Alchemist

LBMA

The London Bullion Market Association ISSUE 19 April 2000

In this issue

The preferred gold bar in Dubai
More than 40 million ten tolas worth over $50 million have been imported here over the last 30 years. See article on page 6.

Trends in Global Hedging Activity

By Ted Reeve Sr, Gold Equity Analyst, and Susan Muir, Gold Equity Associate, Scotia Capital

In the near panic that ensued after the announcement of the planned Bank of England gold sales, producer hedging activity soared as the price tumbled. A number of mines were subsequently caught unprepared for the sharp rally caused by the joint central bank announcement in September. Last year was a very volatile one for producer hedging, but nonetheless several broad patterns have developed.

For the last 10 years, we have published a quarterly survey of gold producer hedge positions in the Americas. Having recently expanded this to include companies based in Africa and Australia, we present here the highlights of our initial global survey. The survey includes 51 companies based in the Americas, 9 African companies, and 22 Australian companies. We estimate this covers between 85-90% of gold production from these regions.

Over the last 15 years hedging by gold producers has grown from a fringe activity by a small minority of companies to a widely used strategy to assure cash flow by locking in future gold prices. In an environment of flat to declining gold prices it is one which has worked well for most users, although in a sharp rally such as that of last October, producers who hedge can, as Ashanti and Cambior found out, experience significant difficulties. An indication of hedging's importance in the bullion markets is the attention which the announcements of producer hedging restraints commanded in February. These announcements moved the price above $300/oz, albeit only on a short-term basis.

Hedging by the Miners – A Significant Component of Supply

Aggregate hedge positions, including the "in-the-money" books for the three main regions where gold producers are domiciled, are shown in Table 1 above.

Table 1 Aggregate and "In-The-Money" Producer Hedge Positions

(millions of oz unless otherwise noted)

As of Dec. 31/99	Americas	Africa	Australia	Total
Forward sales	11.118	20.824	14.568	46.510
Spot deferreds	18.375	5.248	1.359	24.982
Sub-total forwards - million of oz.	29.493	26.072	15.927	71.492
Sub-total forwards - tonnes	917	811	495	2,224
Gold Loans	0.004	0.000	0.000	0.004
Contingent/Convertible Forwards	0.060	0.000	0.425	0.485
Puts - Bought	6.000	3.989	NA	NA
- Sold	0.000	0.450	NA	NA
- Sub-total Puts	6.060	4.439	22.984	33.483
Calls - Sold	13.690	11.473	NA	NA
- Bought	7.658	5.499	NA	NA
- Sub-total Calls	21.348	16.972	7.352	45.672
Total - millions of oz.	56.906	47.483	46.263	150.652
Total - tonnes	1,770	1,477	1,439	4,686
In-The-Money Total - millions of oz.	31.250	30.708	35.802	97.760
In-The-Money Total - tonnes	972	955	1,114	3,041

There is continuing discussion in the bullion markets as to the overall amounts of gold borrowed from central banks to support producer hedging, fabrication and other activities. Forward sales and spot deferreds do represent borrowed gold on a one-for-one basis, presumably mostly from central banks, and this totaled 2,224 tonnes as of 31 Dec. 1999. As our survey does not cover total worldwide production, we think this number could be increased by about 20% to present a truly global picture. Options further enlarge this total, but some of them offset each other and we are reluctant to estimate the average delta hedge.

Another way of attempting to determine the magnitude of overall hedging levels (although not, as noted, borrowed gold) is to look at the in-the-money totals. For the three regions, these total 3,041 tonnes. We think this could be increased to perhaps 3,600-3,800 tonnes to include the production not covered by our survey. Although in-the-money totals in our hedge survey are not an accurate guide to the amount of gold

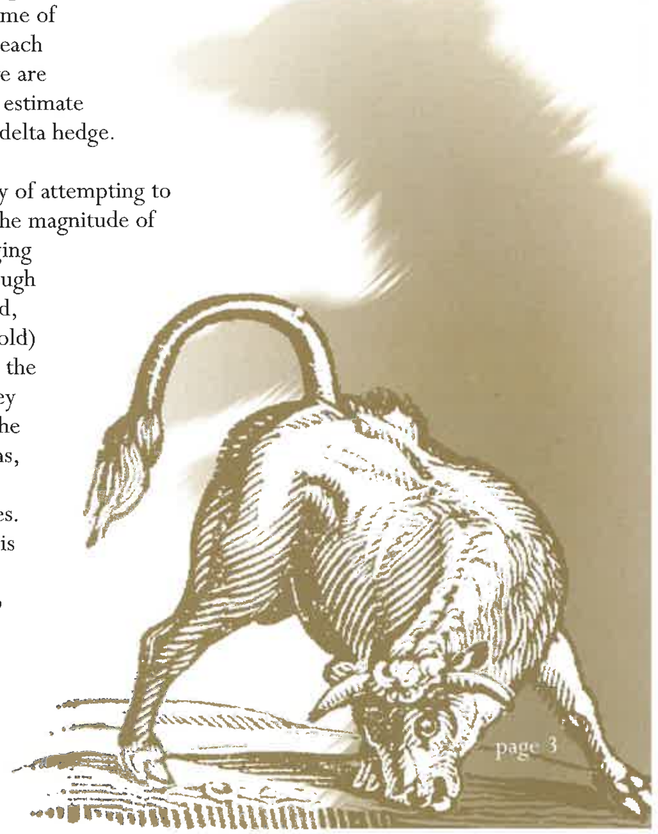


Table 2 Aggregate Americas Gold Hedge Position

(millions of oz.)	Dec. 31 1997	Mar. 31 1998	June 30 1998	Sept. 30 1998	Dec. 31 1998	Mar. 31 1999	June 30 1999	Sept. 30 1999	Dec. 31 1999
Forward sales	5.596	6.225	4.771	3.761	3.679	3.619	3.18	10.589	11.118
Spot deferreds	14.835	14.387	14.469	15.162	16.304	17.738	20.768	19.841	18.375
Sub-total forwards	20.431	20.612	19.240	18.923	19.983	21.357	23.948	30.430	29.493
Gold loans	0.264	0.572	0.589	0.088	0.075	0.058	0.008	0.004	0.004
Contingent forwards	0.000	0.200	0.200	0.200	0.240	0.240	0.060	0.060	0.060
Puts – bought (1)	5.903	4.209	3.440	4.357	4.867	4.928	4.982	6.751	6.000
Calls – sold (2)	7.606	7.236	7.124	7.709	9.379	7.683	NA	13.347	13.690
Calls – bought (2)							NA	0.829	7.658
– subtotal calls							10.350	14.176	21.349
Sub-total options	13.509	11.645	10.564	12.267	14.486	12.861	15.392	20.987	27.409
Aggregate Total	34.204	32.829	30.593	31.277	34.544	34.266	39.348	51.421	56.906
In-the-Money Total	26.000	22.700	22.000	22.100	23.900	26.300	28.600	34.600	31.200

(1) Includes in and out of the money puts bought and sold.
(2) Includes in and out of the money calls.

borrowed by producers, we tend to use changes to them as directional indicators. In between the forwards and in-the-money numbers is the Gold Fields Mineral Services (GFMS) estimate of cumulative hedging levels of 2,700 tonnes at year-end 1998 plus the preliminary number for 1999 of 445 tonnes, for a total of 3,145 tonnes. Looking at hedging from the supply side, (i.e., central bank lending), GFMS estimates that official sector bullion lending was 4,300 tonnes for all purposes (2,700 tonnes – hedging; balance, fabrication, official sector and other) at year-end 1998, to which one can presumably add 400-500 tonnes for 1999.

There are important variations between the size and nature of hedge books in different regions. For example, due to the 13.6 million ounce Barrick Gold book, spot deferred sales dominate hedging in the Americas, whereas in Australia, hedging has become much more option/derivative oriented in recent years. Although it is not apparent in the summary numbers we show, Australian hedge books are very complex, and contain a range of exotic derivative products (such as puts and calls with knock-in and knock-out features, convertible puts and convertible and contingent forwards). Almost without exception, Australian producers are users of forward markets and are generally much more heavily sold forward than their counterparts in either Africa or the Americas.

The Double-Edged Sword

The test of $250/oz in the third quarter of 1999 was precipitated by the unexpected announcement in May of UK treasury auction plans and subsequently the first auction on July 6. In the panic which ensued, producers contributed materially to the nearly uncontrolled fall in price in the third quarter, believing that since gold had not held at $270 or $260 it might not hold at $250 and could, in fact, go significantly lower. The flurry of producer hedging which followed almost made this a self-fulfilling prophecy, as is illustrated in Table 2 above showing aggregate hedging for the Americas.

Forward sales and spot deferreds jumped from an aggregate level of roughly 20.0 million ounces leading up to mid-year 1999 to nearly 24.0 million ounces at June 30. By the time of our September survey this had reached 30.4 million ounces. If a number of changes made by producers during October and November were added, the actual peak level of hedging would be somewhat higher still. Similarly, the "in-the-money" portion of the book jumped from 26.3 million ounces in March 1999 to 28.8 million ounces in June and to a peak of 34.6 million ounces in September, before falling back to 31.2 million ounces in December.

Hedging activity in Africa and Australia showed a similar increase. Not only did senior producers who sell forward augment their positions, but those who had traditionally avoided hedging (i.e., Newmont, Battle Mountain) began building positions. What is surprising is that with all the additional hedging, gold did not in fact dip below $250/oz.

We used to say that producers who hedged locked in higher prices and those that didn't were forced to accept the subsequent lower market prices resulting from increased supply. Normally, that would be a two-edged sword within the industry, but in hindsight, last summer's large hedging increases collectively looks more like falling on the sword!

Similar Prices, but Volumes Vary by Region

The differing patterns of hedging in the three regions is apparent in Table 3 opposite which shows the distribution of hedge books over time and anticipated realised prices.

The higher level of Australian hedging stands out. On average these companies are over 100% hedged for the year ended June 30, 2000 and are significantly more than 50% hedged in each of the following three years. For 2004 and beyond, they have on average 21 months of production hedged. Expected realised prices are similar for all three regions, with the exception of the average African realised price for 2000, which is significantly lower than the others at $316/oz.

Australian Hedging Dominance Continues

The growth of hedging and Australian dominance is shown in Table 4 opposite detailing months of production hedged.

Although hedging in the Americas has grown during the 1990s as production by companies domiciled there has increased, the changes are relatively modest compared to Africa and Australia.

African producers were last to embrace hedging, but now have a book similar in size to the Americas, covering some 19.3 months of production. There is still a large dichotomy between those companies which are heavy users of the forward markets, including Anglogold and Ashanti, and others such as Harmony (which is completely unhedged and philosophically opposed to this strategy) and Gold Fields, which has only minimal hedging in place.

A similar dichotomy exists in North America along the 49th parallel separating Canada and the United States. Canadian based producers Placer Dome and Barrick Gold are big hedgers, whereas US-based Newmont and Homestake have very modest hedge positions.

In Australia, all miners hedge. The average producer in Australia has more than four years of production sold forward, and some companies, such as Sons of Gwalia, have more than 100% of their reserves (but a more palatable 50% of resources) hedged.

Hedging Outlook

There are several broad patterns developing related to producer hedging. Provided gold does not break down significantly below $275/oz, we think producer hedging restraint, coupled with the criticism from investors on hedging, will see overall hedging levels reduced by several hundred tonnes by year-end 2000 (this direction was already apparent in Q4/99), thus returning closer to the levels of early 1999.

However, if gold breaks through technical support levels and falls toward $250/oz, we can envision a fresh round of hedging which will exacerbate the situation and could drive us well below this psychological barrier. Prices below $250 would eventually lead to a significant contraction in mine production, although hedging would delay the inevitable. Also, the South African rand would most likely weaken sufficiently so that less of this industry would disappear. There is a general tendency to longer-term hedging in North America, which historically has hedged on shorter terms than either Africa or Australia. We hope the industry collectively acts prudently if we test for lows below $280 – and resists the temptation to contribute to supply through additional hedging.

After the much publicised problems of Ashanti, which faced margin calls, and Cambior, which in the absence of contractual obligations could not roll calls sold into forwards, we think there has been and will continue to be a t ransition from exotic hedging instruments to more plain vanilla products. Also, the one-put-two-call strategy will find few takers. We also expect that more rigorous stress testing of books will be the order of the day. One of the few benefits of last October's hedge crisis, however, is that the amount of detail provided on hedge books has grown dramatically. This new transparency has provided investors with valuable insight into the producers' financial condition. ■

Table 3 Time Distribution and Prices of Producer Hedge Positions

	2000	2001	2002	2003	2004 (1)
Americas					
Ounces Hedged (millions)	8.22	7.14	3.97	2.94	8.99
Percent of Production	32.8%	27.5%	15.0%	10.6%	32.5%
Hedged Gold Price (US$/oz)	$353	$353	$360	$354	$389
Africa					
Ounces Hedged (millions)	7.60	4.67	4.40	3.56	10.49
Percent of Production	45.2%	26.8%	25.5%	20.7%	61.0%
Hedged Gold Price (US$/oz)	$316	$342	$352	$353	$393
Australia (2)					
Ounces Hedged (millions)	5.228	5.46	4.668	5.64	14.73
Percent of Production	103.1%	66.2%	57.4%	67.3%	176.3%
Hedged Gold Price (US$/oz)	$343	$357	$368	$386	$375

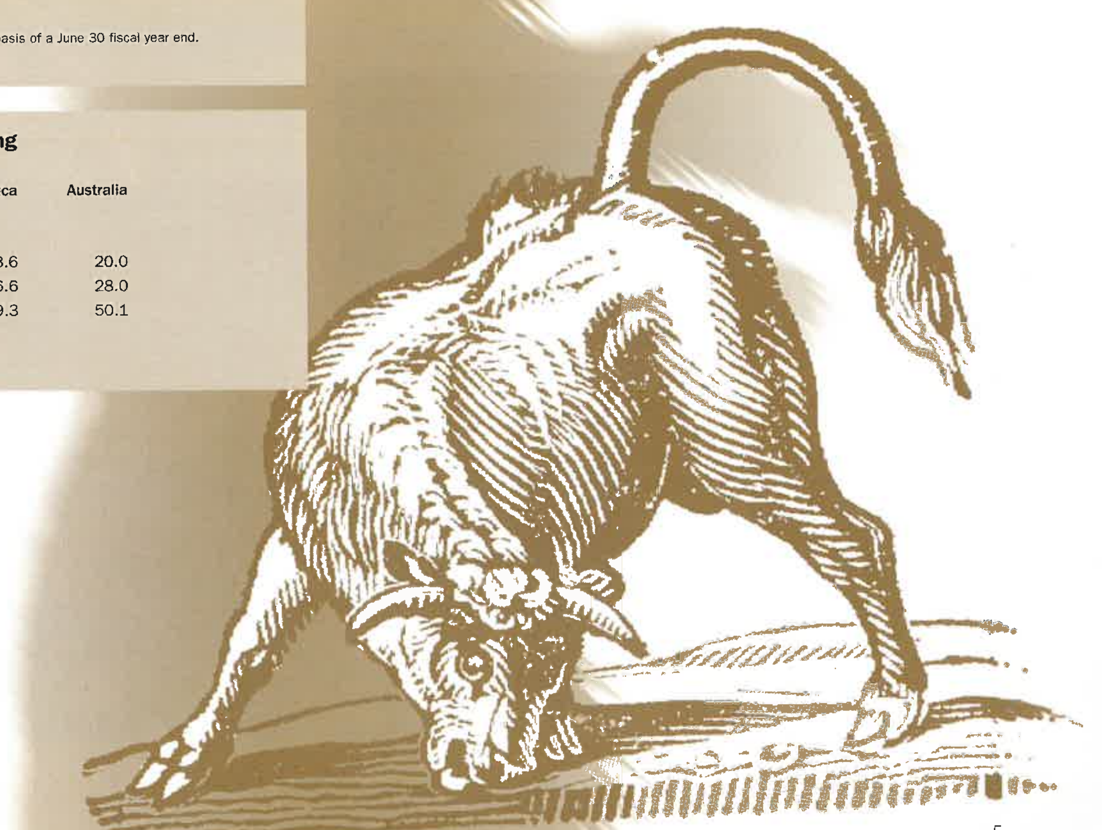
(1) 2004 and beyond.
(2) Most Australian hedge positions are reported on the basis of a June 30 fiscal year end.

Table 4 Growth of Producer Hedging

(months of production)	Americas	Africa	Australia
March 1992	10.0	3.6	20.0
March 1996	13.0	6.6	28.0
December 1999	14.2	19.3	50.1

Ted Reeve and Susan Muir

have covered the North American gold equity sector since 1981 at several Toronto-based brokerage firms. Mr. Reeve has a PhD in geology and a Masters in Business Administration from the University of Toronto. Ms. Muir has a Bachelor of Arts in Journalism from Concordia University. In 1994, they joined Scotia Capital, Inc., the full service investment dealer arm of the Bank of Nova Scotia, which also owns ScotiaMocatta, a global leader in metals trading, brokerage and finance. For the past 10 years, Mr. Reeve and Ms. Muir have collaborated on a survey of producer hedging which is published in their quarterly report entitled "Gold and Silver Hedge Outlook". This has recently been expanded to a global product.



Dubai 2000

By Susanne M Capano, Editor

"Gold's qualities as an indestructible asset are in some respects an Achilles heel – every ounce of it ever mined is potentially for sale...In my view, therefore, supply is not the issue, demand is the issue, or more importantly the consistency of demand at higher prices." Martin Stokes, LBMA Chairman

Martin Stokes presenting a specially minted 10-tola gold bar to His Highness General Sheikh Mohammad Bin Al Rashid Al Maktoum, Crown Prince of Dubai and UAE Defense Minister.

Demand was by no means the sole issue at the LBMA's Precious Metals Conference 2000, but it was the common thread underlying many of the speeches. A keynote speech by Tim Green, *Launching gold into the 21st century*, provided an overview of gold as it entered the new millennium – which paralleled silver's condition a hundred years ago as a metal unsure of its future. But as silver had found a new role in photography and industry, perhaps gold could find its future in fabrication – with some help.

In all there were five formal sessions – covering the bullion market, the official sector, mine production, demand and marketing – followed by parallel workshop session in the afternoon of the second day. Each session had a chairman experienced in that sector who opened the session by providing their own insights.

Topics ranged from the management of reserves by central banks to the impact of new accounting procedures on the miners' hedge books. Some speakers concentrated on developments in a particular sector of the market. Bullion banks, for instance, must weigh credit considerations and the cost of capital in providing bullion transactions. Producers are re-examining hedging procedures. Central banks are reconsidering their management of reserves.

Demand was discussed from many different angles. What is the likely evolution of the Indian market – and how long will demand there be sustained? What impact will digital photography have on silver demand? Can the Internet increase consumer demand for precious metals?

The importance of marketing was discussed by speakers from both inside and outside the gold industry, in particular from diamond and platinum industries. Interestingly, even the diamond industry's spending on marketing lags far behind many luxury brands. Whereas companies like Hilfiger and Gucci spend as much as 20% of revenues on advertising, the diamond industry spends less than 1%. In gold, the pervasive lack of co-ordinated marketing efforts was mentioned repeatedly – as a warning. Even more than the diamond industry, it can no longer take demand for granted.

Sunday night cocktail reception on the grounds of Jumeirah Beach Hotel.

Speakers' thoughts on a variety of topics:

On hedging:
"Remarkably, an ounce in the ground is worth more than an ounce in the vault. In times of declining prices and increasingly controllable costs, it seemed the logical thing to do to hedge a proportion of your output for as far into the future as you could get the credit lines." – Martin Stokes

"...hedging will remain a significant factor in the gold market." – Robert Guy

"...the limited usage of some perhaps ill-advised products has tended to give hedging in general a bad name. This is not fair and we should collectively try and avoid the mistake of making sweeping generalisations." – Jessica Cross

"...Shareholders have been pressuring companies to cut back on their hedge positions and several companies have responded. This is encouraging, as it improves the supply/demand balance for gold and provides much better upside potential for the metal." – Wayne Murdy

On supply:

"We should never forget that central banks have been net sellers over the last 35 years and, through this new century, that trend will continue, like it or not." – Tim Green

Adjacent to Jumeirah Beach Hotel, the newly-opened Burj Al Arab is the world's tallest hotel.

Harish Pawani welcoming delegates to Dubai on behalf of the Dubai Gold & Jewellery Group.

On marketing:
"This is a product world in which to stop running is to fall behind, and in many ways, gold producers should take care. Their product is in danger of not running fast enough." – Kelvin Williams

"The industry also has to create an aura about gold for the younger generation, so that they buy it as readily as any new fashion item of clothing or shoes." – Tim Green

"...the goods largely sold themselves. So, design, product development, compelling advertising and inspired merchandising were never integral or vital parts of the overall diamond industry. Until now, that is." – Marcel Pruwer

On Good Delivery:
"I would like to ask the LBMA to consider a review of its rules and allow the specification of London Good Delivery to be changed to include the two most popular bullion bars - kilo and ten tola." – Jeffrey Rhodes

Istanbul 2001

4 - 5 June 2001 Istanbul

The Association has again chosen a conference location where there is a substantial local precious metals business. Istanbul is an important trading and distribution centre for gold bullion and a major fabricator of gold and silver. The city has the added advantage of good infrastructure and transport links.

Work will now commence on putting together a first class-programme covering topics relevant to participants across the whole range of the precious metals markets and industries.

The LBMA Brief

An overview of the association from its founding to today

By Susanne M Capano, Editor

"At that time, London was a very different place."

I was listening to the commentary of a walking tour group that had gathered outside our office on Frederick's Place, a small courtyard near the Bank of England. The guide continued: "Streets were not well lit and walking from one place to another could be dangerous. So there would be a man who would accompany you carrying a torch. When you arrived at your destination, he lit the light over the door, then extinguished his torch in one of these upturned black cones you see here."

That cleared up a small mystery for me. You don't see many of those cones outside doorways in New York City. I'd wondered what use they had since I first started coming to the LBMA offices as a member of the Public Affairs Committee three years ago.

There was, of course, no London Bullion Market Association in the days described by the guide, but at least one member was around. Today's Bank of Nova Scotia-ScotiaMocatta can trace its involvement in precious metals to the 1670s, even before the Bank of England had been formed. London's importance as a crossroads for gold and silver trading really became established during the early eighteenth century. In that light, the London gold and silver fixes, benchmarks recognised around the world, are relatively recent developments. The first silver fix took place in 1897, the year of Queen Victoria's jubilee and the gold fix, begun just after the close of World War I, recently celebrated its eightieth birthday.

Forming A New Market Association

It is in fact with the five fixing members that the LBMA has its origins during the 1980s. These five made up the London Gold Market Ltd (LGM), and three of them, the silver fixing members, formed the London Silver Market Ltd. The London bullion market was in a state of tremendous change during the period of the early 1980s. On the positive side, exchange controls were removed, allowing personal ownership of gold, but on the negative side, VAT was introduced on the purchase of precious metals, although members of the LGM were able to exempt their transactions from VAT under the Terminal Markets Order.

Interest in precious metals was growing, but VAT was an obstacle for new entrants seeking to trade in London. With the agreement of HM Customs & Excise, the LGM introduced the status of Associate Member, able to trade under the same VAT-exempt basis. With the acceptance of Associate Members, the market began to expand.

Some of the new Associate Members were very active in the market, and this growth was a prime catalyst for the next step: the creation of a trade association. "We had a democratic deficit in those days," says Robert Guy of NM Rothschild & Sons, the Association's first Chairman. "The market was attracting new participants – who unfortunately did not have a voice in how the market was run."

Another, very different catalyst was the crisis at JM Bankers during the mid-1980's, when one of the original members of the LGM was threatened with bankruptcy. While the problem was resolved, it nevertheless highlighted the need for the authorities to have a better understanding of the market and its participants.

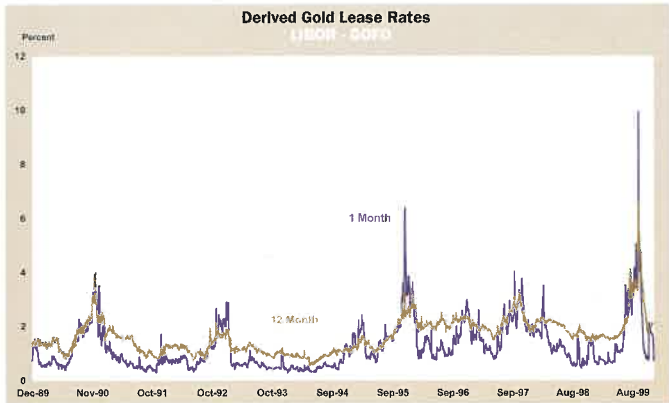
Discussions were held with the Bank of England, which had become the market's regulator following the enactment of the Financial Services Act in 1986. It preferred to be able to reach the market through one conduit. A Steering Committee was established "...to explore the possibilities and problems involved in the creation of a new market association," as the first newsletter, an ancestor of today's *Alchemist*, stated. A Code of Conduct was drafted. Procedures to ensure that members could continue to operate under the Terminal Markets Order were discussed with HM Customs. A Constitution was written, defining two categories of membership, Market Making and Ordinary. Committees were set up to involve more market practitioners in addressing specific issues. And the new Association formally came into being on 14 December 1987.

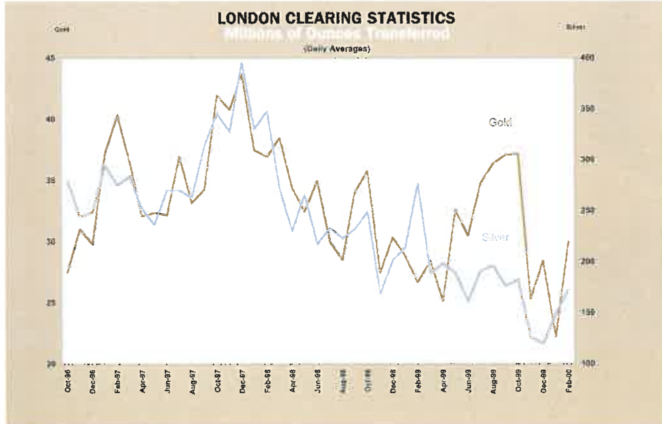
Transparency – Finding the Right Balance

Some of the issues that faced the new Association are ones that will always be on the table. In his outgoing speech as Chairman, Robert Guy reminded the members of the need for a certain amount of transparency: "...For me, this is not an optional matter in the modern market place. Markets today exist to serve clients, not the other way around. Too much transparency can, like over-regulation, ruin a market. The art is to find the right balance."

A specific application in the early days of the Association was transparency (or, more accurately, the lack of it) in the gold forward market. The use of gold forwards had expanded rapidly during the 1980s, but the market lacked any clear benchmark. That need had to be filled if the forward market was to continue to thrive. "If clients are to know and trust the market they want to deal in, they have to have a basis they can see and rely on," Guy pointed out.

Keith Smith, a member of the LBMA's Management Committee, announced the Committee's decision at the FT World Gold Conference in June 1989. Since July of that year, a composite Reuters page has shown gold swap rates for one, two, three, six





and twelve months. Each day at 11:00 am London time, the mean rate is calculated for each period by taking the average of all the contributors' quotes after discarding the highest and lowest quotes. GOFO, the "Gold LIBOR", as it was referred to in its early days, has become an ever-more important benchmark as the use of cash-settled derivatives requiring a benchmark for their interim maturity dates has increased greatly.

GOFO was joined in 1997 by LGLR, a page based on GOFO that shows mid-rates for gold lease rates for all the GOFO periods, useful for charting and valuation purposes. In 1998 SIFO was introduced, showing indicative silver swap rates for the same periods as GOFO and LGLR.

Another, very different move towards transparency was made in early 1997. Not every editor has the fortune to take over a publication at the moment when a great announcement is to be made, but that was the case when I became editor of the Alchemist late in the autumn of 1996.

"It's like becoming editor of the Herald Tribune on the day Pearl Harbour was bombed", a friend suggested excitedly. Not quite so dramatic, perhaps, but the knowledge that the LBMA had decided to release its first set of clearing statistics did cause a buzz around the industry. While "Loco London" had long been the accepted market standard, and London was recognised to be the global clearing centre for gold and silver, no attempt had been made to quantify the activity.

Daily averages for three measures were given: the number of ounces transferred, the value (based on average monthly fixes) and the number of transfers. The size of the figures surprised even some of the more optimistic assumptions. Over the past two years, an average of 34 million ounces of gold and 266 million ounces of silver have been cleared each day.

A Level Playing Field

Most of the Association's ongoing work is the sort of behind-the-scenes work without which any market could not continue to thrive and grow. "It all comes down to maintaining a level playing field," says JP Morgan's Martin Stokes, the Association's current chairman. The day-to-day work of the Association and its committees stretches across all areas, from refining to trading to documentation.

Maintenance of the Good Delivery Lists for Gold and Silver were turned over to the Association as soon as it was formed, and it has been processing new applications ever since. At any given time, there are roughly a dozen applications in the pipeline. Applicants have to meet the LBMA's requirements in terms of net worth, years in operation and annual production levels. They first submit photographs and technical drawings. Next, the applicant submits bars for testing and finally, they are sent a series of samples in order to test their assaying capabilities. The most recent additions have been Krasnoyarsk Non-Ferrous Metals Plant (OJSC Krastsvetmet), and Prioksky Plant of Non-Ferrous Metals, both of Russia.

Without standard documentation, which began with 1994's International Bullion Master Agreement, all market practitioners

would be forced to negotiate separate bilateral agreements with all their customers. The result would be thousands of different documents, each requiring costly legal consultations and immense duplication of effort. Instead, having standardised documentation helps establish consistent practice and reduces the risk of disputes or misunderstandings. IBMA was joined in 1998 by the ISDA Bullion Definitions, covering a wider range of products and incorporating exposures in a variety of cash-settled and derivative transactions. Another step has recently been taken with the development of agreements to cover both Allocated and Unallocated accounts. Next, the LBMA is seeking to develop standard ISDA-based documentation to cover gold interest rate derivatives.

An International Dimension

The idea of broadening the base of participation in the Association has recently been a topic of discussion. Membership is restricted to those organisations having a presence in the United Kingdom. But market participants from every sector in every corner of the world use the products and services London offers.

Since January 2000, organisations not based in London are able to have a voice in the LBMA: they can join as International Associates. Their views and input are conveyed through the Chief Executive, who as a full member of the Management Committee. Among their other benefits are direct access to LBMA information, involvement in the Association's events, and inclusion with a live link on the Association's website (www.lbma.org.uk).

LBMA

A Forum for Discussion

On 19 February 1997, the LBMA held its first overseas event in Johannesburg, South Africa, a debate on one of the market's core issues: hedging. Almost exactly three years later, the Association held its second, much larger overseas event: an international precious metals conference in Dubai, UAE on 20-21 February 2000. Istanbul has been chosen as the venue for 2001.

The expansion of the LBMA to include International Associates and the hosting of an annual international Conference are outward looking exercises that will no doubt be joined by others in the future. As Mocatta's Keith Smith said earlier:

"We don't think London any more, we think the world." ■

A version of this article originally appeared in Commodities Now.

Seasons to Buy Gold

By Derrick Machado, Regional Director, India, World Gold Council

When do Indians buy gold? A better question might be, when don't they?

Thanks to India's huge and diverse population, there is no one answer to those questions. There are over 200 languages spoken and six different major religions (Hindus, Buddhists, Jains, Muslims, Christians and Sikhs). Generally speaking, gold is bought for one of two reasons – marriages or gift-giving at the time of festivals, but the timing varies from region to region. It is not bought, logically enough, during monsoons, but buying is also postponed during certain periods scattered throughout the year when it is considered unlucky to engage in any worldly activity.

Thanks to the dowry system, which although outlawed is still prevalent, the main influence on gold buying is the number of marriages taking place. In Indian weddings, the bride's family provides the bulk of the jewellery that usually forms an important element of the dowry. In a rural economy, marriages mainly take place when work on the farm is at a low ebb and the weather permits travel (i.e., not during harvest season or monsoon). The wedding season generally starts in October and goes until April or May, with a few breaks in between for the inauspicious periods.

There are several of these breaks. The most important is called the Adik Mass, running for an entire month from 15 July to 15 August and occuring once every three years. This period is designed to correct the imbalance between the solar calendar (365 days a year) and the lunar calendar (354 days) by adding an excess month to the lunar calendar. Called Adik Mass or Purushotam Mass, it is a very religious time, when emphasis is placed on prayers, purifying one's mind, charity and keeping away from worldly things.

Another notable inauspicious time is called Shradah, which takes place sometime between September and October. A week is set aside for ancestral worship, during which it is considered unlucky to engage in any sort of financial activity.

Conversely, there are a number of auspicious days scattered throughout the calendar. On these days, queues form outside jewellers as people seek to buy small bars and coins.
The weather is a major factor in determining low season. India is affected by two different monsoons, one called the Southwest, which enters from that direction around Bombay beginning roughly the end of May and sweeps to the north. The other, the Northeast monsoon, comes from that direction but occurs much later in the year – beginning anytime from August through September or early October and affects the east or Southeast.

West

Period	Season	Reason(s)
Mid Sept – Mid Jan	High	• Diwali • Marriage Season • Christmas
Mid Jan – March	Medium	
March – May	Low	• Gudi Padwa – New Year for Maharshtrians
May – Mid Sept	Medium	• Prior to the main Festival period therefore all buying is postponed

East

Period	Activity	Reason(s)
Oct – Jan	High	• Durga Pooja – Symbolises victory of good over evil. Prayers to Goddess Durga • Dashera – Symbolises victory of good over evil (Lord Rama, King of Ayodya, killed King Ravana, King of Lanka) • Diwali – Festival of lights, and symbolises the return of Lord Rama to Ayodya after killing King Ravana • Christmas
May – July	Medium	• Monsoon
Aug – Sept	Low	• Prior to main festival period, all buying is postponed
Feb – April	Low	• Non-marriage season

India is a very religious country with many social customs. Festivals come in an incredible variety and generally differ from one region to another. However, Diwali, the festival of lights occurring in October, is celebrated almost everywhere – with firecrackers, feasting and gift-giving – including coins, small bars and small items of jewellery.

North

Period	Activity	Reason(s)
Jan – March	High	• Marriage season
April – May	High	• Harvest season
June – Aug	Low	• Monsoon season
Sep – Dec	High	• Diwali • Marriage Season • Christmas

South

Period	Activity	Reason(s)
Tamilnadu		
15th Dec – 15th Jan	High	• Pongal – Harvest season, an important festival in Tamilnadu • Diwali • Christmas
16th Jan – 31st Mar	Low	
1st Apr – 15th May	High	
16th May – 15th Aug	Low	
16th Aug – 31st Oct	High	
1st Nov – 14th Dec	Low	
Andhra Pradesh		
19th Dec – 15th Jan	Low	
16th Jan – 28th Feb	High	
Mar – 14th Apr - Off		
15th Apr – 15th Jul	High	
16th Jul – 30th July	Low	
August - Peak season		
September	Low	
Oct – Nov – 18th Dec - Peak		
Place – Karnataka		
15th Dec – 15th Jan	Low	
16th Jan – 31st Jan	High	
Feb – Mar	Low	
Apr – May - Jun	High	
Jul – Aug	Low	
Sep-Oct-14th Dec	High	
Kerala		
20th Dec – 31st May	High	• Marriage season
June – 15th Aug	Low	• rainy season
16th Aug – 30th Sep	High	• Onam – Harvest season in Kerala is an important festival. This festival symbolises the welcoming of the spirit of King Mahabali during the harvest festival and signifies the triumph of good over evil. • Marriage season
Oct-Nov – 19th Dec	Low	

Highly Rated

Standard and Poors Outlines their Ratings Process

By Oliver Beroud, Standard & Poor's London

Standard & Poor's originated in 1860 with the publication of financial statistics on the railways companies in the United States. We began rating the debt of corporate and government issuers more than 75 years ago. Today, Standard & Poor's Ratings Services has over 750 analysts working from 16 offices in 12 countries. We rate approximately $10 trillion in outstanding bonds and other financial instruments issued by obligors in 50 countries.

What Does a Rating Really Represent?

At Standard & Poor's, our ratings are meant to be an indication of the likelihood that a company will repay its debt on time. Our ratings also give some weight to the issue of ultimate recovery, but the key criterion is timeliness.

The overall credit risk is a combination of the business risk and the financial risk of the firm we are rating. The business risk, which accounts for two thirds of our evaluation, is a composite of the risk prevalent in, say, the mining industry, and of the firm's position within that industry. More about that later.

Once assigned a rating, a company is in effect placed on a global scale that facilitates comparisons across industries and countries. The rating has become an essential tool not only for raising capital, but also a key component of cross industry benchmarking.

Standard & Poor's rating scale goes from AAA – corresponding to "rock solid credits", no risk at all – down to D, which means default. We add "+" and "–" to each category, so that the scale has 20 notches in all. The last investment grade category is BBB. The risk of default (a late or non-payment of interest or principal) goes up very quickly as one enters the speculative grade range, from BB to CCC. For example, an investor buying into a portfolio of bonds all rated double B by Standard & Poor's should expect, based on historical evidence, to be paid back on time in 80% of cases after 15 years.

In other words, we still expect companies to perform well in a great majority of cases, even in some of the speculative grades.

It is also worth noting what Standard & Poor's ratings do not represent. The most usual warning we give is that our ratings are not recommendation to buy or sell securities. Likewise, we are not advising a company's management on what strategy they should follow. Ratings are not a guarantee against fraud, are not an audit and are not driven only by financial ratios.

Who Needs a Rating?

Any company that is seeking to raise capital in the form of a capital market bond issue, a syndicated bank loan or an international private placement can make use of a rating. Historically, it is the dominance of the US capital market that made ratings often essential to successfully raise capital. However, in Europe and the rest of the world, ratings are also becoming one of the most efficient ways of raising a group's international profile and managing counter-party relationships. For example, in mining and other project-based financing environment, ratings are often needed to demonstrate a firm's creditworthiness at the bidding stage.

The Rating Process

First, a team of analysts will visit the company and prepare a rating presentation to the committee that will vote and assign the rating. The issuer is in control throughout the process and can decide to keep the rating confidential, except if making a public issue in the US. Once the rating is public, however, it can go up as well as down, and we will insist on an on-going surveillance, including yearly face-to-face meetings, to maintain the rating's accuracy.

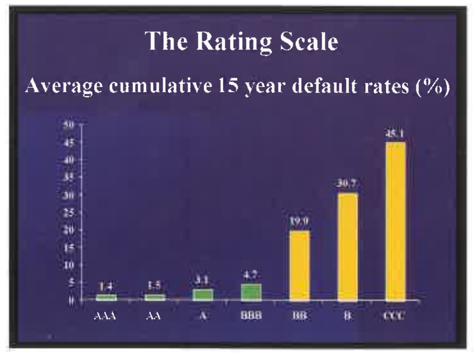
The committee will consider both the business risk and the financial profile of the company. The key driver will always be the business risk. Once a business-risk score is agreed upon, the financial characteristics are looked at. In short, this second part of the exercise mainly consists in answering two questions: "Just how much debt is the company going to take on? And how much cash flow does it generate to service the debt?" In this context, a long track record of tight financial management and adherence to an announced financial policy go a long way towards convincing Standard & Poor's that a higher rating may be justified.

The Mining Industry

Standard & Poor's considers the mining industry and mining companies as presenting a high degree of risk relative to other areas (such as utilities). The mining industry is characterised by the risks inherent in constructing and starting a new mine, uncertainty regarding the consistency of an ore body and technical operations. In addition to these concerns, the cyclical nature and heavy ongoing capital expenditure requirements of this industry also contribute to increase its risk profile. Moreover, when a single-mine-site project, as opposed to a mining company, raises debt, it introduces incremental risks such as a lack of geographic and mineral diversity and limited financial flexibility.

However, high ratings can be achieved thanks to potential mitigating factors, such as having a conservative financial structure, a large and mature asset base, reserves with low producing costs, good diversity and a strong track record – for us, these are the keys to success.

Financial Risk



When assessing a mining company, we analyse the company's financial profile. Of primary importance to any rating are the financial projections and the related sensitivity analyses. Standard & Poor's focuses on the financial leverage levels, the sufficiency of cash flow to service debt payments, and on the entity's financial capacity to sustain adverse operational and commodity-pricing scenarios. We will assess the mine's ability to alter its cost structure in relation to potential commodity price changes and the effectiveness of any price hedge or guaranty incorporated into the transaction.

We will evaluate each company or project in its context. It is unlikely that any company or project would be able to have a higher rating than that of the country in which the majority of its assets are located.

Macro considerations

Standard and Poor's view on gold is influenced by these key macro-economic drivers:

- Outlook for the supply and demand balance
- Secular trends towards lower consumption of the metal
- Central banks' and other larger holders' attitudes towards their reserves
- Production costs across the industry compared to the current price of gold.

These factors will be far more influential than financial ratios alone, though we do consider ratios nonetheless.

Gold Company Ratings (Accurate at 8 February 2000)

Investment Grade Ratings

Company Name	LT/Outlook/ST	Country
1 Rio Tinto	AA-/Stable/A-1+	UK
2 Barrick Gold	A/Stable/A-1	Canada
3 WMC Ltd.	A/Negative/A-1	Australia
4 Cameco Corp.	A-/Positive/A-2	Canada
5 Teck Corp.	BBB/Stable/–	Canada
6 Newmont Mining	BB/Stable/–	US
7 Placer Dome	BBB/Negative/A-2	Canada
8 Normandy Mining	BBB-/Negative/–	Australia

Speculative Grade Ratings

Company Name	LT/Outlook/ST	Country
9 Great Central Mines	BB/Positive	Australia
10 Homestake	BB/Stable	US
11 Battle Mtn Gold	BB-/Negative	US
12 McWatters	B+/Stable	Canada
13 Hecla Mining	B+/Negative	US
13 Echo Bay	B+/Negative	US
14 Agnico-Eagle	B/Stable	Canada
15 Coeur D'Alene	B/Negative	US
16 Centaur Mining	B-/Negative	Australia
17 Freeport McRoran Copper & Gold Inc.	CCC/Negative	Indonesia

"Gold Company" Ratings

Standard & Poor's rates 17 companies involved in gold or silver extraction, shown in the opposite table.

Here follows a breakdown of two of the ratings:
First, Barrick Gold, with long-term rating of A and stable outlook is clearly a very safe credit. The ratings recognise Barrick Gold Corp.'s position as one of North America's largest and lowest-cost gold producers. Barrick has one of the largest gold reserve bases and has four operating gold mines in Canada and the United States and a fifth mine in Peru – which provides significant geographic diversification. In addition, Barrick's financial profile is strong, reflecting a conservative financial policy and a well-established gold-hedging program, which helps minimise fluctuations in the gold price.

At the other end of the scale, Coeur d'Alene is rated single B and carries a negative outlook. The ratings reflect a weak business position as a silver and gold producer and a very aggressive financial profile. CDA is a relatively small precious metals producer. It has a significant production concentration risk and the company's costs remain well above industry norms. The company's debt leverage is also very aggressive.

Conclusion

Standard & Poor's is a leader in credit ratings world-wide. Teams of analysts follow the same industrial sector in Asia, Europe, and North and South America. What this means is that we speak with the CEOs and CFOs of the top companies in nearly any given industry across the globe. This gives us access to confidential information that we keep to ourselves but use to make comparisons. We derive our ratings from these conclusions. We don't claim to be more knowledgeable in an industry than our clients are – but because we speak to so many, we do have a privileged position in assessing each company. Our independence and objectivity are what makes us a useful intermediary in the financial market. ■

Olivier Beroud
Associate Director, Standard & Poor's, London

Olivier Beroud is an Associate Director at Standard & Poor's Ratings. He has been a member of the Corporate ratings group since March 1996. Olivier looks after the assignment of credit ratings to mining, steel, engineering and shipping corporates in Europe and the Middle East.

Olivier is part of Standard & Poor's Metals & Mining global focus team. His primary responsibilities include mining giant Rio Tinto Plc., diamond producer Alrosa of Russia, steel companies headquartered in Western and Eastern Europe including Usinor, the Corus Group, Ispat, and SSAB. He also follows commodity traders such as Glencore of Switzerland.

Prior to joining Standard & Poor's Olivier worked in the credit department of Natexis formerly BFCE, a medium-sized French bank. Before that, he worked for five years in the consultancy arm of an international accountancy firm, Moore Stephens.

For further information contact:
Olivier Beroud, London +44 171 826 3508
Thomas Watters, NewYork +1 212-438-7818
Craig Parker, Melbourne +61-3-9631-2073

LBMA 'Educational' Pub Walks

Recognising that most Londoners get little opportunity to get to know their city, the LBMA is organising two guided pub walks for members.

A professional guide will provide a historical commentary.

Dates / Venues as follows:

Thursday 4th May – St Paul's and Smithfield
Thursday 1st June – Whitechapel / Jack the Ripper

Start time: 6.30 pm
Cost: £25 including drinks.
Any residual funds will be donated to charity.
Limit of 20 people per walk – restricted to 3 people per member firm.

Please apply by e-mail to the editor (alchemist@lbma.org.uk)

Reserve Management

A view from De Nederlandsche Bank

By Jos Heuvelman, De Nederlandsche Bank

This article has been adapted from a speech given at the LBMA Precious Metals Conference 2000.

During most of the nineties, the Dutch Central Bank was seen as one of the villains of the gold market. It was not easy for us to come to conferences like this because we were always being asked difficult questions. In 1993, I worked for awhile for the Bank of England with Terry Smeeton and his colleagues and these guys sometimes gave me a hard time. But then I always stuck to my motto: "if you ain't Dutch, you ain't much". Well, I would say that after being here now for two days in this beautiful place, I realise that even though you may not be Dutch – you can be very much.

Now let's concentrate on the topic I was asked to say a few words about – how we manage reserves at the Dutch Central Bank. Actually I think that 'reserves' is not always the correct word. It tends to have some kind of positive connotation – a nest egg that can be saved for a rainy day. But if you are working for the Dutch Central Bank, which during several times in the 90's was forced to buy weak currencies and pay for them with our own strong currency, you have a different view of the meaning of reserves. I would therefore rather call them foreign exchange assets than foreign exchange reserves, but nevertheless, for this presentation I will stick to the word reserves.

There is a very broad spectrum for the function and purpose of reserves for central banks that have a freely tradable currency. On one hand, reserves are used purely for the purpose of monetary policy. You can use foreign currencies to defend your own currency when it is weak. In that circumstance, the currency composition and asset allocation are totally based on policy considerations. On the other side of the spectrum, you find a more asset management-based approach in which you consider how much income can be generated with your foreign currency assets. I think most central banks are not at one of the two extremes. They are somewhere in between, but at very different places.

Looking at our overall situation, we have had a decade of stable exchange rates. Long before EMU we had a kind of a quasi-monetary union with Germany. We had a stable strong currency and there was basically no need to support it, no need to intervene to defend our currency. On the contrary, as I said earlier, we had to help other currencies when they became too weak. This resulted in a strong rise of our reserves during the 90s: they more than doubled. Gradually we realised that we did not need all these reserves for the purpose of monetary policy, hence we started to move downwards along the line that I pictured earlier. As we were moving towards a more asset-management based philosophy with more emphasis on income, we became much more aware of the risks and costs that come with holding foreign exchange reserves.

What are these risks and costs? Central bankers traditionally look at three risks– liquidity, market and credit.

Liquidity is very important to them. If their currency is weak and they want to intervene, then they must have the assets to do that. The money must be ready for use when it is needed. Market risk is obvious – no one likes losing money. As far as credit risk is concerned, I think central banks are slightly different from commercial banks. We do not like to face losses stemming from credit risks or defaults because that could hamper our reputation. I think it is because of these three risks that many central banks have held a large portfolio of liquid dollar assets and of gold.

Holding these assets has some costs. The first one is obvious – if you hold gold, it does not bring much income. We can lend a little but given the total size, it results in barely any income. Holding super-liquid US T-bills also comes at a price. If you don't need super liquidity, it may not be worthwhile paying that price. The second thing is that in a mark-to-market world, where we central bankers also live nowadays, we have to mark our books to market. If you are a euro-based investor and you have a balance sheet that is made up of dollars and gold, the value of your assets will swing widely. I think bank supervisors would not like to see their banks have a balance sheet such as we have had, for instance.

So all this meant that we wanted to implement some changes. The first one is that we no longer look at foreign assets in isolation. They have lost part of the special status that they used to have, and we have moved to a kind of asset and liability management similar to that practised by many commercial companies. Second, as I made clear earlier on, we saw no need for having super-liquidity on our balance sheet for which we pay a premium. And third would seem to be having the best of all possible worlds – less market risk combined with more income – but given the structure of our balance sheets, this was possible.

What was the outcome? We now hold only a small amount of liquid US Treasury paper, quite a step for a central bank. Most central banks have as their core holding a US T-Bill or T-note portfolio. We have mostly done away with that and have moved into less liquid instruments from which we get a better return. Secondly we wanted to bring our gold holdings (or the cost of our gold holdings) more in line with other major holders. At the start of the 90's we had over 1700 tons of gold, which meant that the burden that we put on our taxpayer was far higher than any other G10 country apart from Switzerland. We wanted to scale that back. But on the other hand, we still felt that gold was a kind of confidence builder, so we only wanted to sell if it would not harm the market's confidence in us.

So we could only do that when the country's finances were in very good shape. In the 90's we had a strong currency. The government deficit was much better than in the 80's. Last year for instance, for the first time in 25 years, we had a surplus. These positive developments made it possible for us to sell gold. As most of you know, we sold 400 tons of gold in 1992 and 300 in 1996. Even after those 700 tons we felt that we had too much – our gold holdings per capita were still much higher than the other G10 countries, again with the exception of Switzerland. It may not come as a surprise that we were one of the active parties in the 1999 Central Bank Gold Agreement that was published in September last year. Two months later we gave further details of our intention to sell 100 tons in the first year of the agreement and 200 tons over the remaining four years. As I am sure most of you know, we have sold most of the 100 tons over the last two and a half months already and we are quite pleased with the way things have progressed.

It must be remembered that as a central bank, we cannot act like an asset management company. We still have policy constraints. While the chance that we have to intervene in the currency markets is much smaller than 10-15 years ago, it nevertheless remains a possibility. So we need to keep a certain minimum portion of dollars on our balance sheet, because the US$ is still the main intervention vehicle.

Another policy constraint is that we want to remain one of the major gold holders. There is the usual war chest argument that if the worst comes to worst, you always have your gold to help you through a rainy day. And as we feel that having gold on your balance sheets helps maintain the confidence of the outside world, we will not move all the way down in my spectrum to a pure asset management-based philosophy. As you know, the biggest asset of a central bank is not on the balance sheet. It is its reputation, its credibility. As a colleague of mine has said, 'There is nothing that a central banker loses faster than his credibility, whereas nothing takes longer than regaining lost credibility.' ■

Jos R. Heuvelman *has been Director of the Financial Markets Department of De Nederlandsche Bank since spring 1997. In this capacity he is directly responsible for the operations of the Bank in the national and international money, capital and foreign exchange markets. Prior to his appointment as Manager he has managed various portfolios for the Bank, and the Bank's Pension Fund.*

He participated in various G-10 central bank working parties that discussed and analyzed developments in international financial markets in general and in derivatives markets in particular. Presently he is a member of the Market Operations Committee of the ESCB and of several G-10 central bank committees in the context of the Bank for International Settlements.

Net Worth

Consumers Find Precious Metals on the Web

by Susanne M Capano, Editor

As he was being interviewed for this article, Louis Nagode couldn't answer all the questions right away. He was too busy testifying.

On 31 March, two parcels, ostensibly from Nagode's company, NetMetals.com, were delivered to an address in Brooklyn, NY. The recipient had been expecting a shipment of over 200 one-ounce gold Eagles, ordered over the Internet. He didn't expect that they would be delivered by the police.

The man was arrested and charged. Estimates are that he had attempted to purchase more than $500,000 worth of coins from several companies with copies of the same cheque.

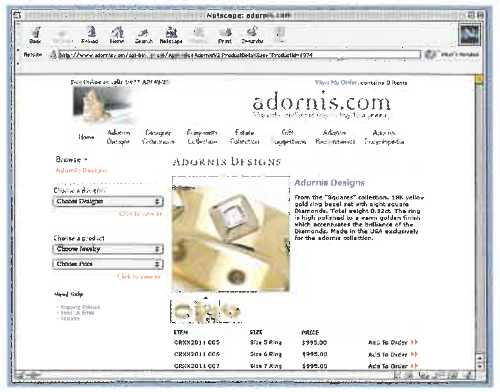
Nagode understands the inherent pitfalls of doing business over the Internet, but he sees its speed as a real advantage. On this occasion, he used it to aid the police. He constructed a special web site for them containing all the details of the transaction, including a scanned image of the check and a record of all e-mail correspondence. The electronic evidence was enough for the authorities to act on. "It was the Internet that allowed the crime to be perpetrated, but it was also the Internet that was the criminal's undoing", Nagode points out.

Nagode was one of two speakers at the LBMA Precious Metals Conference 2000 e-Commerce Workshop session, which focused on the role and future of the Internet in precious metals. While NetMetals.com offers bullion, Adornis.com, the other company presenting at the workshop, markets fine jewellery. Commercial enterprises on the Internet can be divided into roughly two categories: business-to-business (B-to-B) and business to consumer (B-to-C). Both Adornis.com and NetMetals.com are B-to-C. Both feel that thanks to the Internet they can attract the consumer with a better selection and more efficient service – which could ultimately lead to more consuming.

Electronic Gold

Nagode initially considered e-bullion from a consumer's perspective. He was an occasional purchaser of gold coins and wanted to add to his collection, but his supplier had gone out of business. For him, the Internet seemed a logical place to find a new one. After all, he was buying books, computers and supplies on line, so why not gold?

But the only web sites he found on line were from dealers using the web to advertise and promote their toll-free numbers. He couldn't actually buy on line. To him, this represented a business opportunity. Looking back, he says "I found an industry that hadn't automated and had huge supply chain inefficiencies – but could achieve tremendous cost savings using technologies I am intimately familiar with!" NetMetals.com went live a few months later and had its first profitable month within a year.



* * *

With a huge and seemingly ever-expanding global market, it was inevitable that fine jewellery would find a place on the web. Adornis.com was set up by its current Chairman, Declan Ganley, in November 1999, with an industry-experienced management team from high-end retailers such as Tiffany & Co, Hermes and Saks Fifth Avenue.

But why should fine jewellery sell better over the net than in traditional brick-and-mortar businesses? The oft-cited advantage of shopping 24 hours a day, seven days a week, in the comfort of home is perhaps particularly key when looking for jewellery, which is normally displayed in luxurious (and perhaps intimidating) surroundings.

To facilitate shipping of purchases, Adornis.com operates a 20,000-square-foot fulfilment and call centre in Memphis, Tennessee, adjacent to the North American hub for Federal Express. US customers who place their orders by 10 pm on a weekday can get next-day delivery. "So when somebody like me forgets his wife's birthday until the night before, last minute shopping is not a problem," says Ganley.

The Shop Window Goes Global

To display its pieces to their best advantage, Adornis.com uses mouse roll-overs to change the image's angles. Still, the drawback to shopping for Internet jewellery is, of course, that, no matter how sharp the image on screen is you can't touch it or try it on. But if that bracelet doesn't look quite as good on your arm as it did on screen, you can always send it back. The company offers a 30-day money-back guarantee with all items – no questions asked – and the shipping on returns is prepaid. But it's not invoked very often. "Our return rate is only about 14% – half of what we expected," says Marion Davidson, senior Vice President of Communications.

Adornis.com believes that advertising is vital. With fierce competition from both other on-line jewellery sites and traditional companies, they have to stand out from the crowd. They sought premium positions in fashion, business and lifestyle publications to show Adornis.com as an established and desirable brand.

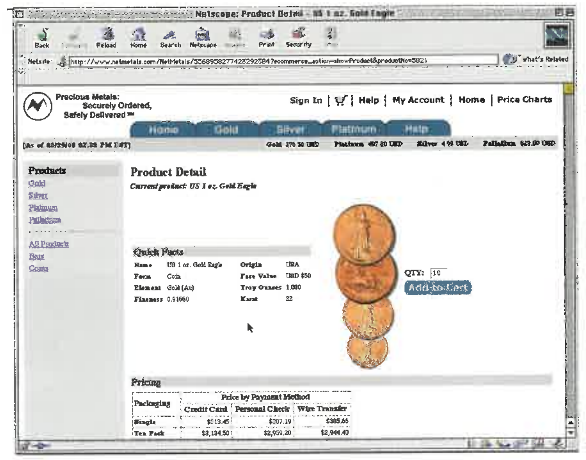
NetMetals.com also advertises in publications that appeal to its target customers – well educated with web access and disposable income. But most of their traffic still comes from 'web crawlers', so Nagode tries to make his site as easy as possible to find (or hard to miss) by specifically styling pages to fit search criteria.

Customer Satisfaction

How can a customer be better serviced over a computer than they would be in person? Some steps in the transaction chain can be automated, which Nagode finds an advantage. For instance, he uses email to send automated confirmations to each customer and acknowledgements of payment, and then sets up an individual URL (a web page) so a customer can tell where his package is at any given time.

Customers have the ability to enter their own orders 24 hours a day, seven days a week, and Nagode feels that no order is too small to be profitable. "Most other dealers won't take small orders, let alone stay open all day, because it would require an entire staff to be available to process the orders. All we require is a secure computer with a predictable cost structure. We let our customers start with orders they feel comfortable with, then earn repeat business for progressively larger order sizes by flawlessly executing each and every order."

Research carried out by Foote Cone and Belding on behalf of Adornis.com showed that many people didn't actually enjoy purchasing jewellery. They felt they ought to do it at times, but they didn't feel very knowledgeable about their purchases and didn't feel comfortable asking questions.



The key to feeling more comfortable (and buying more jewellery) may lie in feeling more knowledgeable. Adornis.com contains an on-line encyclopaedia, with topics such as "Caring for Gemstones" and "Hallmarking". A consumer can study, then browse to his heart's content, making a purchase with a click of the mouse when ready. But if the surfer has a specific question or wants help with anything, a 24-hour call centre is available. Ultimately click-to-talk buttons may be added, allowing on-screen access to a customer service representative. This could even be expanded to a video function, allowing both parties to see each other (but only if customers want it).

Both companies feel that giving customers what they want is the key to keeping them loyal. And their consumers have helped, freely providing valuable feedback. Those who shop on the Internet seem eager to share their likes and dislikes, and this information is used to fine-tune the system whenever feasible. "We always want to have access to the latest technology, but our aim is not to have the flashiest web site," says Davidson. "It's to make our customers feel comfortable." ■

LBMA News

By Stewart Murray, Chief Executive, LBMA

Membership

Application forms for the new International Associate category of membership have been despatched to more than 20 companies around the world which have so far indicated an interest in applying. The Executive will shortly be sending out an information pack about International Associateship to a wide range of companies which may be interested in becoming Associates of the LBMA.

Bank of America NT & SA resigned its membership with effect from 1st January, 2000.

The telephone number for Mitsubishi Corp has been changed to: +44(0)20 7822-0018.

Committees

Management Committee
The Management Committee has approved new arrangements for the sponsorship by members of applications for membership. These are aimed at streamlining the process as well as ensuring that the highest standards of financial probity are maintained in the membership, including the new category of International Associateship. As in the past, applicants will still require three full members (including one Market Maker) to support their applications. However, applicants will in future simply have to list on the application form the names of the member companies which have agreed to sponsor them. The Executive will then contact these members and will at the same time remind them of the importance of giving serious consideration to such requests.

Public Affairs Committee
Much of the Committee's work recently has been in connection with the LBMA's Precious Metals Conferences. As well as analysing the feedback from the conference in Dubai, the Committee has agreed on Istanbul as the venue for next year's conference, which will take place on 4th and 5th June, 2001.

The organisation of the biennial dinner, which takes place in the Gibson Hall on 21st September, will be occupying a significant part of the Committee's deliberations in the coming months. The LBMA is delighted that the Right Hon. Michael Portillo has agreed to attend the dinner as guest speaker. Further details will be circulated to members in the near future.

Finally, the programme for the forthcoming LBMA Spring Seminar on 17th May has been discussed.

Physical Committee
On 1st March, the first edition of the Good Delivery List in its new expanded format was issued. This includes both the location of the refineries and the date of first listing, where known.

The Committee has now completed the new document, bringing together all the Good Delivery Specifications and Application Procedures, and this will be published shortly. The most important change in the new procedure is that applicants will first have to prove their assaying ability before they have to submit bars for testing. This should facilitate the process for applicants without in any way compromising on technical standards.

The Committee is currently examining eight Good Delivery applications from refiners in seven countries.

The Committee's work on the use of magnetic damping of beam balances has now been completed. As result of this work, beam balances of modern construction can be retro-fitted with suitable dampers and thus allow more accurate and faster weighing of gold (which must still be weighed on a beam balance).

What are these men doing?
Send us your caption for the above photo by email, fax or post. Entries will be judged on brevity and wit by a panel of experts (the LBMA Executive). The winning caption will be published in the next issue and the winner will receive a bottle of champagne. Contest closes 31 May 2000.

Golf

John Coley writes –
Notices have gone out and should have been circulated to all employees about the LBMA annual golf day on Thursday 11th May. In case you haven't seen the notice, this year's event will be held at The Drift Golf Club, East Horsley, Surrey.

The morning round is an individual competition for The Jack Spall Trophy, and the afternoon will be a Texas Scramble for the Tradition Team Trophy.

The price is not fixed yet and depends on the final numbers, but is hoped to be around £35, thanks to some generous sponsorship from member companies. The price includes full catering.

Please note that soft spikes are compulsory. If you have metal spikes, please remove them before you arrive. Soft ones will be put in for you at no extra cost. If the hard ones have to be removed on the day there will be a £2 charge.

One guest per company is permitted.

Please do your best to keep this date free in your busy diaries. More information available from Stella Thompson at the LBMA or John Coley at Brink's. ■

Market Moves

Ed Jette was hired by West LB's New York branch as Associate Director on 15 March 2000, to develop their commodity department for North and South America. The department's initial focus is on precious metals – gold, silver and the PGM's. The New York operation will complete the integration of West LB's two other commodity trading centres in Koln, Germany and Sydney, Australia into a 24-hour provider of metal risk management programs and the full range of treasury products offered by West LB.

Mr. Jette has been in the natural resource and financial services industries for over twenty years. His background encompasses trading companies, world class precious metals refiners, the New York Commodity Exchange, brokerage companies and world class money centre banks.

Kevin Crisp was hired as a Metals Strategist and a Director of Credit Suisse First Boston's Precious Metals Group on 6 March 2000. Kevin is based in London where he is responsible for precious metals research and market analysis.

Kevin is a graduate of the Royal School of Mines in London. He has previously worked for Consolidated Gold Fields as an analyst and was subsequently seconded to Denver-based Gold Fields Mining Corporation, working on project evaluation. In 1989, Kevin moved to Gold Fields Mineral Services Limited (GFMS) as Senior Metals Analyst, responsible for analysis of the precious metals markets in the Middle East and Asia. From 1995 until February 2000 Kevin was a Vice President and Metals Strategist in the FX and Commodities Group of JP Morgan. ■

Obituary
Dennis Selby

We were very sorry to hear of the death of Dennis Selby on 9 March 2000.

Dennis started his career in the Bullion Department of Johnson Matthey & Co. Ltd. in the late 1940's, joining the company immediately after leaving school. Following the establishment of Johnson Matthey (Bankers) Limited, Dennis transferred to the new company and was Bullion Trading Manager until 1980. In that year he moved to New York and became President of Johnson Matthey Commodities Inc until 1986.

More recently, Dennis established a brokerage company on the floor of the COMEX division of NYMEX and worked on the Exchange until shortly before his death. He served on the Board of NYMEX in the late 1980's.

Dennis was a "gentleman" in the true sense of the word – always fair and honourable in both personal and business dealings. We extend our sympathy to his family.

DIARY OF EVENTS

16-18 April
Gold & Silver Institutes' Annual Conference,
Rancho Mirage, Ca, USA
Tel: 001 202 835 0185
Fax: 001 202 835 0155

18th April
Final judging of the Gold Virtuosi global jewellery contest at the Goldsmiths Hall, London. Winning collections will be exhibited at the Vicenza Fair in June and subsequently at major exhibitions and jewellery shows around the world. Contact: Bryan Parker, World Gold Council, 45 Pall Mall, London SW1 5JG.
Tel +44 (0) 20 7766 2703.
bryan.parker@wgclon.gold.org

26 April
GFMS Gold Survey 2000 Launch, Wax Chandlers' Hall, Gresham St, London, The Chase Manhattan Bank Conference Center, 270 Park Avenue, New York
Tel: 020 7 539 7820
Fax 020 7 539 7818
enquires@gfms.co.uk

27 April
GFMS Gold Survey 2000
Launch – Toronto
3 May
GFMS Gold Survey 2000
Presentation – Johannesburg

2-5 May
Fourth International Gold Symposium, Sheraton Hotel, Lima, Peru Comité Aurifero – SNMPE
Tel: (511) 222 8788/(511) 221 5704
Fax: (511) 222 6484
www.snmpe.org.pe

9-13 May
Expomin: World Mining Exhibition for Latin America, Santiago, Chile. Expomin 2000, Casilla 40 D Correo Central, Santiago Chile.
Tel: (+56 2) 530 7000.
Fax: (+56 2) 533 1667.

9-13 May
Mining China Beijing.
Metallurgical Council of the CCPIT,
46 Dongsi Xidajie, Beijing 100711, China.
Tel: (+86 10) 6522 0753.
Fax: (+86 10) 6523 3861.
mcexpo@metallurgy-china.com

11 May
Annual LBMA Golf Day, Drift Golf Club, East Horsley, Surrey

12 May
World Gold Council annual meeting at the Park Lane Hotel, Picadilly, London. Morning session: a review of WGC activities and gold market developments. Open to analysts and media (by invitation). Contact: Penny Bushe, World Gold Council, 45 Pall Mall, London SW1 5JG.
Tel +44 (0) 20 7766 2704.
penny.bushe@wgclon.gold.org

16 May
The LPPM Cocktail Reception, The Old Library, The Guildhall London EC2R
The LPPM Dinner, The Savoy
both by invitation only

16-18 May
Uzmin 2000 - The 2nd Uzbekistan Mining and Metallurgy Exhibition, Tashkent, Uzbekistan.
ITE Group, 105 Salusbury Road, London NW6 6 RG, UK.
Tel: (+44 20) 7596 5213.
Fax: (+44 20) 7596 5128.
Dan.Thurlow@ite-exhibitions.com

24 May
World Silver Survey 2000 Launch, London, New York & other major centres, GFMS, contact as above

31 May – 1 June
Northeast Investment in Mining Conference, New York, NY USA
International Investment Conferences,
Tel: 001 305 669 1963
Fax: 001 305 669 7350
iiconf@iiconf.com
www.iiconf.com
11-14 June
IPMI Precious Metals Conference, Williamsburg Marriott Hotel, Williamsburg VA USA
Tel: 001 850 476 1156
Fax: 001 850 476 1548
mail@ipmi.com

26-27 June
FT World Gold Conference, Intercontinental Hotel, Paris
contact: Jesminah Shah
tel: +44 207 873 3375
fax: +44 207 873 3067
jesminah.shah@ft.com
www.ftconferences.com

24 - 26 July The Diggers and Dealers Conference "Forum 2000", Palace Hotel, Kalgoorlie, Australia.

6-7 September
Las Vegas Investment in Mining, Las Vegas, USA.
International Investment Conferences, 6310 Sunset Drive, Miami, FL 33143-4823, USA.
Tel: (+1 305) 669 1963.
Fax: (+1 305) 669 7350.
iiconf@iiconf.com

21 September 2000
LBMA Biennial Dinner
Gibson Hall
Guest Speaker *The Right Hon Michael Portillo, MP*

The Private Affairs of the LBMA's Public Affairs Committee

Editorial Comment by Helen McCaffrey

As the newly appointed chairman of the LBMA's PAC, I thought it was about time I contributed to the Alchemist, given that one of the key tasks of the PAC is to oversee the production and content of our house journal, now in its fifth year.

The PAC was established over 10 years ago to guide the public relations and external affairs of the Association. Although its mandate remains the same today, its range of activities is now much greater than when the Committee was first formed.

Most importantly, the PAC represents the whole membership. It includes representatives from both Market Making and Ordinary Members, including a refiner. The unwavering enthusiasm and commitment of all the PAC members never ceases to amaze me. They turn up for meetings brimming with ideas, having obviously discussed the agenda with their colleagues. It is notable that the LBMA does not employ any public relations firm. The necessary expertise and creativity is located within the Executive and the Committee.

The LBMA flagship is, of course, the quarterly Alchemist, which has improved by leaps and bounds in the hands of our hard-working editor, Susanne Capano. In this as in other areas, the work of the PAC relies heavily on the support and assistance of all those within the bullion market. We are constantly looking for contributions and ideas for articles. To all those who have contributed, I would like to say thank-you, and for those with a good idea, don't be shy. Next time it could be you!

The organisation of the Precious Metals Conference in Dubai occupied much of the PAC's time and effort. The development of what turned out to be a very successful programme (both on the business and extra-mural sides) represents a very good example of the inner workings of the Committee. We did of course consult many other companies and individuals, but the original ideas and the hard decisions about what to include were the product of many meetings. Decisions had to be taken on everything – from the choice of a keynote speaker to whether to include camels at the Desert Barbecue on the final evening.

Having had such overwhelmingly positive feedback from so many participants, we are looking forward to organising next year's conference. As indicated on page 8, we have decided on Istanbul as the venue and the PAC are already working to ensure another memorable and useful experience.

In addition to the Alchemist and Conference, the responsibilities of the PAC include the spring and autumn seminars, which have become very popular events; overseeing the publication of Market Statistics; and monitoring the LBMA's Web site. In addition, there are occasional ad hoc publications such as the recently issued LBMA Corporate Brochure. In the near future, the Committee will be looking at the possibility of producing an LBMA video (or should that be CD-Rom or DVD?) explaining the full range of services the London market has to offer and its role in the global bullion market. And this year there is the biennial dinner on 21st September.

Through all these activities we aim to raise the profile of the Association and hope to educate (and occasionally, amuse) Members, other market participants and indeed anyone with an interest in precious metals.

The coming year is clearly going to be busy for the PAC. There is currently a vacancy on the Committee, so any Member who would like to join us should contact the Executive without delay.

facing facts

By Paul Burton
Editor, World Gold

Excitement returned to the gold market early in February when the gold price jumped more than 10% over two days to over US$320/oz, a level last seen in the famous 'Ashanti rally' of October 1999. Gold stocks reacted accordingly and all the major market indices posted sizeable gai[ns]. Like the October rally, the stimulus for the dramatic rise was a statement from a traditional supplier purporting to cap gold sales. This time however, the change merchant was a major producer rather than a group of central banks. The rally was short-lived and the price has slumped to January levels again.

The event that sparked the price ignition this time around was a statement from Canadian Placer Dome that it was "suspending its hedging activities in expectation of improving gold market sentiment and reduced producer hedging". Once again in the gold market we have another case where words speak louder than actions.

The statement was obviously a clarion call for all producers to follow the lead, and indeed this was exactly how the market and the media interpreted it. As with the Washington Agreement the market drew exaggerated positive conclusions from what, at best, was only a mildly bullish statement. Placer will not initiate any new forward sales "as of today", but the undertaking is not indefinite.

Another Canadian outfit, Barrick Gold, with the industry's most profitable hedge book, was next to reveal its intentions.

Barrick announced some tactical changes in its hedging strategy as part of a report back on 1999 performance and its future growth strategy. While reaffirming its belief in hedging, Barrick announced a reduction in "committed" ounces over the December quarter to a "net 9.8 million ounces", seemingly a reduction of 50%.

The key measure that Barrick introduced into its Premium Gold Sales Program was short-term call options. In the December 1999 quarter, Barrick purchased 6.8 million ounces of call options with expiry dates matching production over the period March 2000 to December 2001. These call options were struck at an average price of $319/oz in 2000 and $335/oz in 2001. Therefore Barrick's hedge position may be reduced if the price goes above $319/oz in 2000 and Barrick then exercises the call options. The liquidation of a portion of the forward sales positions is thus conditional.

Meanwhile, amongst all the hype, the ever-pragmatic Australians increased their hedging activity to take advantage of a 30-month high local gold price, courtesy of a weak currency.

Clearly, hedging remains a strategic weapon for many companies. There is no reason for believing that forward sales will end, although there appears to have been a shift in thinking, with some producers mildly bullish and thus preferring the greater flexibility that put options provide.

It was problems with its hedge book that caught Ashanti Goldfields in a tangle back in October. The good news is that the company can finally move ahead after resolving its numerous outstanding financing, credit and management issues. Agreements reached in February mean that the company has now secured a package that comprises a US$100 million loan facility to complete the 500,000 ounces per year Geita gold mine in Tanzania and to provide additional working capital. In addition, the agreement provides for the renewal of Ashanti's US$270 million revolving credit facility.

In return for the right to the three years of margin-free trading, Ashanti has agreed to issue its hedge counterparties with five-year equity warrants exchangeable into shares representing 15% of Ashanti's total ordinary shares. Also, as agreed with its main shareholders (Lonmin 32% and the Ghanaian Government 20%), Ashanti has restructured its board, replacing a number of directors with new, independent non-executive directors. Ashanti thus seems to have escaped from the threat of takeover that hung over it for several months.

Another victim of the sharp price rise towards the end of last year, Canadian multi-metal producer Cambior, has also retained its independence after Aur Resources withdrew a US$118 million takeover offer. Cambior has now sold off its zinc interests to reduce its outstanding debt.

Meanwhile, in Australia, just a few months after it retired gracefully from a competitive bidding process for Acacia Resources, Delta Gold has made a bid for another Australian gold miner, and this time it has been welcomed by the directors of the target company Ross Mining. The main prize is the Gold Ridge operation in the Solomon Islands. The combined company will be Australia's fourth largest gold company, with an expected production of 700,000 ounces per year. Delta had been looking for quality assets for some time, acknowledging that exploration, although a key focus, in reality has a 3-4 year lead-time to production. The company concluded that Gold Ridge was an asset that fitted into Delta – long life, low cost, unhedged gold and in the Australasian time zone. Delta intends to inject $20 to $25 million to upgrade the project and infrastructure.

Delta's all-share offer valued Ross at A$106.5 million, a 26% premium to market capitalisation at the time. This premium has since slipped after Delta's share price slumped by over 20%. Brisbane-based Ross produced 153,000 oz of gold in the year to end-December from Gold Ridge and its Australian operations at Timbarra and Wirralie.

Finally, two Canadian gold majors have just received results of feasibility studies on development projects with contrasting conclusions. Teck Corp's 79%-owned subsidiary, PacMin Mining, has approved the development of the A$40 million Carosue Dam gold project in Western Australia, after a positive feasibility study. The study envisages a 110,000-140,000 oz/y of gold operation over a ten-year mine life.

In contrast, the feasibility study for the 23-million-ounce Cerro Casale copper-gold deposit, in Chile, in which Placer Dome is earning a 51% interest, concludes that the US$1.43 billion project is technically feasible, but is less conclusive about its economic viability. The report envisages a large open-pit operation producing 975,000 oz/y of gold and 130,158 t/y of copper over an 18-year mine life.

The *Alchemist* is published quarterly by the LBMA. For further information please call Susanne M. Capano, Editor, Stewart Murray or Stella Thompson
LBMA Executive
6 Frederick's Place
London EC2R 8BT
Telephone: 0171 796 3067
Fax: 0171 796 4345
www.lbma.org.uk
Email: alchemist@lbma.org.uk

第四届庆丰金 THE 4th ANNUAL RNA

中国黄金及贵金属年会

CHINA GOLD & PRECIOUS METALS CONFERENCE

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中国之「金城天府」招远市
24-25 August 2000
Zhaoyuan, China's City of Gold

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