gap will be covered. Any schoolboy textbook would indicate that prices should rise to clear the market, although the example of silver – which is in a similar structural deficit but has seen prices fail to rise over recent years – does not bode well.

– Alan Williamson
Head of Commodity Research
HSBC

Dubai

City of Merchants, City of Gold

by Jeffrey Rhodes, General Manager, Standard Bank London Limited

When I relocated to Dubai in 1997, I imagine that friends and colleagues were somewhat surprised by the move. Most had never been to Dubai. Some weren't even sure exactly where it is. But over the past couple of years, a number have paid a visit to the area and I am afraid that the secret is out! Whether the trip was for business, pleasure or a combination of both, they've found more than enough reason to want to return.

One of the more surprising aspects of Dubai, which until 1971 was a Protectorate of the United Kingdom, is the diversity of its landscape. The countryside ranges from 700 kilometres of white sandy coastline to the west, to rolling desert dunes with multicoloured sands, to the Al Hajar mountain range at Dubai's eastern border – a rugged and stark lunar landscape.

The city itself, originally a small fishing settlement taken over in 1830 by a branch of the Bani Yas tribe led by the Maktoum family, is today a fascinating blend of modern and traditional, roughly divided into two areas separated by a creek that runs through its heart. The old part, called Deira, where you will find the gold souk, lies to the north. The southern part, Bur Dubai, where we are located, is the modern area, where the pace of life is more like Manhattan. The Creek, a natural inlet from the Arabian Gulf, is a working waterway from where traditional Dhows set sail as they have done for over 100 years, delivering all kinds of cargo around the Gulf and surrounding regions. A feature is the Abra, or water taxi. A multitude of these small, basic wooden boats, each carrying up to 30 people, criss-cross the Creek, ferrying passengers in a matter of minutes at a cost of less than 10 pence. The experience is not to be missed but ladies beware – the journey is an adventure, and short skirts and high heels are definitely out.

Dubai's globally central location is excellent for trade – the perfect crossroads for doing business into the Middle East or even further afield. It is the gateway to the Arabian Gulf and the Indian sub-Continent and is within two hours flying time of Bombay, Teheran, Jeddah, or Kuwait. It is virtually equidistant between London, Jo'burg and Hong Kong, while there are direct flights to Melbourne. It has become the world's number one transhipment centre for physical gold in both small bar and jewellery form. In 1997 Dubai's gold imports were 660 tons. Although this fell to 377 tons in 1998, it retained its leading position. Dubai is a veritable turntable and visitors to Dubai's famous gold souk will find jewellery in all kinds of different carats and styles with as much as 15 tons of the yellow metal held in the hundreds of jewellery outlets. Apart from gold, tourists will find many world class, five star hotels either located on beautiful white sandy beaches or in the heart of the city. There is even a 5 star resort located in the desert which can only be reached by 4x4 or by camel! Dubai will shortly boast one of the world's tallest hotels (reportedly a shade higher than the Eiffel Tower) which has been errected a few hundred metres offshore on a man-made island. For the businessman, Dubai has become the conference capital of the world with a major event being held virtually every week between October and April. The annual four-week long Shopping Festival in the spring, attracts over 2 million visitors.

Although people always associate the United Arab Emirates with oil, Dubai's real natural resource – which it will never run out of – is its climate. For several months of the year it's close to paradise, with warm sunny days and cool evenings. Not surprising that there are world-class sports facilities ranging from the familiar – golf, tennis, diving, and horse racing – to the somewhat less traditional pastimes, such as desert safaris, camel racing and rides, sand boarding (similar to winter skiing but on hot sand rather than cold snow), dune driving, and wadi bashing. I have tried the last two but not very successfully. My first experience of desert driving ended with my 4x4 stuck nose down in the bottom of a 'gold fish bowl' (desert drivers will know what that means) and I had to be rescued by a local Bedouin, much to the delight my colleagues. My first visit to the Wadi (or mountain valley) was no more successful as my expensive new 4x4 broke down miles from civilisation and eight of us had to cram into a friend's (yes I have one) small jeep and drive 100 kms through rugged mountains to safety. Still the experiences have not put me off and I always offer to take visitors to the desert or wadi – if they dare! See you in February. ■

LBMA Appoints New Chief Executive

The LBMA's new Chief Executive, Dr. Stewart Murray, has spent much of the past month learning the ropes from Chris Elston, who retires at the end of October. Stewart is best known to the gold and silver market from his nine years at the helm of Gold Fields Mineral Services Limited, which he left in the middle of 1998. During the past year he has been working as an independent consultant. He is no stranger to trade association work, having been the Secretary General of the International Wrought Copper Council in the early 1980s.

One month into his new job, Stewart is now coming up to speed and looks forward with increasing relish to the challenges that lie ahead. As he indicated "There is a very full programme, in part resulting from the new constitution that the LBMA adopted in July. The opportunity for foreign companies to apply for associate status means that the international profile of the LBMA will be raised – something that will be greatly facilitated by the success which Susanne Capano has had in expanding the role of the *Alchemist* in recent years."

Also on the agenda for next year – adapting to the regulatory environment associated with the new Financial Services and Market Act. More immediately, much of the Association's current efforts are being spent on organising the Precious Metals Conference that will take place in Dubai next February. But the ongoing bread-and-butter activities of the Association, in particular its responsibility for maintaining the Good Delivery Lists, are at least as important, not only to the members but to the world market.

Stewart is approaching his new tasks with a great deal of enthusiasm. But he sees one small difficulty: "My only problem is that I am not going to have enough time to get my swing up to a standard where I can give a respectable account of myself at the LBMA's golf day next May." ■

The LBMA AUTUMN SEMINAR

Thursday 18 November,
Trinity House, Tower Hill, London EC3N 2DH

Programme

11:15 am: Registration, followed by coffee
11:45- 1:15 SEMINAR

Chairman: Stewart Murray, Chief Executive, LBMA

***"Revival of the Monetary Role of Gold"**, Harry Bingham, Van Eck Associates Corporation*

***"Official Gold: Scary New World"**, Andy Smith, Commodities Analyst, Mitsui Bussan Commodities Limited*

1:15 pm – Buffet Lunch

for more information contact the LBMA Executive
Telephone: 0171 796 3067 Facsimile: 0171 796 4345 email: alchemist@lbma.org.uk

Going Global

The LBMA's New Membership Category – International Associates

By Stewart Murray, Chief Executive, The London Bullion Market Association

Since its founding in 1987, the only firms to be directly involved in the LBMA were those with a presence in the UK. However, the pivotal role London plays in the global bullion market ensures that while the LBMA has its base in London, it also has an international dimension. The issues with which the Association has been involved – ranging from refining (maintenance of the Good Delivery List) to trading benchmarks (GOFO) to standard documentation (IBMA and more recently, the ISDA Bullion Addendum) – affect participants in every sector of the market. These topics are a clear sign of the pro-active and committed efforts of a wide range of representatives from member firms to making the London market ever more efficient.

A Decade of Achievement

In recent years, the LBMA has undertaken an expanded range of activities that have been of very real interest to the wider gold market, including:

- the preparation of statistics describing clearing volumes in the London market;
- the provision of daily fixing prices for gold and silver on its web site;
- the upgrading of the relevance and quantity of information contained in the Association's quarterly journal, the Alchemist; and
- its educational role in providing a forum for discussion of important topical issues.

The Future

- A major Precious Metals Conference will be held in Dubai on 20th and 21st February 2000.
- Draft documentation to cover gold Interest Rate Swaps and Forward Rate Agreements is in development.
- Codes covering good practice in the London Bullion market for both investment and non-investment products are being written.

In response to frequent requests from foreign companies about becoming involved in the Association, a new membership category will be introduced from January 2000: International Associates. This will allow eligible companies that trade with the London market, but which are not located in the United Kingdom, to participate in the affairs of the Association. Although International Associates will not have voting rights, in most other respects, they will enjoy similar rights and privileges as do full members.

The range of companies that can apply for International Associate status includes refiners, mining companies, fabricators, bullion dealers and jewellery wholesalers. Stringent eligibility criteria will have to be met for acceptance. In general applicants will be required to meet the same high standards of professional conduct as members of the Association. A track record of market activity must be demonstrated, as well as evidence of sound financial standing. Three letters of recommendation must be provided.

There are a number of benefits for companies accepted as International Associates:

- International recognition
- Enhanced credibility
- Access to LBMA information
- Ability to have direct input into the ongoing work of the Association via the Chief Executive, who now has a specific responsibility for representing the views of the International Associates in the Management Committee.
- Involvement in the cultural, social and educational life of the Association
- Opportunity to advertise in the Alchemist at members' rates
- Inclusion on the LBMA web site.

For more information about becoming an International Associate, please contact the LBMA Executive. ■

1998-1999 LBMA Bursary Student,
Augustine A Boachie

A Senior Geologist with Ashanti Goldfields Ltd, he took a series of in-house and external courses before entering Imperial College's Masters Program in Mineral Deposit Evaluation. He calls receiving the bursary "an opportunity I will always cherish."

Pretty Money

By Sarah Da Vanzo, Managing Director, Consolidated Bullion Ltd

Gold has been coveted since man found the first nugget in an African riverbed and thought it was a piece of the sun that had fallen to earth. All cultures associate gold with the sun and fire, symbols of God, life, purity, power and enlightenment. Given its rarity and mystical associations, gold was owned only by a privileged few and became the ultimate display of wealth and honour. It came to represent the value of goods over 6,000 years ago, making it the oldest currency in the world.

Separately, gold's beauty and brilliance have inspired artisans throughout the ages to make wonderful objects to place on altars, adorn kings, reward greatness and profess love. Hence, gold dowry jewellery, literally "pretty money", became an important use for gold, and still is.

Today, jewellery is still the primary use for gold. Over 80% of all the gold ever mined is in the form of jewellery (about 15% of the world's gold is with central banks). However, the world is divided between two kinds of jewellery consumers:

- Consumers in developed markets (e.g., North America, Europe and Japan) represent roughly 30% of total gold jewellery consumption. They buy gold jewellery primarily for adornment as other forms of wealth have emerged, their economies have stabalised and hard currencies have replaced gold. The focus in these markets is on design aesthetics and self-expression, not the gold itself. Gold content has taken a backseat to design, causing low carat (9-14ct) jewellery and hollow jewellery to become popular. In addition, many Western designs require the gold to be alloyed for hardness and colour. It's difficult to maintain a fashionable mirror finish with high carat gold.

- Consumers in developing markets (the rest of the world, where populations and disposable incomes are growing fastest) represent 70% of total gold jewellery consumption. And importantly, because most of the jewellery is destined for dowries, they buy high-carat (22-24ct) gold. Here, the gold is more important than the design (which tends to be traditional and ethnic designs adapted for 22-24ct through the ages).

Gold is also used for industrial and medical uses but at significantly smaller levels than jewellery. Gold bar hoarding, or "investment gold", is concentrated again in developing markets where gold's value is stronger. However, these figures are blurred because gold bars and coins are feedstock for jewellery manufacturing.

Doesn't gold sell itself?

Historically, gold producers have relied on the fact that "gold sells itself" (i.e., demand is constant and always exceeds supply). However, today there are numerous threats to gold demand. Consumers have more products to spend their money on. Fashions and tastes change, resulting in new status symbols. The strengthening of hard currencies and the attractiveness of new investment vehicles detract from gold's appeal. The wildly fluctuating gold price has hurt its image as a long-term store of value and accessibility has eroded its mystique.

The industry needs to recognise that gold is a "brand" – arguably the oldest luxury brand in the world – that needs to be managed to maintain and enhance its value and desirability. The future of the industry is directly linked to the image and value of the brand: gold. Thus the gold industry needs to embrace classic pro-active brand management. However, presently there is no entity with the mandate, structure and/or industry support to do this.

Technologies and marketing

The marketing of any product encompasses technologies such as new product features and new ways to sell and distribute the product and new media. In the specialised discipline of commodity marketing, technologies play an even more important role in making the ordinary extraordinary. This is why my company has two divisions, technologies and marketing, which work hand in hand.

Through research and development we seek to find new uses for gold and new treatments and processes for the metal. We both invent and buy technologies. For example, we combined a couple of state-of-the-art technologies to create a new security device for bullion products that has the added benefit of being very attractive, functional, inexpensive and versatile. In addition, we've combined and tailored some new advances in casting and jewellery manufacturing to create a new improved method to manufacture bullion. Other technology projects range from software to sell bullion to coloured gold alloys. There are many technological advances in many different industries that can be applied to the gold industry. The gold industry must embrace technologies to breathe new life into the metal.

In addition, the conservative and sleepy gold industry is waking up to marketing. Many of the world's leading mines are not only savvy when it comes to marketing themselves, but also aggressively supporting gold marketing initiatives – Anglogold and JCI are probably the two most pro-active. Both are involved in a number of initiatives to stimulate the demand for gold, ranging from jewellery manufacturing efforts to on-line gold buying programmes.

Branding gold is also a new marketing trend in the industry. Many commodities have been branded over the years, such as Colombian Coffee, Virgin Wool, ALCOA Aluminium - so why not gold? In fact, branded ingredients are a new trend in the jewellery industry (two examples are Tahitian Pearls and Platinum 2000). In South Africa we recently introduced the world's first two gold brands: Ra‰ Pure African Gold‰ and GreenGold‰. Jewellery manufacturers wanting to differentiate their products are now seeking out branded gold.

For example, the World War II Memorial Fund in the USA was making an object of solid gold to be auctioned to aid the charity. They wanted to be sure the gold was pure and untainted (i.e., didn't contain any Holocaust gold) so they insisted on using Ra 100% Pure African Gold for the project. Another example is when the leading jeweller in South Africa, Jenna Clifford, was commissioned to produce some elephant sculptures for Nelson Mandela and the Three Tenors in conjunction with a project for the World Wide Fund for Nature (WWF). She insisted on making the sculptures out of GreenGold.

It is marvellous to be involved in one of the world's oldest industries dealing with one of the oldest products on the cusp of the millennium. In fact, the ironic juxtaposition of gold (g+old) and technologies (new) is probably one of the industry's strongest marketing strategies moving forward. Gold's fundamental value is emotional. It holds a special place in the hearts and culture of mankind. In an age of that combines inconsistency and uncertainty with rational thought, hard facts and cold technologies, there is a lot of potential for gold. ■

Sarah DaVanzo
Managing Director: Consolidated Bullion Ltd; Chairman, GoldMoney Inc.

An integrated marketing specialist with expertise in commodity/gold marketing and branding, Sarah lived and worked throughout Asia/Middle East for 10 years. In 1997, she moved to South Africa and became the world's first marketing director of a gold mine, Randgold. A global study on marketing and branding gold which she conducted in 1997 uncovered a surprising number of opportunities and needs, one of them being the need for a gold marketing function for South Africa, leading to the formation of Consolidated Bullion.

LBMA News

By Chris Elston, Chief Executive, LBMA

Annual General Meeting

The AGM of the Association was held on 21 July 1999 at the City of London Club.

In his report the outgoing Chairman, Peter Fava, drew attention to the changes to the Association's constitution that were to be voted on later in the Meeting, to the part played by the Gold and Silver Fixings in the market and to the potential impact of screen-based trading systems. He also thanked Martin Fraenkel (Chase Manhattan), who was standing down from the Management Committee, for his nearly four years of work on that Committee.

The following were elected to the Committee:
Category 1
Jeremy Charles – Republic National Bank of New York
Rick McIntire – Deutsche Bank AG
Simon Weeks – The Bank of Nova Scotia-ScotiaMocatta

Category 2
Neil Clift – The Chase Manhattan Bank
Martin Stokes – Morgan Guaranty Trust Company of New York

Category 3
James Dobell – Sumitomo Corporation (Europe) Plc
Colin Griffith – Standard Bank London Limited

After the meeting the Committee unanimously appointed Martin Stokes as Chairman and Simon Weeks as Vice-Chairman.

The Meeting duly approved the proposed constitutional changes. In outline these were:
Management Committee: instead of three places reserved for members of the Gold Fixing and two for other Market-Makers, five places will be reserved for Market-Makers; the number of places available for Ordinary Members will be increased from 2 to 3.

International Associates: this new category has been introduced with the aim of attracting into a closer relationship with the Association those outside the UK with close connections with the London Bullion Market (see article on page ……)

Chief Executive: to be a full voting member of the Management Committee with the special responsibility of representing the interest of International Associates.

Standing Committees: to be formed on an ad hoc basis with greater delegated powers than the existing Sub-Committees.

Rule Book: being drawn up to define more clearly the respective rights and responsibilities of the Management Committee vis-à-vis Members and vice versa.

Since the last AGM was of necessity held under the former constitution most of these changes will come into effect at next year's AGM.

At the end of the meeting Martin Stokes paid tribute to Peter Fava's work for the Association during his two-year tenure.

Membership Changes

- WestLB London became an Ordinary Member from 9 September 1999.
- The Market-Making Membership of Credit Suisse First Boston, following re-organisation, is now held in the name of Credit Suisse Financial Products/Credit Suisse First Boston.
- Midland Bank plc trading as HSBC Midland is now known as HSBC Bank plc.
- Tomen (U.K.) PLC resigned its Ordinary Membership from 31 October 1999.
- Following the merger of Degussa AG and Hüls AG, the name of Degussa Limited has been changed to Degussa – Hüls Limited

Good Delivery List

Additions
Gold
China, People's Republic of – Neimenggu Precious Metal Refinery of China, listed from 27 October 1999.
Kyrgyz Republic – JSC Kara-Balta Mining Combinate (KMC), listed from 27 October 1999.
Russia – State-Owned Enterprise Shyolkovsky Factory of Secondary Precious Metals, listed from 27 October 1999

Name changes
Gold
Brazil – the name of CRM – Companhia Real de Metais has been changed to CRM Comercial e Refinadora de Metais S/A.
– Degussa SA is now known as Degussa-Hüls SA.

Germany – Degussa AG is now known as Degussa-Hüls AG

Silver
Russia – Prioksky Plant of Non-Ferrous Metals was listed with effect from 24 June 1999.

-JSC Krasnoyarsk Non-Ferrous Metals Plant (Krastsvetmet) is now listed as OJSC "Krastsvetmet".

Gold and Silver
Romania-SC Phoenix SA Baia Mare is now known as Allied Deals Phoenix SA Baia Mare

Committees

Management Committee

Among other items, the Committee is currently concerned with the production of the new Rule Book, with developing standardised documentation for FRAs and Interest Rate Swaps, with arrangements for admitting International Associates and is liaising with HM Customs and Excise over the implementation of the EU VAT Directive.

Physical Committee

The Physical Committee is currently processing nine applications for the gold Good Delivery List and three for the silver list. Other issues before the Committee include reviewing the Good Delivery List application process, the electronic weighing of gold, the combination into one document of the new standardised Allocated and Unallocated Accounts Agreements with the existing Letter of Understanding and Market Practice Agreement, the arrangements for Independent Referees for Good Delivery applications, the Automated Matching System (which is now expected to go live in April next year once any Y2K bugs have been killed off), contingency arrangements, in association with the Bank of England, for the turn of the year, and a new round of questionnaires to Refiners.

Public Affairs Committee

The main issue before the Committee is the setting up of the Precious Metals Conference 2000 in Dubai. In addition it is organising the Autumn Seminar at Trinity House on Thursday 18 Nov. (see box on page 20).

People

Ernie Watkins, Manager of the Precious Metal Department of Sumitomo Corporation (Europe) PLC, retired on 30 September 1999. Ernie had joined Sumitomo in January 1991. We wish him a long and happy retirement.

Golf

John Coley writes –
Gold may have recently been in the process of a dramatic recovery after years of weakness but the LBMA golf team were unable to transfer this recovery to their annual golf match with the LME for the Foster Smith Trophy. For yet another year the trophy remains in the LME display cabinet and is in danger of becoming a permanent fixture there.

The damage was done in the morning when all 4 matches were lost. The afternoon saw a partial recovery and a final score of 6-2 following wins for the pairings of Doug Bull/Ray Lane and Colin Griffith/Roy McPherson. Nevertheless the sun did shine, Coombe Hill was in great condition and after the unwelcome incidents in the Ryder Cup it is also nice to report that the match was played in the true spirit of golf. ■

DIARY OF EVENTS

18 November 1999
LBMA Autumn Seminar, Trinity House, Tower Hill, London EC3N 4DH

18-20 November 1999
Manitoba Mining and Minerals Convention, Winnepeg, Canada
Tel. 800 223 5215

28-29 November 1999
Western Investment in Mining Conference, San Francisco, CA
Tel. 001 305 669 1963

5-6 December 1999
Society of Mining Engineers Arizona Conference, Tucson, Arizona
Tel. 800 763 3132

1 December 1999
Measuring and Mitigating Metal Commodities Trading Risk, London
ICM Conferences,
Tel. 171 436 5735
Fax 171 436 5741

12 January 2000
GFMS Gold Survery 1999 Update II Launch, Sheraton Centre Hotel, Toronto, Canada
Tel: 171 539 7820 Fax 171 539 7818 Email: enquires@gfms.co.uk

7-10 February 2000
African Mining Conference, Capetown, South Africa

20-21 February 2000
The LBMA Precious Metals Conference 2000, Jumeirah Beach Hotel, Dubai UAE

29 February 2000
CPM Group Silver Survey 2000 Release and Silver Mining Investment Conference 2000, New York
Tel. 001 212 785 8320
Fax 001 212 785 8325
Email: cpmgroup@cpmgroup.com

16-18 April 2000
Gold & Silver Institutes' 2000 Annual Conference, California

26 April 2000
GFMS Gold Survey 2000 Launch, London, New York and other major cities, contact as above

Envoi

With the arrival of the new Chief Executive, Stewart Murray (see page …) this is my last LBMA News. I retire at the end of October. I have been associated, with varying degrees of closeness, with the production and/or contents of every Alchemist bar the first, which came out just as I arrived in June 1995. That issue contained an item headed "New Chief Executive to enhance efficiency and profit". I'm not sure where the profit comes in, but I hope some increase in efficiency has been vaguely discernible. There is a difference between efficiency and productivity and I do know that the output of the Executive has gone up substantially. This is probably most visible in the size and quality of the Alchemist but as members will know, the range of issues facing the market to which we have to respond has grown immensely.

So much so that the new Chief Exec has actually been contracted to work a 5-day week. He will have plenty to do, apart from the Dubai Conference, in the implementation of the new constitution and the production of a Rule Book, which all ties in with the new regulatory environment to which the market will have to adapt and adjust.

Stewart's appointment is a further step change in the development of the Association. He brings with him huge experience of the international bullion market and will have a major role in further raising the profile of the Association – all, it must be remembered, with the aim of promoting the London market and the interests – and therefore the business – of the Members.

It has been a privilege to have occupied this seat for the last four and a half years and I wish Stewart, the members and the Association well. My particular good wishes to those who give up their time to serve on the Association's Committees. It has been great working with them. ■

MAY YOU LIVE IN INTERESTING TIMES

Editorial comment by Martin Stokes, Chairman, LBMA

'Interesting times' certainly applies to my first two months as Chairman of the Association. Those who have complained in the past that the bullion market receives no media coverage suddenly found themselves having to satisfy a multitude of reporters eager for on-the-record comments about all facets of the business. On the whole, I welcome such attention and hope that the educational process will improve the public understanding and dispel some of the myths about the market.

Central bank and official sector activity currently feature prominently in the marketplace for gold. While the auction mechanism for gold was last seen over 20 years ago, LBMA members and market participants have quickly come to terms with the process now being managed by the Bank of England on behalf of the UK Treasury. More recently the statement issued jointly by 15 European central banks, clarifying their gold selling policies for the next 5 years and announcing a self imposed moratorium on fresh gold lending has resulted in a sharp price rally. This reflects several short-term factors including short covering, resetting of hedge books and adjustments in the physical markets. As I write this editorial at the in early October, gold lease rates are around 4.5% for 1 month; a very attractive yield for long-term holders of the metal. While the market experienced extremes of volatility not seen for several years, conditions in the London market did not become unstable. I suspect that this volatility may not reduce for some time – a price escalation of around 25% in just 10 trading days and a broadening of market participation should ensure a continuation of long and active trading days. In these volatile times, more than ever, it is clear that our clients need the tailor-made solutions to their problems which LBMA members can provide.

Many of these solutions are based in part on that most credible of benchmarks, the London Gold Fixing. On 13 September – almost overwhelmed by media focus on the UK Treasury gold auction programme – an important birthday took place. It was, for those with long memories, the 80th anniversary of the first London Gold Fixing. This benchmark, whose format allows a transparency and a client access which other financial markets envy, continues to be as relevant now as when it was first established.

Changes at the LBMA

As you are probably aware, Peter Fava stepped down as Chairman of the LBMA in June – our thanks are due to Peter for the many innovations he introduced to the Association over the last two years.

Chris Elston, who has been the Chief Executive of the Association for four and a half years, will also be leaving us shortly when he retires at the end of October. Chris brought a lifetime's central banking experience to the job – we will greatly miss his gravitas and his quiet, but always accurate judgement. We wish him and his wife Jenny all the best for the future.

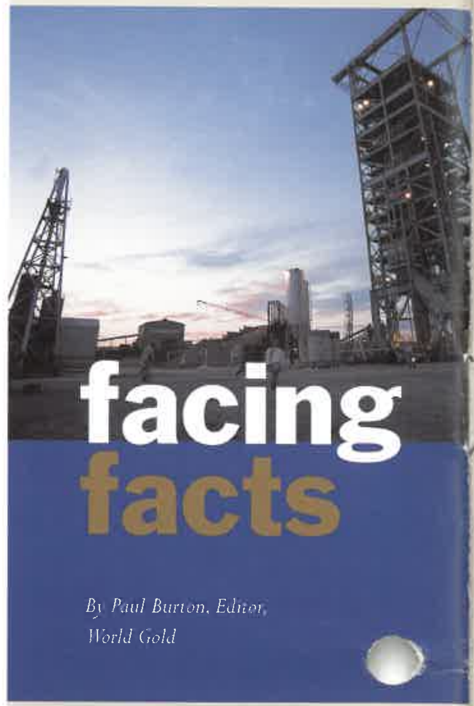
The selection process for Chris's successor attracted a number of high quality applicants. The Management Committee has now made its selection and I am delighted to welcome Stewart Murray as our new full-time Chief Executive. Stewart, well known in the bullion business, brings a wealth of experience to the task. His career in the mining and metals industry and his strong analytical background will be complementary to the trading focus of most of our Committee members. Speaking of the Management Committee, I would like to welcome Neil Clift of Chase Manhattan Bank and Rick McIntire of Deutsche Bank to the Committee.

Looking ahead

There is much work to be done by the various Committees of the Association – issues to deal with and excellent ideas to transform into concrete initiatives. Following are just some of the items under discussion.

- The LBMA Precious Metals Conference in Dubai on 20th and 21st February 2000.
- Our intention to establish a new category – International Associates (see the article on Page 21).
- Draft documentation to cover gold Interest Rate Swaps and Forward Rate Agreements has been lodged with the ISDA lawyers Allen & Overy.
- The changing regulatory framework requires careful liaison with the Financial Services Authority and the Bank of England. We are writing a Code to cover good practice in the London Bullion market.

We look forward to the challenges! ■



facing facts

By Paul Burton, Editor, World Gold

The announcement at the end of September of a moratorium on gold sales and leasing by eleven members of the European Central Bank, plus the UK, Switzerland and Sweden signalled a change in the fortunes of gold. The gold price, already slightly more buoyant following the Bank of England's second gold auction, soared dramatically and unexpectedly. Further volatility seems likely.

However, prior to this encouraging news, events in the gold mining industry continued to be dictated by the recent declining trend in the gold price that has forced gold companies to adopt defensive strategies. A study by World Gold in mid year showed that a nominal 45% of the world's production has total production costs above US$258/oz. Most of this production is protected by hedging, but around 12% is unhedged and has therefore been vulnerable at recent low price levels.

The deepening gold price gloom evident over the past few months has led to labour unrest in South Africa, further consolidation of the industry in a number of producing regions, and project suspensions. But despite the plight of a number of producers, output continues to show a modest increase, courtesy of new, low-cost operations.

In South Africa, the world's largest producer, the gold mining industry has been forced to undergo more painful restructuring as the recent low gold price bites into profit-ability. Historically fragile relation-ships between management and labour came under new strains in July and August as unions tried to resist the mining companies' efforts to close uneconomic mines and fire workers. Thus far, however, little production capacity has been lost.

The highest profile casualty of the turmoil was 106-year old East Rand Proprietary Mines (ERPM) which was forced to close after filing for bankruptcy on July 6. 5,000 workers lost their jobs.
In mid-July tension ran high in the Free State as 90% of the 4,500 strong workforce at Gold Field's Oryx mine staged an unofficial strike. The management of Oryx planned to reduce the workforce at the developing mine in line with revised production forecasts.
The mine's problems were alleviated to some extent by the decision by the South African Government to lift a tax constraint known as "ring-fencing" at Oryx and its near neighbour Beatrix. This will enable the company to plan for a consolidation of the two operations into a major new mining complex with significant cost benefits.

Further north there was a strike at Hartebeestfontein that resulted in all the workers being fired, only to be reinstated four days later after agreement between management and the National Union of Mineworkers (NUM). The dispute arose as Avgold sold the mine to Durban Deep to help pay for the development of its Target project.

The sporadic strike action came at a time when the NUM and the mining companies were trying to finalize the bi-annual wage increases for the industry's 200,000 or so workers. Stalemate in these negotiations almost led to a nation-wide strike, which was only averted after late agreement was reached with most gold producers for a 9% wage increase.

North American Placer Dome had its first taste of the problems of working within the current climate in South Africa. The Western Areas joint venture (Placer 50%) planned a reduction in its workforce of around 40% (3,000 jobs) as a cost saving measure as part of a mine optimisation programme. However, in late September there was increased opposition from the NUM with a subsequent court ruling that suspended any retrenchments.

Placer Dome's cost cutting strategy is not restricted to South Africa. The Canadian major has suspended construction of its 530,000 oz/year Las Cristinas gold project, in Venezuela. The suspension comes after recent wranglings over ownership of the property and then problems in securing financing. Placer has also suspended mining at its recently-acquired Turquoise Ridge mine, in Nevada, to allow for major redevelopment.

Another symptom of the recent gold price climate is corporate consolidation and Australia has been the focus of this action in recent months. Normandy Mining has continued to consolidate its interest in Great Central Mines through Yandal Gold, despite a court ruling that minority shareholders should receive more than the offered price.

More recently, Delta Gold made a hostile all-share bid for Acacia Resources. Delta argued that the merger would create Australia's lowest-cost gold producer. The prime motivation behind the bid was the opportunity to consolidate the operations at Delta's 40%-owned Granny Smith and Acacia's wholly-owned Sunrise Dam gold mines, near Laverton in Western Australia. Granny Smith's Sunrise pit abuts Acacia's Cleo pit as they mine the same orebody so there is operational logic in combining the two.

Based on 1998/99 annual production figures the combination would have achieved attributable production of 901,000 oz, making it Australia's second largest producer, from three core mines (Granny Smith, Sunrise Dam and Kanowna Belle) and four other operations. Pro-forma total cash costs would have been a low A$258/oz (approximately US$162/oz).

Delta has also agreed to purchase, from partner North Ltd, the 50% of Kanowna Belle that it does not already own, for A$90 million in cash. Delta had hoped that with 100% of Kanowna Belle and a successful bid for Acacia, its annual production would have increased by a further 150,000 oz/year, taking it into the league of one million oz producers.

However, in mid-October, AngloGold stepped in with a friendly all-share offer for Acacia. This marks AngloGold's long-awaited move to establish a strong base in Australia. Acacia directors have recommended that shareholders accept the offer. In response, Delta Gold has withdrawn its bid.

At the same time, Lonmin made an expected takeover offer for 32%-owned Ashanti Goldfields. The offer comes in the light of news from Ashanti that the recent surge in the gold price had left its hedge book heavily exposed, and that it was facing margin calls it could not meet amounting to around US$270 million.

Despite a 9 % decrease in the gold price since the June 1998 quarter, production in the June 1999 quarter was 2% higher. Producers have fought to lower their costs over the past year and have succeeded in reducing total cash costs from US$210/oz a year ago to US$199/oz in the June 1999 quarter. New, low-cost mines are responsible for lowering the cost curve.

Franco Nevada Mining's new Ken Snyder mine, in Nevada, produced 65,720 gold equivalent oz in its maiden quarter at a cash operating cost of only US$89/oz to be one of the leaders in the industry.

Meikle and Pierina, with average cash operating costs of just US$54/oz were together responsible for 45% of Barrick Gold's June quarter output of almost 970,000 oz. ■

The top producers in the June 1999 quarter:

Company	*Gold Production (oz)*
1.AngloGold	*1,717,000*
2.Barrick Gold	*969,324*
3.Gold Fields	*962,000*
4.Newmont Gold	*952,300*
5.Placer Dome	*821,000*
6.Rio Tinto	*720,000*
7.Homestake Mining	*627,300*
8.Freeport McMoRan C&G	*580,800*
9.Normandy Mining	*467,204*
10.Ashanti Goldfields	*325,621*

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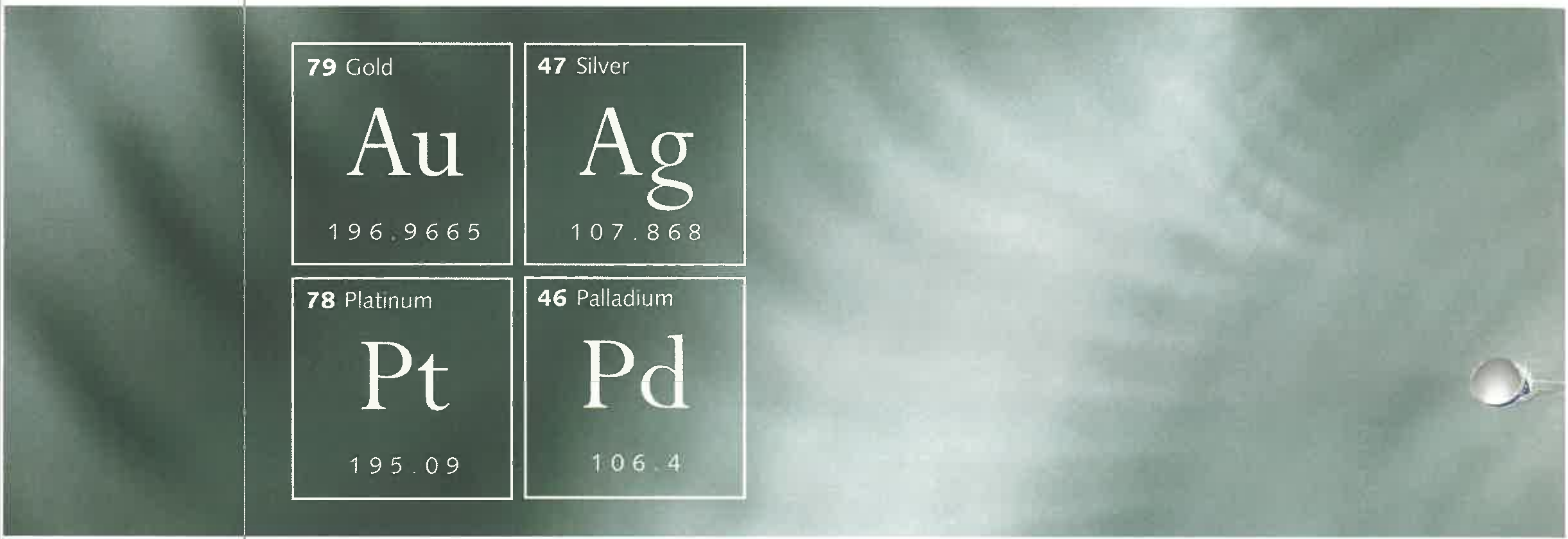

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