Alchemist

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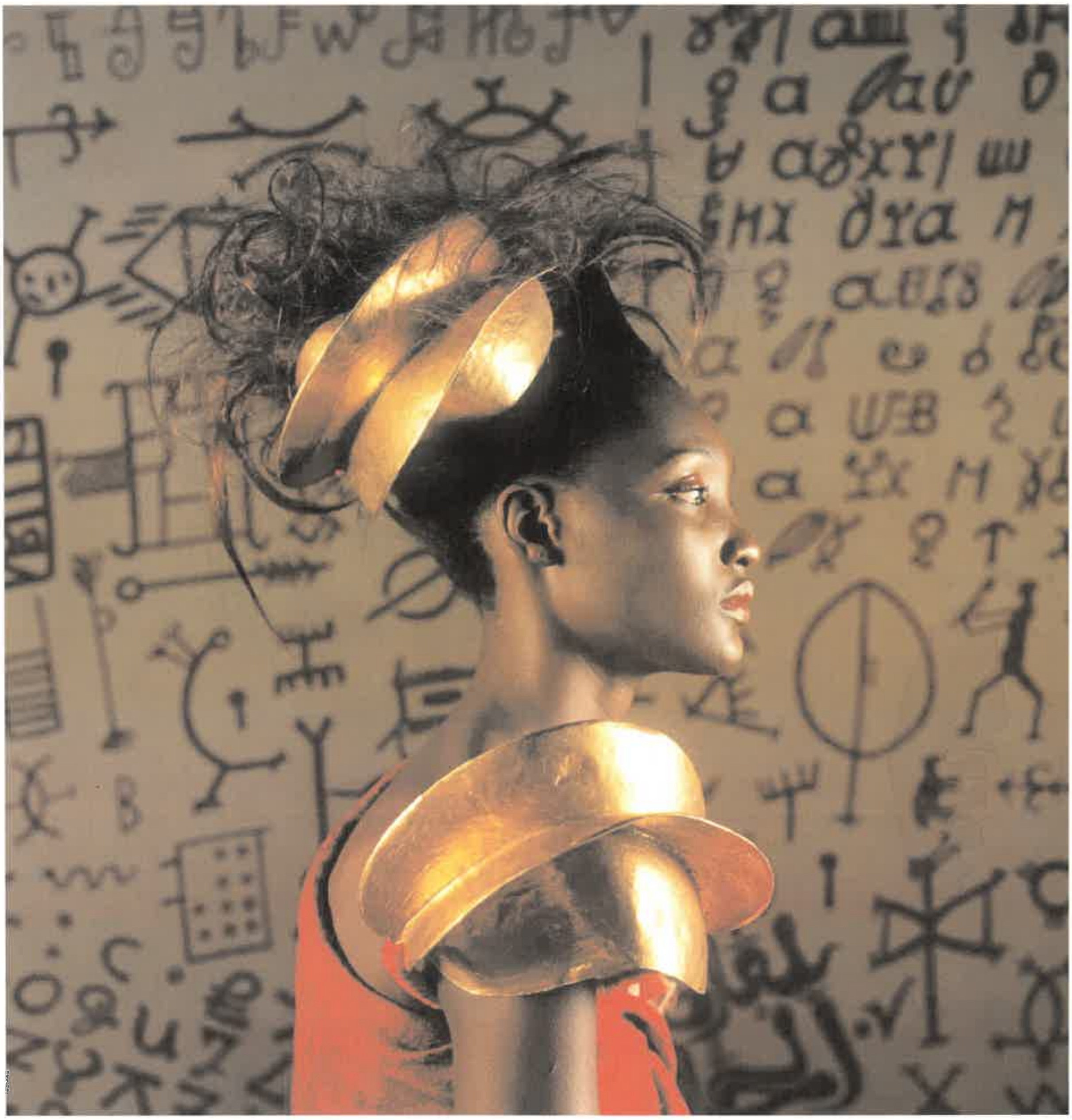
LBMA

In this issue



Ama Abrafi, The Face of African Gold, wearing gold jewellery manufactured in the workshop of the recently opened Gold of Africa Museum.

See **The Gold of Africa Museum** *on page 12*

Gold in Demand

An Investor-Based Assessment

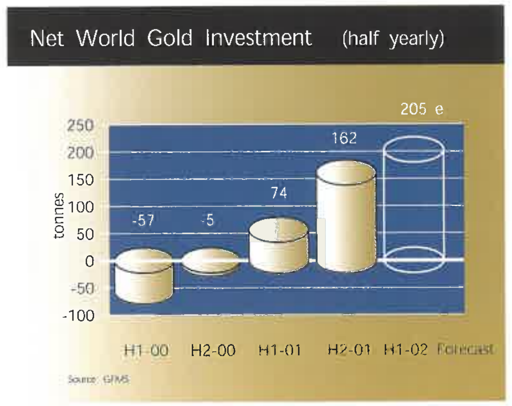
by Philip Klapwijk, Managing Director, Gold Fields Mineral Services

For the first time in many years, investment demand in the developed world (Europe, North America and Japan) has the potential to drive up the gold price.

Sentiment towards gold has improved and there are some positive signs of a new commitment to the metal by some funds and individuals. This already represents a major change from the situation over much of the 1990s when, to the extent that they were even in the market, funds were as often as not short gold, and private investors' physical demand was generally lacklustre or, in 2000, actually negative. External conditions are more favourable and developments within the market itself may also encourage further gold purchases. That said, it is questionable to what extent the undoubted potential for investment demand will materialise and therefore whether an investor-led rally this year is really to be expected. This issue and, in particular, the outlook for 2002, are discussed below. Provisional data for 2001 published by GFMS in its recent Update publication show that while fabrication demand (excluding bullion coins) declined by around 285 tonnes, global investment increased by nearly 300 tonnes. Notably, most of this improvement was registered in Europe and North America, where there was a powerful swing back to investment from the net disinvestment that had occurred during much of 2000. Such a strong increase in investment is unlikely to be repeated in 2002 largely because this time the year-on-year comparison will be far less flattering. Nevertheless, there should be some growth in investment, especially in Japan, that will help to compensate for a further, though probably smaller, slide in fabrication demand.

There are several reasons for expecting continued growth in global investment in 2002. First of all there is the special case of Japan, where fear of banks' financial health has resulted in a wave of retail purchases of gold bullion products. The immediate catalyst has been the planned removal on 1 April this year of government guarantees on time deposits exceeding 10 million yen. Even though there has also been some selling back of metal by investors on higher yen gold prices (i.e., traffic has not been entirely one-way), it is very probable that this year net purchases by retail investors will comfortably exceed the 55 tonnes estimated by GFMS for 2001.

Heightened concerns about the security of investments are not restricted to Japan. We believe that the slowdown in world GDP growth, the impact of "911", rising Middle East tensions, and the Enron debacle have all contributed to investors in the developed world favouring an altered risk-reward profile, namely one where slightly (for the moment) more emphasis is on asset security than return maximisation. This shift in preferences will benefit gold.



Is Gold the New Black?

But gold is also to some extent back in vogue because the outlook for other, mainstream financial assets is less clear and, arguably, more negative than for several years. Stock market performance in 2001 was disappointing – the S&P 500 fell 11% during the year, while the Nasdaq was down no less than 21%. Even though stock prices have recently rallied on the hopes of a swift US economic recovery, it would be brave to expect that the return on equities this year will match what was recorded annually during the second half of the 1990s. Indeed, it is quite conceivable that any major economic setback, such as sagging consumer spending, would quickly send stock prices lower again.

If the outlook for stocks is less than rosy, much the same applies to the bond market. The strong performance of the government bond market in recent years may now be a thing of the past – due to deficits rising again because of weak GDP growth and increased government spending. Nowhere has this placed more pressure on the public finances than in Japan, which in no time has seen its public debt-to-GDP ratio soar to no less than 140%. Nor can the investing public be expected to plunge into the corporate debt market. In raising questions over the quality of companies' earnings, the Enron affair has not only spooked equity investors, but also put the spotlight on values in the corporate debt market.

Outside Japan it might be thought that cash would at least represent a safe and steady alternative to more volatile stocks and bonds. Certainly of the three traditional homes for investors' savings (be they privately or professionally managed) deposits and money market funds might continue to receive an increasing share of the cake as investors remain wary of bonds and, especially, stocks.

Nevertheless, with less than 2% currently on the table in the United States and no more than 3% in the Euro Area (in both cases before tax), some investors will be looking for other ways to improve returns. (It should also be mentioned that by depressing the contango, the low level of interest rates has, of course, made it very risky for funds and proprietary traders to short gold.)

One alternative to cash where there is now more of a focus by the slightly more adventurous investor is commodities. The interest in commodities could become more intense if the sceptics (we would include ourselves) are proven wrong and the US economy rebounds very strongly this year. In such circumstances low unemployment combined with inappropriately low interest rates could be just the recipe for the return of gold's old friend, inflation.

A Shifting Supply-Demand Equation

The more supportive external environment – and so far this has excluded the long-awaited tumble in the value of the dollar, which may yet occur – is arguably matched by a stabilisation, if not improvement (for those hoping for higher prices) in gold's own supply/demand fundamentals.

The official sector sales issue has to no small extent been defused by the Central Bank Gold Agreement, notwithstanding its probable renewal – with Germany likely to take over the Swiss mantle as the largest seller in a future second agreement or an extension of the current one. Also significant is that net sales from outside Europe seem to have settled down to a level below 100 tonnes per annum. In addition to the greater certainty, at least, about the volume of gold coming from the official sector, there has recently been a spate of developments on the producer hedging front that promise to reduce quite substantially the current 3,000 tonne producer hedge book.

This shift in producer behaviour is undoubtedly already having a positive impact on the price. Fabrication demand has, of course, suffered in 2001 from the downturn in world GDP growth. However, a recovery in fabrication, possibly from the second half of 2002 onwards, should help to support somewhat higher gold prices, even accounting for a price-elastic response from demand in some of the major developing country jewellery markets.

With a better chance for higher gold prices than in many years, the dull prospects for stocks, bonds and cash and a greater focus on asset security, it would seem that all is set fair for gold.

However, even though we are expecting more money to find its way into the metal, either directly or via paper products, it is doubtful that we are on the brink of an investment boom. The sad reality for the gold market is that in spite of all the positive developments listed above; the mainstream investor (fund or private individual) remains uninterested, especially in owning the metal, as opposed to holding gold stocks. In spite of all the talk in recent months of a "flight to quality", only a tiny proportion of investment flows has been into gold bullion (this is particularly true if bar hoarding in developing countries is excluded from the analysis).

For instance, we estimated in our January Update that total world investment demand, on a net basis, reached about US$2 billion in 2001 (i.e. around 235 tonnes). On the other hand, this low figure illustrates how even a very small shift in investors' portfolios would impact tremendously on the gold market. What if the number increased to just US$10 billion? Such an increase may look improbable, but can no longer be ruled out. Our view, however, is that this year an approximate doubling of the US dollar value of investment is a more likely outcome. The GFMS forecast for the first half of 2002 alone is for close to 200 tonnes of net world investment demand and this will be at higher average dollar gold prices. This would represent a healthy, though unspectacular trend in terms of the amount of metal absorbed by investors.

Short Answers, Long Questions

What would it take for a higher figure to materialise?

Firstly, gold's more promising fundamentals will need to be translated into higher and rising prices. So far, this has not occurred, with the US$300 level still proving to be something of an obstacle. Secondly, the external economic and political environment may need to deteriorate further. On this front the news is currently mixed, e.g. signs of US economic recovery versus the very real danger of a major banking crisis developing in Japan. Thirdly, the type of product on offer and the infrastructure for delivering this to the investor may need to be improved. In order to appeal to a wider group of investors a more modern, securitised form of gold should be developed (existing, proprietary OTC products fall short of what is required).

Delivery is another pressing issue. The existing infrastructure for delivering gold products (be they bullion or paper) to investors in North America and Europe is extremely underdeveloped compared to that servicing the equity and bond markets. A huge amount of business was lost in the immediate aftermath of September 11th because many investors could not easily find a route into gold.

Finally, in order for higher investment to materialise in Europe, North America and Japan (and, crucially, also to prevent sales out of existing private holdings), gold's story needs to be sold to investors. Outside of East Asia and the Middle East there is a very low level of public awareness and knowledge of gold's qualities as an investment asset. Compare this with the widespread appreciation of gold's attraction and even intrinsic value as an adornment and you get some idea of the mountain the industry still has to climb before investment can fulfil its undoubted potential. ■

Philip Klapwijk

Philip is the Managing Director of GFMS. In his capacity as an analyst, he continues to cover the official sector, investment and fabrication demand in North America, Latin America and much of Europe. He holds degrees in economics from the London School of Economics and a Master's degree from the College of Europe in Bruges. Philip was appointed Group Economist at CGF in 1987, where he was responsible for developing the group's economic scenarios as well as participating in the work for the annual Gold Survey. He has worked for GFMS as part of the gold research team since 1989.

German Reserve

Commentary on Recent Statements from the Bundesbank

Compiled by Susanne M Capano, Editor

'At the moment, there is an agreement between the central banks limiting the sale of gold. That is sensible since if we all sold central bank gold we send the gold price plummeting. That wouldn't be sensible. But I could imagine that we slowly sell some of this gold and reinvest the revenue in assets that pay an interest.'

Gold may not have been the main topic or even the first subject discussed by Bundesbank President Ernst Welteke during an interview with Bloomberg TV on 19 Feb, but to the bullion market, his brief comments were of vital importance. The impact was arguably far greater than what could immediately be measured in the price – which initially dropped a few dollars but by the end of February was trading back in the upper $290s.

If there were any lingering doubts about the Bundesbank's intentions, these were removed by a second Welteke interview with the Frankfurter Allgemeine Zeitung on Monday, 25 March, in which the subject of gold reserves was the first subject discussed. "In the medium term, we must consider whether we can sell some gold and turn to securities."

The topic of central bank reserves has again come sharply into focus. If the Bundesbank sees advantages to reducing the level of its gold holdings, might not other large – and small – European central banks want to follow suit?

And there are other questions:

- Do the comments all but guarantee that the European Central Bank Agreement on gold (CBGA) will be renewed after 2004?
- Would its successor follow exactly the same format or will the signatories and/or the annual quota change?
- How well can the market really absorb any increases?
- Does the announcement fundamentally change the outlook for the gold price over the near- to medium-term?

Following is a selection of comments and opinions from some London analysts.

Tom Butler

Virtual Metals Research and Consulting

The original agreement was put together very quickly in response to what was perceived as a potential crisis in the gold market. With plenty of time to reflect, there are no guarantees that a renewal would be a carbon copy.

We are likely to see new names among the allocated sellers – the Bundesbank's recent politicking indicates that it is already looking to claim a quota, and we cannot rule out disposals by other large holders of gold such as Italy and France.

A new agreement would also likely be modified to reflect prevailing market conditions. In 1999, with prices slipping towards $250 and sentiment so negative, the central banks felt that 400 tonnes a year was probably as much as the market could bear. In 2004, with prices likely to be higher and supply from mine production and hedging lower, the central banks may conclude that higher p. a. sales could be accommodated.

We are currently only halfway through the current agreement and, in the near-to-medium term, there is no reason to change our view that prices are likely to gradually improve. The eventual acceptance that more sales will be forthcoming from Europe – but within the confines of an agreement – is unlikely to provide a shock in itself. It should be borne in mind, however, that if the demand for borrowed gold remains low, there might be more incentive for central banks to sell.

Philip Klapwijk

GFMS

Is Germany set to become the new Switzerland, and what effect would this have on French and Italian gold policy? These surely are the most important questions that need to be asked when looking beyond the current CBGA.

The Bundesbank's comments have come close to answering the first of these, and have also been the clearest indication yet that another "strategic" seller is waiting in the wings. This development might not be quite enough in itself to prompt a French revolution, but should certainly influence thinking south of the Alps. What does seem less open to question is that a second European CBGA after September 2004, this time with Germany at its core, is looking more and more certain.

Kamal Naqvi

Macquarie Bank

Compared to previous central bank announcements, the initial fall in prices was modest – only partly because of the improved environment for gold. There is now a different mind-set towards central bank gold sales. Given the publicity and analysis the subject attracted between 1997 and 2000, many in the market are, frankly, "bored" with the whole issue.

There is also much more understanding that several central banks – particularly in Western Europe – hold large gold reserves for historical reasons which are now in clear excess of any justifiable level, even based on generous arguments. The price now largely reflects awareness that central banks will remain very significant net sellers of gold for a long time. Importantly, the market can still remain positive as long as it can trust that the Agreement will continue to maintain a limit on central bank sales.

The market should not be surprised by the Bundesbank's willingness to use its gold reserves – it used 12 tonnes last year in its commemorative coin issue, plans to use a further 11 tonnes in another coin this year and has admitted it is a lender since November 1997.

However, the comments are a clear indication that several central banks within the Agreement are looking to join the queue. Assuming a reduction of their gold holdings by around a third (excluding France initially on the basis of its vociferous public support for gold), there is the potential for more than 2,600 tonnes of gold sales – at least. This means that either there must be (in the spirit of Rocky or Star Wars) a CBGA-III, or bigger sales.

Howard Patten

Barclays Capital

The long-term impact and repercussions of these statements cannot be overestimated. The intention is crystal clear: the world's second largest holder of gold as a reserve asset is to become a net seller, the Agreement limiting sales has been all but officially extended beyond 2004 and the positioning to become a member of any future agreements has already begun. The only question now is whether any future Agreement will be expanded in terms of the sales limit and the number of signatories.

The Bundesbank sales should be set in context of a widening picture of central bank portfolio diversification – the reason given for the Bank of England's sales. The steady transformation of central banks from passive keepers of the purse into fund managers is likely to increase the pace of such sales in the name of less risk-averse and more diversified portfolios. There is the potential for a large volume of sales of gold reserves going forward as bullion-holding banks reduce exposure to gold prices and spread reserves into higher interest-yielding assets.

Such is the size of Germany's reserves that this cannot but fail to lead to a sea change in gold's long-term price fundamentals. If the Bundesbank intends to bring the makeup of its reserve assets more into line with the diverse approach taken by other central banks, it will need to slash the proportion of gold it currently holds in reserves by 50%, or around 1,750 tonnes. If it uses the Bank of England figures as the target, it will need to cut its gold holdings by almost 80%, or over 2,500 tonnes.

John Reade

UBS Warburg

We had expected that the Agreement would be extended beyond the original end date of September 2004 and this view was probably the consensus amongst professional gold market watchers.

European central banks have a lot of gold and many have not been shy to talk about this. Although historically Germany, France and Italy were considered to be the stalwart gold holders, it was implicit that one or more of them was a likely seller under any extension to the European agreement on gold. Thus the fact that Germany is considering "slowly selling some of this gold" should come as no surprise to anyone.

Should the CBGA be renewed, it can be expected that the number of participants would likely increase – Greece is a probable candidate. If there were multiple renewals, there would likely be more names from Eastern Europeans seeking to join the Eurozone.

The terms of any renewal agreement depend quite heavily on how gold performs over the next two to three years. If producer hedging continues to decrease and the price firms, central banks might want to increase the quota if they think the price could support it – especially as gold lease rates are and should remain low. Any quota increases should be incremental rather than multiple, but we believe that the most likely outcome is for no change in the quota.

Andy Smith

Mitsui Global Precious Metals

Back in September 1999, the Bundesbank and fellow quota signatories were still nominally central banks; now they are essentially asset managers. By throwing its towel on the sun bed by the selling pool before other European central banks wake up, might not Germany create a rush to announce sale intentions? Would not similarly role-challenged but gold-advantaged national central banks want to join the rap (France and Italy on top of smaller gold holders whom many hoped would by themselves make up the next quota)?

With gold purposefully the subject of the first three paragraphs of Mr Welteke's FAZ interview – above other aspects of BuBa reform, Euroland interest rates, German inflation – more than marginal adjustments to Germany's asset portfolio can be expected. In 1999, the 400 tonne p.a. quota was what central banks guessed (or were told) the market could "absorb" to fill what some mistook for a "deficit" or "gap". But "then", gold was below $270 and miners were adding 500+ tonnes p.a. to their hedge books. Now the price is above $300, and miners are reducing their collective hedge books – making way for larger official sales through a bigger quota (from October 2004)?

If central asset managers were persuaded that the market could absorb more, and the quota were doubled to 800 tonnes pa, the campaign would be over as soon as 2011 or 2014. But if the 400 tonne p.a. line holds, sales under repeated agreements would have to extend to 2017 or 2023 (depending on whether they sell a well-precedented 50% or 75% of their gold). ■

Consolidation in the South African Gold Mining Sector *Past, Present and Future*

By James Wellsted, J.P. Morgan Equities Limited

An electric rockdrill – potentially more environmentally - and worker-friendly than traditional pneumatic drills – being tested at Anglogold's Kopanang mine. Photo courtesy Anglogold

Consolidation of the global gold mining industry has been one of the leading themes among industry commentators for a number of years now, and while possibly occurring later than many thought it would, the significant M&A activity in the last year or so has certainly helped to ignite the sector. The South African producers, while not always winning in the global arena, have certainly been active participants. By virtue of certain competitive advantages – and by having addressed some traditional disadvantages – I believe they will continue their active role in the future consolidation of the industry both offshore as well as domestically over the next few years.

Better and more responsible operational management as well as a depreciating rand have reduced costs and widened operating margins. These producers now compare favourably with their international peers on a dollar-per-ounce cost basis. The element of country risk is gradually diminishing, as South Africa is increasingly perceived as a first world country, and technology is helping to overcome the dangers and extra costs associated with deep-level mining.

Despite the limitations imposed by stringent exchange control restrictions, the South African producers are continuing to internationalise by buying offshore companies, resulting in a significant shift in the source of production and operational earnings away from a largely South African-bound scenario to a more global, diversified and hence lower-risk base.

Evolution of the Industry

The steady decline in the dollar gold price since 1980 placed the South African gold mining industry under severe pressure – not only to make profits, but at a more basic level, to survive. The sustained pressure caused a revolution within the industry. The traditional mining house structures were dissolved and in the mid 1990s, previously lease-bound companies began to expand their ambit beyond traditional farm-fence delineated boundaries. By 1999 the once-fragmented industry had consolidated under the control of a few large companies. In 1995 there were 46 gold companies listed on the Johannesburg stock exchange; by 2002, only 11 listed companies remained, and even after the significant growth in the sector in the last year, the index still accounts for only about 7.5% of the All share index.

While causing production from the region to decline initially, this restructuring and consolidation revitalised the industry. The larger companies, such as Gold Fields and AngloGold, downsized and divested of loss-making operations. This in turn provided opportunities for the junior gold mining companies, which had become more efficient at mining the lower-grade properties, thereby allowing the rapid growth of companies such as Harmony and Durban Deep.

The end result was a more balanced, healthy industry, demonstrated when observing the South African industry revenue and costs over the last decade. Up until 1998, despite an increasing rand gold price, costs and revenues tended to rise at nearly the same rates. When spikes in the gold price did occur – whether they were currency or dollar gold price related – they tended to be accompanied by rising costs as producers caught up on neglected development and capital expenditure, the areas where cost savings are most easily achieved during periods of margin squeeze. As a result, margins during the early 1990s were extremely volatile, showing large swings and causing erratic profitability.

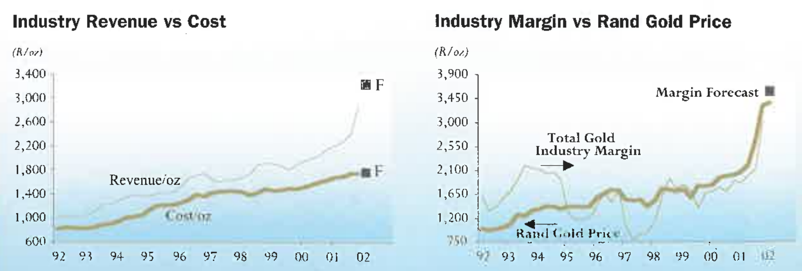
Margin Trends Improve

With consolidation in 1998 and a more responsible attitude toward cost management and capital and development expenditure, margins began to stabilise above 20% and then, gradually, increase as the rand gold price continued to improve. This improving margin trend is evident even in dollar terms, with falling dollar/oz costs causing industry profits in dollars to rise significantly to $110/oz. We expect a further increase to $130/oz in the March 2002 quarter.

There has been a dramatic improvement in industry costs since 1998, largely as a result of rand devaluation, but also in part due to better operational management. In 1998 the South African producers were clustered at the upper end of the global cost curve, with three of the six companies we follow – Durban Deep, Harmony and Avgold – not making spot profits at a gold price of $294/oz, the average for that year.

In 2001, a shift down the cost curve occurred despite inflationary cost increases in the local industry and all six of the South African producers are now profitable, even at an average gold price of $271/oz, some 8% lower than in 1998.

Better Operational Management and Falling Rand Refuel Margins

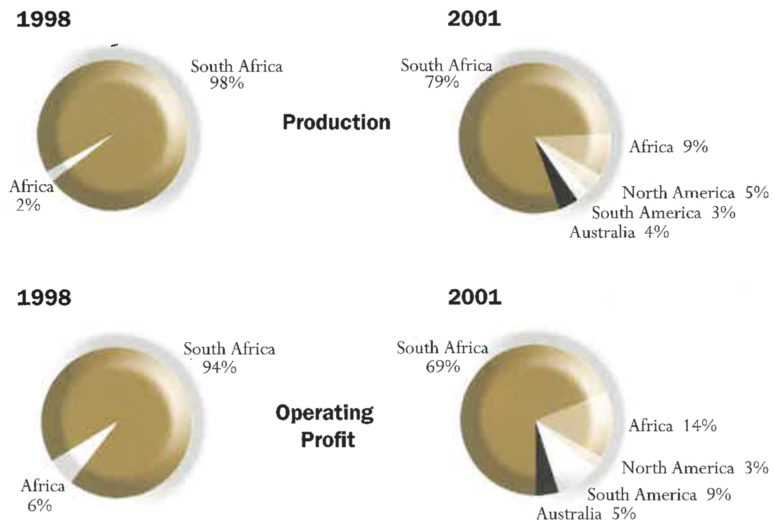


Source: Company data, JPMorgan estimates

Overseas Expansion

Once the major moves towards local consolidation had been concluded, the South Africans began to cast their net offshore. First AngloGold acquired Minorco's gold assets in North and South America, followed by growth through acquisition in Australia and Africa. The other producers soon followed suit, with Durban Deep and Harmony making more tentative forays and Gold Fields acquiring Western Mining's gold assets in Australia and Damang in Ghana. While production from within South Africa has continued to fall at around 3% per annum over the past decade, this offshore expansion has allowed overall production volume growth from 1998 and resulted in a not-insignificant shift in the source of production and operational earnings from a nearly entirely South African-bound situation to a more globally diversified base.

Diversifying Offshore



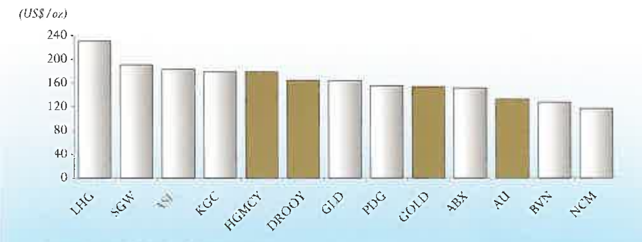
Source: Company Data

The South African producers have in a few years transformed themselves from lease-bound companies exploiting wasting assets – and hence showing negative long-term growth – to vibrant growth companies with significant, diversified operational and geographical portfolios. At the same time, the market caps of some of these companies have more than doubled, even in dollar terms, and liquidity has improved significantly. But recent failed attempts at further offshore growth by some producers have highlighted one of the obstacles to offshore expansion that faces the South African gold industry: their low ratings relative to offshore producers.

Although once touted as high-cost producers, and despite the predominance of deep-level mining, the South African gold companies are now competitive at a cash cost level with their international peers. Also, strong cash flow generation means that they are relatively ungeared financially and thus have capacity for more debt, which should facilitate further growth. P/E multiples and other valuation measures also show the South African producers valued at the bottom end of the scale. In our opinion, this shows that investors are not yet recognising the competitive advantages that the South African mines have over some of their offshore counterparts.

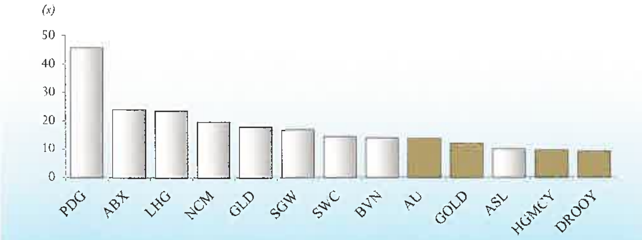
A rising gold price has the effect of lowering operational paylimits, or the average grade at which a particular ore body must be mined in order to maximise its profitability, resulting in an increase in the ore reserve that can be economically extracted at one time. Witwatersrand-type orebodies, which provide the bulk of reserves to the South African gold mining industry, have steep ore reserve curves, which are extremely geared to movements in the gold price. As paylimits fall with a rising gold price, the economically extractable ore reserve increases significantly. On the other hand, a typical disseminated open pittable ore body will have a flatter grade/tonnage profile and will not be as sensitive to the paylimit. The mineable ore reserve will remain relatively constant unless a significantly higher gold price is realised.

Cash Costs (2002E)



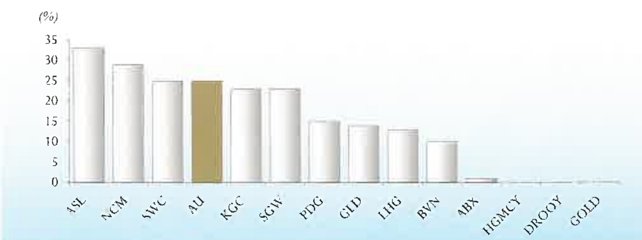
Source: Company Reports, JPMorgan estimates

Price to Earnings Ratios (2002E)



Source: Company Reports, JPMorgan estimates

Net Debt to Total Assets (%)



Source: Company Reports, JPMorgan estimates

Therefore, as a result of the higher rand gold price, economic ore reserves at the South African gold mines should increase significantly on last year's reported numbers, with the companies with higher grade reserves showing less gearing than the marginal producers. By virtue of the maturity of the operations as well as the downsizing that has taken place in recent years, significant production capacity exists at most operations – which can be reactivated for relatively minor capital cost and within a short period of time. After years of declining output, meaningful organic growth within South Africa is a distinct possibility, without taking into account possible capital projects that have become economic at current gold prices.

Home and Away, a Promising Future

The South African industry has grown strongly over the last five years, reduced country and operational risk by diversifying geographically and operationally, and moved rapidly down the industry cost curve. It is generally financially sound with robust balance sheets and healthy cash flow and, with a gold price that will probably continue to rise in rand terms, is likely to continue reporting positive earnings growth even in dollars. Also, in a rising gold market, the industry is relatively unhedged and therefore exposed to the gold price but, by virtue of having a currency that tends to weaken with the dollar gold price, protected on the downside.

These companies are well positioned to continue their active role in the future consolidation of the industry and we expect further growth offshore as well as continued consolidation within South Africa during the next few years.

But industry consolidation does not necessarily have to be limited to a predatory role. With consolidation of the Australian gold industry well underway, the number of attractive acquisition targets in the region is diminishing. In time the South African gold producers could themselves become targets. The South African gold sector holds significant advantages over the international producers and we expect the rating differentials to close over time. Despite strong share price performances in the last year, it offers both equity investors and other global mining companies a promising future. ■

James Wellsted *is a Mining Analyst with JP Morgan. He graduated with honours in Geology from Wits University in 1992 and completed a Post Graduate Diploma in Business Administration at Wits Business School in 1996. James joined SCMB on its graduate-training program in 1997 before joining Capital Alliance and then Fleming Martin as a mining analyst. He has covered the South African gold sector since 1998.*

Market Moves

David Corcoran has joined Dresdner Kleinwort Wasserstein's London office as a Director responsible for managing the spot and flow business in gold and silver, completing an eight-man pricing and risk management team.

David started his career in the back office of Johnson Matthey Bankers in 1978, progressing to the front office as a junior trader in 1979. He joined JP Morgan in the summer of 1986, working as spot metals dealer and as the main client contact for flow business on a day-to-day basis. He resigned in June 2000 to join CSFB International as spot metals trader/client sales and left in October of 2001 due to the closure of the department.

Kevin Crisp has joined Dresdner Kleinwort Wasserstein London as a Director.

Kevin was formerly with CSFB and until October of last year was Vice Chairman of the LBMA. In the role of Global Precious Metals Strategist, Kevin will develop DrKW's research capabilities. Kevin began his career in the metals markets with Consolidated Gold Fields, before joining GFMS at its inception in 1989. In 1995 Kevin left GFMS to join JP Morgan as metals analyst, moving to CSFB in 2000.

Martin Fraenkel has been appointed Head of Commodities of the Treasury Division at N M Rothschild & Sons.

He joins from JP Morgan Chase, where he worked for nine years, latterly as Managing Director of Global Commodities. Prior to this he was Vice President of Commodity Derivatives at Credit Suisse Financial Products.

Guy Keller has joined Macquarie Bank as a Junior Trader in its Metals & Mining Division. Guy has a B Soc Sc (Economics) degree from UNSW, Sydney. He commenced his career in London as a temporary employee at N M Rothschilds & Sons in the treasury settlements area. Guy then spent the next three years at CSFB London, initially working in settlements before joining the precious metals trading desk as a junior trainee.

Emma Jenkins has joined Macquarie Bank as an Associate Director in the Metals & Mining Division. Emma holds a first class honours degree from Trinity College Dublin and commenced her career in Debt Capital Markets at Goldman Sachs. Subsequently she joined Westpac Banking Corporation as a quantitative analyst, and transferred to Sydney. She has spent the last four years marketing gold derivatives for CSFB London. At Macquarie Bank, she will continue to focus on precious metals clients and will have additional responsibilities for central banks and base metal structuring.

Steve Scacalossi has joined Mitsui Precious Metals (MPM New York) in January, with responsibilities for marketing in the American time zones. Steve previously spent eight years at Credit Suisse First Boston. John Levin, whom Steve replaces, is now a happy addition to the marketing efforts of the MPM London office, where his responsibilities will include global marketing.

Barclays Capital, the investment banking division of the Barclays Group, announces the following appointments in their Commodities team:

Peter Burnside has joined the Barclays Capital Commodities team in New York.

Prior to joining Barclays, Peter worked with Macquarie Bank, including a period of secondment to Standard Bank in South Africa. Most recently Peter worked at Deutsche Bank in New York as a Senior Structurer in the Metals area. Peter will have responsibility for expanding precious and base metal coverage in the North American time zones.

James Groves and **Neale Wilson** have joined the Sydney office as Associate Directors. James will be responsible for precious metal trading while Neale will have responsibility for precious metal sales.

Prior to joining Barclays, James worked for NM Rothschild in London and most recently with Credit Suisse First Boston as Vice President, Structured Trader in Sydney. Neale was previously with Credit Union Financial Services Australia Ltd, National Australia Bank, Westpac Banking Corp and, most recently was Vice President, Precious Metals Marketing with Credit Suisse First Boston International in Sydney.

Brian Olson will be responsible for precious metal options trading based in London. Prior to joining Barclays, Brian was with Credit Suisse First Boston as Vice President, Senior Options Dealer, in New York.

Martyn Whitehead will be responsible for precious metal sales in London. Prior to joining Barclays, Martyn worked for Anglo American Corporation of South Africa Limited and was most recently with NM Rothschild in London as a Director, Precious Metals Trading and Marketing. Martyn will have responsibility for precious metal sales in London. ■

To the Editor

Rising to the occasion

On behalf of the Motor Neurone Disease Association and the Eigerchallenge team, I would like to thank everybody in the bullion market for their amazing support last year.

There weren't many individuals who managed to avoid my calls, but the response in all cases was truly heart-warming. The end result speaks for itself with the charity receiving upwards of £170,000 in total. Anybody who came to the Eigerchallenge dinner in October has a good idea of what this amount means to the charity, which receives no public funding.

I would like to make a special mention of the LBMA, JPMorgan, MKS Finance, The S. Niarchos Foundation and Premex who not only gave generous financial support but also immense logistical and moral support to make the event such a phenomenal success.

Although 2002 will be a fallow year, we would be glad to consider doing something crazy for charity next year if anybody has any ideas.

As the song goes, "Ain't no mountain high enough"!

Sincere thanks,

Matthew Keen
Dresdner Kleinwort Wasserstein London

Umbrella finial (kyinie akyi) in the form of a hand holding an egg from Ghana (Akan), carved in wood and covered with gold leaf, the egg painted white. The finial represents the well-known Akan proverb: "I am like authority. If you hold me too hard I break, if you let me go I fall and break to pieces on the ground." (A chief should be neither too severe nor too lenient; he must exercise his responsibilities with care and moderation.)

Ama Abrafi modelling the Museum's showpiece, a lion is cast gold from Ghana (Akan - northern Asante), representing the bravery of the chief and is a common motif among sword ornaments in the Asante chiefdoms and also occurs on royal finger-rings. This motif in Asante art derives from the European heraldic lion, with head turned sideways and tail curled over the back. Most Asante depictions of the lion date from the colonial period. This casting, which comes from Berekum, may have been made around the 1920s or 30s, when there was a revival in the casting of gold regalia following the return from exile of the Asantehene Prempeh I. Its style is characteristic of the work of this period, the lion's fur and mane being rendered by incised lines and patterns rather than wax threadwork. The hind legs bear file marks, and in several places the gold is visibly alloyed with cuprous metal. [size: 14.5cm, weight: 743 gm, 9-10 carat]

The Gold of Africa Museum

Celebrating the Rich Heritage of African Gold

by Alex Buck, AngloGold

The world's first museum dedicated solely to African gold has opened in Capetown, South Africa.

The Gold of Africa Museum was established by AngloGold as a platform for the celebration and promotion of African gold and goldsmithing, and to contribute to the preservation, transference and development of African goldsmithing design and techniques.

Integral to the museum is the Studio and Design Centre where these traditional African goldsmithing and craft techniques are being married to transform Africa's rich heritage into a contemporary economic reality. The complex also includes a presentation suite, museum shop, wine cellar and sculpture garden.

The principle exhibition is the Barbier-Mueller collection of over 350 West African gold artefacts and jewellery from the 19th and 20th centuries. This collection is believed to be one of the largest and most aesthetically important of its kind in the world. Although the collection has been showcased around the world, including at the Metropolitan Museum in New York, this is the first time it has been both exhibited in its entirety and shown on African soil.

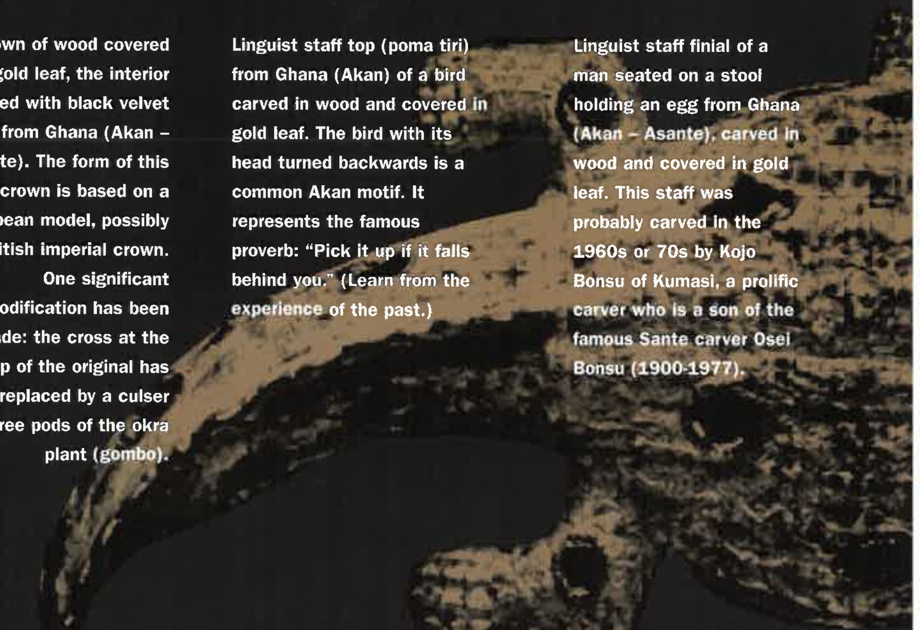
A crocodile of cast 14 carat gold from Ghana (Akan – Asante), which may date from the late 19th or early 20th century and may be the product of an Asante royal work-shop. The crocodile is a popular motif among sword ornaments from Asante – like the chief it represents, it was regarded as having a versatile character.

Situated in a 200 year-old cottage in the garden of the Museum, the Studio is home to traditional African goldsmiths who are preserving and passing on their tradition to a new generation, complemented by a state-of-the art design centre and fashion and jewellery library.

A crown of wood covered with gold leaf, the interior lined with black velvet from Ghana (Akan – Asante). The form of this crown is based on a European model, possibly the British imperial crown. One significant modification has been made: the cross at the top of the original has been replaced by a culser of three pods of the okra plant (gombo).

Linguist staff top (poma tiri) from Ghana (Akan) of a bird carved in wood and covered in gold leaf. The bird with its head turned backwards is a common Akan motif. It represents the famous proverb: "Pick it up if it falls behind you." (Learn from the experience of the past.)

Linguist staff finial of a man seated on a stool holding an egg from Ghana (Akan – Asante), carved in wood and covered in gold leaf. This staff was probably carved in the 1960s or 70s by Kojo Bonsu of Kumasi, a prolific carver who is a son of the famous Sante carver Osei Bonsu (1900-1977).



Christopher Till, curator of the Museum, says that the museum's vision is to: "present the gold treasures of Africa and show the artistry of ancient African civilisations, as well as the ritual and power of African gold. And in so doing, to preserve and pass on traditional designs and techniques to inspire and drive the development of a new idiom of African gold design." ■

The Gold of Africa Museum
96 Strand Street
Cape Town
South Africa
Tel: 021 405 1540
Open daily: 10 am – 5pm
www.goldofafrica.com

The LBMA Good Delivery Lists

A Proactive Approach

An Interview with Peter Smith, Chairman, LBMA Physical Committee
By Susanne M Capano, Editor

The LBMA has informed all refiners on its Good Delivery Lists for Gold and Silver that it intends to introduce a system of proactive monitoring based on the check-assaying of dip samples provided by the refiners. Peter Smith, the Chairman of the LBMA's Physical Committee, which is responsible for overseeing the maintenance of the Good Delivery Lists, gives the background to this initiative.

How did the LBMA's Good Delivery Lists develop?

Before the LBMA was established in 1987, the Gold and Silver Lists were under the control of the two companies that were responsible for the London fixing prices, the London Gold Market and the London Silver Market. These companies included some but not all of the banks currently offering clearing services in the London market. After the formation of the LBMA, it was agreed that it should have the responsibility for maintaining the Good Delivery Lists.

These Lists include all those refiners whose gold and silver bars are acceptable in London "as is" – meaning that there is, in general, no need for these bars to be check-assayed before being accepted into the loco London clearing system, and that they are accepted without any discount to prevailing market prices. The importance of the Lists extends well beyond the loco London market: other markets cross-refer to them. While this may not necessarily have the express approval of the LBMA, we appreciate the endorsement such cross-referencing represents. I think it is fair to say that the reason that other markets refer to the LBMA Lists is that our application and testing procedures are known to be extremely strict.

Have the criteria used in the assessment of new applications for the Good Delivery Lists been modified over the years?

The basic commercial, operating and technical criteria have hardly changed over the past decade, although with increasingly strict compliance requirements coming into force over recent years, there has inevitably been an increase in the documentation required to satisfy compliance officers.

Just over two years ago, a major change was introduced in the assessment procedure to facilitate the application process – without in any way reducing the stringency of the testing procedure. In the past, the first stage of the assessment involved the testing of an applicant's bars. We often found that refiners were able to submit bars of good quality and high grade, such as a fineness of 999.9.

However, all applicants must also be able to assay accurately across a wider range of gold and silver contents (from a fineness of 995.0 and 999.0 respectively to an upper limit of 999.9). We found that assaying the reference samples provided by the LBMA was in fact the more difficult part of the technical assessment and proved the main reason for failure. Therefore, to avoid the trouble and expense to both the applicants – and the LBMA – of having the bars tested, only to fail the assay test, we reversed the procedure so that the samples must be assayed successfully before bars are submitted for testing. If an applicant fails the assay test, it is, in general, not simply allowed to try again without having first demonstrated that it has taken measures to improve the standards in its assaying laboratory.

What steps have previously been taken to monitor the refiners on the Good Delivery Lists?

The LBMA started monitoring in 1997 by means of a questionnaire asking for information about production, changes in ownership, management and other aspects of the operation. Where production had fallen to levels well below the minimum criteria, companies then were either transferred to the former list or had to undergo a full or partial technical assessment.

What happens when a refinery is transferred to the former list?

All bars produced by the refinery prior to the effective date of transfer are still Good Delivery and therefore acceptable in London. Bars produced after that date are not Good Delivery and may be accepted only after assay and perhaps at a discount to prevailing prices.

Why has the LBMA decided to introduce a more proactive form of monitoring?

The LBMA has always taken its duty of care of the Good Delivery Lists very seriously, recognising that these lists have an international dimension that extends well past the London market. Consumers throughout the world are entitled to expect that Good Delivery bars will meet the LBMA's standards – or in the very rare cases where they do not, that the refiners will stand behind them and take appropriate corrective action.

The Physical Committee of the LBMA therefore decided last year that it would be appropriate to introduce a system of technical monitoring, to be carried out on a rolling basis such that every refiner on the list would be monitored at least once every three years.

Given that Good Delivery bars are in constant use in markets around the world and the number of complaints from consumers about them is extremely small, we don't expect this new monitoring system to reveal any significant problems. However, its introduction further demonstrates how seriously we take our responsibility towards the Lists. Another reason for the decision is that not all the refiners on the Lists have gone through the current technical assessment procedure – a number were grandfathered into the Lists when the LBMA was founded. In some cases, it has been many years since they were first assessed by the LBMA's predecessors. Some of these refiners' bars are in fact rarely seen in the London market – another reason for introducing this technical monitoring.

What method of monitoring will be used?

A number of different approaches were considered over the past year. We could have asked refiners to submit bars for testing or to assay sets of reference samples supplied by the LBMA, but neither of these alone would have been totally satisfactory. In addition, we did not feel that it would be appropriate to ask refiners, in effect, to submit to a full reapplication for listing.

We decided on the method of requesting each refiner to provide a dip sample and a subsequent assay which, when compared with assays of the same sample performed by two of the LBMA's independent referees, will allow an assessment of both the production process and the assaying competence of the laboratory. The overall process is carefully specified so as to be fair and reasonable. There are procedures which will be followed in cases where the first comparison of assays shows an unacceptable divergence between the assays of the refiner and the referees. The LBMA reserves the right to ask refiners to submit to a full new testing procedure if there are doubts about the accuracy of the assays provided for the dip samples.

Why has the panel of independent referees been expanded from the current two?

In recent years, we have been looking at ways of expanding the panel, for instance by using commercial assayers or assay offices, but we decided that the most appropriate route was to appoint a number of well-established Good Delivery refiners as referees. The companies selected have the necessary experience, technical ability and laboratory facilities to enable them to manufacture reference samples to the very high standards of homogeneity required for testing Good Delivery applicants and also to assay the dip samples provided as part of the monitoring process.

Having more referees will bring many advantages. It will reflect the international nature of the market. And clearly, the burden of the work can be shared more widely, but more importantly, in future, all technical assessments – whether for testing new applicants or as part of the proactive monitoring – will be carried out on a double-blind basis. Neither the refiners being tested nor the referees doing the testing will know the identity of the other parties concerned.

The LBMA will shortly announce the appointment of the new referees. During the coming months, a lot of work will be done to produce new reference samples and to have these cross-checked to very high levels of accuracy. Only then will the actual proactive monitoring commence.

The administration of the new system and the testing it involves will increase costs. How will these be funded?

We believe it is appropriate that all refiners on the Good Delivery Lists who are not already Members or Associates should consider applying to join the LBMA rather than merely remaining on the Lists. The £2,000 annual fee for an Associate will cover the cost of proactive monitoring – as well as the other benefits Associates enjoy. Those refiners that do not wish to join will be able to remain on the Lists upon payment of an annual maintenance fee of £700 per metal.

What is the time scale for the introduction of proactive monitoring?

We hope to be requesting the first dip samples in the middle of this year, and then have a rolling programme. The first companies to be asked will either be those that were grandfathered into the Lists or those that have had recent significant changes in ownership or operation. ■

About the LBMA Good Delivery Process

The complete set of rules governing the application process and testing procedures can be obtained from the LBMA website (www.lbma.org.uk). The main points are that a refiner must:

- Have an established track record of at least three years of producing the refined metal
- Produce a minimum quantity of metal per year – 10 tonnes of gold and 30 tonnes of silver
- Have a tangible net worth of at least £10 million
- Furnish evidence of their ownership structure and directors
- Provide a suitable letter of endorsement, e.g., from the central bank in their country of operation.

The technical assessment involves both the testing of the applicant's assaying ability and the testing by the LBMA's referees of its Good Delivery bars. Refiners must be able to assay a set of reference samples provided by the LBMA with extremely high accuracy and their bars must conform to the specifications laid down in the Good Delivery Rules. A reasonably wide range of bar dimensions and shapes is allowed. However, there are some restrictions. Bars must be clearly and unambiguously marked so that every Good Delivery bar can be identified uniquely and easily. The bars must also be safe to handle (e.g., with no sharp edges) and stack (top and bottom surfaces must both be flat).

From Sutter's Mill to Stanford Court

By Paul Bateman, Executive Director, the Gold and Silver Institutes

The Gold & Silver Institutes are pleased to welcome the LBMA to North America this year for the LBMA's Precious Metals Conference 2002. This Conference has quickly established itself as the industry event. After having conducted two successful events in Dubai and Istanbul, we were pleased when the LBMA suggested joining forces in organising this year's conference.

And California is a good choice. It was not far from the city of San Francisco that James Marshall's discovery of gold at Sutter's Mill led to the California gold rush of 1848; one of the most colourful episodes in mining history and one which contributed to the subsequent building of America's West.

The gold rush was largely finished by 1864, but gold – and silver – are more relevant than ever to the United States today. The US is the second largest producer of gold, the third largest producer of silver and a major consumer market for both of these metals. The gold industry alone is responsible for more than 66,000 jobs in the US, creating more than $6 billion in economic activity and individual earnings of nearly $2 billion annually. Unchanged from the past is the contribution that the precious metals industry makes to American prosperity, generating jobs, business growth, tax revenues and stimulating economic growth – just as it has for over 150 years.

This event – by industry for industry – will draw together the leading players in the global precious metals business from the mining, refining, manufacturing, and trading sectors. An outstanding line-up of distinguished speakers and session chairs has been arranged for this two-day event, covering a wide range of issues that confront the industry today. Undoubtedly, this will be the premier precious metals event this year, and the Gold & Silver Institutes are pleased to have joined in organising this conference in association with The London Bullion Market Association.

When registering, don't forget to sign up for the annual Gold & Silver Institutes' Golf Tournament, generously sponsored by JP Morgan Chase, which will take place on Sunday 9 June at the beautiful Presidio Golf Course located near the conference hotel within the Golden Gate National Recreation Area. Later that evening, join your colleagues for the Welcome Reception, sponsored by the New York Mercantile Exchange.

We look forward to seeing you in San Francisco in June! ■

About the Institutes

The Gold & Silver Institutes are international industry associations headquartered in Washington, DC. Their memberships are drawn from all sectors of the industry, including mining houses, refiners, bullion suppliers and manufacturers.

The goals of the Gold Institute are to highlight the gold industry's social and economic importance and to improve understanding of the industry and its products to key audiences. Much of the Institute's work is focused on public policy, from tax legislation to environmental regulations.

Recently, the Gold Institute was successful in galvanising the support of the global gold industry for the development of an international code of management practice for the use of cyanide in gold mining. The effort to craft this document was overseen by the United Nations Environment Programme and the International Council on Metals and the Environment, and was undertaken by a committee of stakeholders representing industry, environmental organisations, labour, government, and multi-lateral institutions. The result has been the development of a voluntary code that, when implemented, will improve industry's performance in the use of this chemical at its mine sites and further protect workers, the environment and wildlife.

The charter of the Silver Institute is to design and implement programmes that will result in increased demand for silver, and to publish reliable statistical and market information concerning silver. This work has included consumer-marketing programmes, technical research, fostering the development of new uses of silver by working with research centres, and hosting conferences and symposia.

An example of this work is a recent mission led by industry executives to Shanghai and Beijing for an extensive round of meetings with Chinese officials to discuss ways to build a robust domestic market for silver in China. One outcome from the mission has been the establishment of partnerships with local organisations to develop the Chinese silver market. Also discussed with Chinese officials was the need to have improved statistics from China with respect to mine production, exports, consumption, and government reserve holdings to give the market the clearest understanding of the dynamic changes underway in the Chinese silver market.

Paul Bateman

Paul Bateman has served as Executive Director of The Silver Institute since 1996 and President of The Gold Institute since 2000. Prior to joining the Institutes in 1994, Paul held several senior government posts in the legislative and executive branches of the US federal government, including appointments in the Reagan and Bush Administrations to the White House staff, and at the Departments of Commerce and Treasury. His other professional experience has included serving as Senior Vice President of the New England Council, a Boston-based industry organisation, as a management consultant in Washington, D.C., and as an aide to Richard Nixon following his presidency. He is a graduate of Whittier College.

A Little Chinese Magic

Magic and Karaoke at LBMA 'Christmas' Party

The Year of the Horse leapt into all-dancing, all-singing (kind of) life for over 230 LBMA members and guests at this year's 'Christmas' party, held on 7 February at the China City Restaurant on Lisle Street. During dinner lion dancers, jugglers and a ribbon dancer/magician cast their exotic spell – to be broken almost immediately by a close-run karaoke competition. Alan Dulieu of PruBache grabbed the gold sovereign for his rendition of Daniel. The singing ended at midnight (not soon enough for some).

The Shanghai Gold Exchange

A Major Step in the Deregulation of the Chinese Gold Market

Albert Cheng Regional Director - East Asia and Head - Retail Investment World Gold Council

On 28 November 2001, Roland Wang, World Gold Council Manager for China, the author and the author's mentor and friend from Hong Kong, Mr. Fung Chi Kin, President of the Chinese Gold and Silver Exchange were invited to witness the simulated run of the Shanghai Gold Exchange (SGX). As was reported by the China Daily the following day, "The launch of the Gold Exchange will have a positive impact on gold production, circulation, and demand in China."

Above and right
The floor of the Shanghai Gold Exchange
Photos courtesy China Daily

China has now reached a significant milestone in its gold market reform. Over the past 30 years, China has approached reforms to a market-oriented economy with caution, gradually dismantling state controls. The pace of the gold market reform can, at best, be described as evolutionary rather than revolutionary, "gradual" rather than "big-bang". The trial run of the Shanghai Gold Exchange (SGX) came after the People's Bank of China (PBOC, the central bank) made a series of five market liberalisation announcements over the course of 2001 (see sidebar). The opening of the SGX clearly signified that the reform process has gathered pace, with consensus reached amongst all related state agencies. It is apparent that the gold market reform in China is close to achieving its goal – a fully liberalised gold market is expected to emerge soon.

The SGX is located at No. 15, Zhongshan Dong Yilu, Waitan, Shanghai, formerly the trading floor of the Shanghai Foreign Exchange Trading Centre. The Bank of China, the Industrial and Commercial Bank of China, the China Construction Bank and the Agricultural Bank of China have been appointed as clearing banks. The delivery units are one-kilo gold bars of 9999 fineness and three-kilo gold bars of 9995 fineness. A list of 12 approved local refiners has been established, including two that are on the LBMA London Good Delivery Lists.

The Exchange is a self-regulatory legal entity providing trading places, facilities and services for centralised gold trading. Its daily operation will be supervised by the PBOC and its basic functions are to coordinate and supervise the transaction, settlement, delivery and shipment of gold and other precious metals, to establish fair prices for commodities transacted at the Exchange and publicise market information.

The SGX has 108 founding members – including commercial banks; gold mines; gold refineries; and gold jewellery manufacturers; mint; gold import and export enterprises; and gold trading companies: all members have met the required entry qualifications, among them that the potential member be a registered local company with minimum net capital assets of not less than 5 Mn RMB, have a fixed business address, be experienced in the precious metals business and have a good reputation.

An automatic computer matching system has been instituted in accordance with the commercial principle that "the earliest best price in the queue gets matched first". Under certain circumstances, transactions can also be effected through other methods, such as the "asking system" for non-good-delivery gold items, a method very similar to opening bidding. Members opt to link to the trading platform, either on-site at the Exchange or through distant on-line connections. Initially, only cash-settled "physical" trading will be conducted at the Exchange. However, with further development and enhancement of its systems, and after approval by the relevant authorities of the State Council, trading in gold futures may be introduced.

According to Mr. Shen Xiangrong, Chairman of the SGX, the exchange will start operations in the early part of this year once a decision is reached about the treatment of VAT on trading between SGX members. No date has been announced but it is hoped that trading will begin during the early part of the second quarter.

To ensure smooth transition during the early stage of SGX operation, PBOC will continue to carry out a two-tier system on gold market management – a small proportion of gold purchase/allocation business will still be carried out under the purchase-and-allocation system, mainly to service special requirements, such as for military and scientific research purposes.

A new market-oriented Gold Management Policies will be issued later, dependent upon the evolution of the China gold market and the Exchange's operation.

Clearly, China's gold market reform is gathering momentum – and although it has yet to be fully operational, the SGX is a significant breakthrough. What is perhaps more exciting for the market as a whole is that the replacement of the unified state purchase and allocation market regulatory system with the establishment of a gold exchange market has been officially included in the "Outline of the 10th Five-Year Plan for National Economic and Social Development 2001" issued by the State Council and listed as one of the seven strategic priorities of the People's Bank of China over the next five years.

The establishment of the SGX certainly has important implications for the gold industry in China. Given the de-regulatory experience of India, the market potential in this hitherto closed market is certainly huge. The withdrawal of PBOC from the gold market will result in domestic banks assuming a key role in gold exchange transactions, providing trade financing and risk management services to local trade players. These activities, in turn, will help to spur the opening of the financial sectors. At the same time, market reform measures will spur manufacturers, wholesalers and retailers to improve their operating efficiencies and adopt contemporary market practices rather than merely competing on price alone.

We shall soon see a new dawn in the gold market of China! ■

Steps Towards Liberalisation in 2001

27 April 2001 – Following the release of a research report entitled Opening China's Gold Market in a New Era: Related Policy Research and Suggestions jointly published by the WGC and the Industrial Economics Research Department, Development & Research Centre, the State Council of PRC (DRC) at the China Gold Economic Forum 2000, the PBOC indicated for the first time that they would co-ordinate a well-orchestrated and orderly reform of the gold market in China. The Governor of the PBOC, Dai Xianglong, also announced the removal of the "unified state purchase and allocation" policy under the current Gold Management and Regulation System as well as the setting up of a gold exchange.

6 June 2001 – The PBOC instituted a weekly quotation system for domestic purchase and allocation prices. In the past, these prices were only changed a few times a year at most. This weekly system was intended to kick start a gradual process of synchronising domestic gold prices with the prevailing international gold price, a step towards establishing a market-based gold price system.

1 August 2001 – Domestic gold jewellery retail price control was abolished. The Price Bureau would no longer maintain and police a unified retail jewellery price, a legacy of the planned economy. Individual enterprises are now free to set their retail jewellery price according to market movements.

12 Sept 2001 – Governor Dai Xianglong announced at an international forum that the Gold Exchange Market would be set up by the end of 2001in Shanghai, thus ending the contest between several cities to house the Exchange, including Beijing, Tianjin, and Shenzhen.

End October 2001 – The licensing system for the retail, wholesale and manufacturing of gold products was abolished. From 11 November, the strict "examination and approval system" was officially replaced by a more relaxed "authorisation system" in the retail market, whereby interested parties now register for a business licence from the Industrial and Commerce Ministry first, then register with the PBOC. With the new system, the PBOC also released a Code of Practice for the Retail Gold Market.

Albert Cheng *joined the World Gold Council's Singapore office in March 1993. Since June 1997 he has been Area Manager for North Asia and New Markets, responsible for China, Hong Kong, Taiwan, Vietnam and new markets such as the Philippines and Myanmar. In early 1999 he was promoted to Regional Director, East Asia, and assumed the portfolio of South East Asia. He works with a team of 15 managers in nine regional offices. In January 2001, he was promoted to Head of Retail Investment responsible for the worldwide promotion of gold coins and bars, while continuing to oversee the regional management of East Asia from Singapore.*

Albert has been closely involved in the deregulatory endeavours in China since the WGC set up an office in Beijing seven years ago. Over the years, the WGC has played a key behind-the-scenes role to both acquaint regulatory authorities with the latest developments in the international gold market and assist them in formulating and implementing market-oriented reform policies. At the same time, they have also helped many different types of gold enterprises prepare for the market-oriented transition.

LBMA News

By Stewart Murray, Chief Executive, LBMA

Membership Changes

Nissho Iwai Europe PLC resigned, as they are no longer trading gold and silver in London.

Address Changes

The contact details for Société Générale on the Members List have changed to show their Paris (rather than London) address: Tour Société Générale, 17 Cours Valmy, 92987 Paris La Défence Cedex France. Tel: + 33 1 4213 9032.

Mitsui & Co, Precious Metals Inc, London branch has moved to a new address:
Wren House, 15-23 Carter Lane, London EC4B 5HH.
Tel: 020 7246 8940.

Mitsubishi has moved its office to Mid City Place in High Holborn. The address for the Precious Metals Department is now: Mitsubishi Corporation (UK) PLC, Mid City Place, 71 High Holborn, London WC1V 6BA. Tel: 020 7025 3200.

Triland have also moved to the same address in Mid City Place: Triland Metals Ltd, 71 High Holborn, London WC1V 6BA. Tel: 020 7061 5500.

Name & Address Change

Following the purchase of Enron Metals Ltd by the Californian company, Sempra Energy, the company's name was changed on 5 February 2002 to Sempra Metals Ltd. and it has relocated to 50 Millbank, London SW1P 3JA. Tel: 020 7783 2000.

Name Change

The membership jointly held with Credit Suisse First Boston will now be held solely by Credit Suisse First Boston International.

Associates

Metalor Technologies SA of Neuchâtel Switzerland was accepted as an Associate on 1 January 2002.

Until the beginning of this year, Associates had to be located outside the UK, but with the change in the structure of the membership announced on 2 January, UK companies which supply services to the bullion market were able to apply for Associateship. The first company to be granted this status was **Alex Stewart (Assayers) Ltd** of Knowsley, Merseyside, which became an Associate on 28 February.

On 2 April, **Gold Fields Mineral Services Ltd** became an Associate.

Good Delivery List

Silver List – New Member

Shenzhen Zhongjin Lingnan Nonfemet Company Ltd based in Shaoguan City in Guandong Province, China was admitted to the Silver List on 28 February 2002.

Committees

Management Committee

During recent months, the Management Committee has been discussing plans for a number of events during the coming year. As can be seen from the reports on the Physical Committee and Public Affairs Committee below, the next six months will be an extremely busy period for the Association, with the San Francisco conference on 10-11 June, the Jubilee Reception on 25 June and the Biennial Dinner on 29 October.

The Committee has also been directly involved in the plans to introduce Proactive Monitoring systems for the Good Delivery List (which is described in more detail in the interview with Peter Smith, the Chairman of the Physical Committee, on page 14).

The initiative to change the structure of the LBMA membership announced on 2 January was the culmination of almost a year's work on the part of both the Membership Committee and the Management Committee and has already started to attract enquiries concerning membership from companies located outside the UK. The aim of the initiative announced on 2 January is to continue the process of the LBMA becoming more inclusive, not only in terms of the sectors of the market which it covers but geographically. One of the other decisions taken was to allow companies in the bullion market which are not located in the UK to apply for membership (as long as they are represented by a UK branch). Importantly, this also applies in the case of Market Making Members. These decisions reflect the recognition by the LBMA of the global nature of the London-based OTC market.

Details of the LBMA's arbitration scheme were finalised recently and a panel of potential arbitrators has been established. The members of the panel include experienced market participants, some of whom have retired from their previous active involvement in the market. The aim of the scheme is to allow the resolution of disputes between members or those involving members and other professional institutions. Details of how the scheme will operate can be obtained from the Executive.

Physical Committee

During the past six months, the possibility of introducing a proactive form of monitoring the quality of Good Delivery refiners has been debated, firstly in the Physical Committee and then in a specially established working party which reported directly to the Management Committee. Members of the Good Delivery Lists were informed in detail about the introduction of proactive monitoring on 4 April. The implementation of this decision will require the appointment of additional referees, drawn from the ranks of the Good Delivery lists. A number of these companies have already been provisionally appointed as new referees and their status will be confirmed when they have produced the required set of reference samples which have been cross-checked by the rigorous methods specified by the LBMA.

Further details of the system will be circulated to Good Delivery List members in early May and there will also be an opportunity for a discussion of the way the system will work at a special workshop to be held on the afternoon of 11 June immediately following the LBMA Conference in San Francisco.

Public Affairs Committee

Having essentially completed its work on the programme for the San Francisco conference in June, the PAC has turned its attention to the planning of next year's event. A number of venues in Asia have been examined in detail together with the associated questions relating to the markets involved. By the time of the San Francisco conference, arrangements for the 2003 event will have crystallised.

The PAC continues to be the main forum for discussion of the content of the *Alchemist* – though suggestions from members or other readers for topics for inclusion in future editions are always welcome.

The more social events of the LBMA have also occupied a large part of the PAC's agenda in recent months. With the success of the members' "Christmas" party – again held in the New Year, this time in the form of a Chinese New Year Party in the China City restaurant in Soho – it is clear that holding this in the period following Christmas is very popular. Plans are now afoot to have a Brazilian carnival theme in February next year.

The reception to be held on 25 June at Goldsmiths' Hall promises to be a memorable occasion. This will represent the culmination of the LBMA Chairman's Jubilee initiative, including a jewellery design competition. The 50-sovereign first prize will be presented to the winner by the Lord Mayor at the reception. The winning design is currently being made up by the well-known jeweller, John Donald, at his workshop located on Cheapside in the City of London.

This year's Biennial Dinner will also be held at Goldsmiths' Hall, which many of our members feel is the most appropriate venue for this event. Formal invitations, together with the ticket allocation system, will be issued immediately following the Jubilee reception. No doubt as always, demand for tickets will exceed supply.

AGM

The AGM will be held at the City of London Club, Old Broad Street at 4.00pm on 26 June. All Members and Associates are invited to attend. Documentation including the papers for the Members' ballot for the Management Committee will be issued following the Management Committee meeting on 24 May. ■

Golf

The LBMA Golf Day 2002 will take place at Brickendon Grange Golf Club, Hertfordshire, on Thursday 23 May 2001. Notices have been sent to all members – please make sure these are circulated to all potential golfers. The cost of the day is about £30 a head and has been heavily subsidised thanks to Securicor International Valuables Transport and UBS Warburg. Full catering is provided and there will be two separate competitions over 36 holes, with two trophies awarded – in the morning, the Jack Spall Trophy for the individual competition and, in the afternoon, the TFS Trophy for the group competition.

This is an excellent opportunity for members to meet in a convivial atmosphere and we urge you to get your applications in to the LBMA as quickly as possible.

Any queries, please ring John Coley at Brink's on (0)20 7417 3038.

Obituary

Esao Saito *25 December 1962 – 30 March 2002*

We regret to announce the death of Esao Saito, who was killed in a car accident near Caen, France.

He had been Manager of Precious Metals for Mitsubishi Corporation (UK) Plc in London since his transfer from Tokyo in November 1996.

He is survived by a wife and twin children, aged nine.

DIARY OF EVENTS

APRIL 2002

14-16
Australian Gold Conference
Melbourne Convention Centre, Australia
Tel: +61 8 9226 1511
Fax: +61 8 9226 1544
Email: enquiry@conference.australiangold.org.au
www.australiangold.org.au

23-25
METEX - 2002: 4th International Metal Trade and Investment Forum of Russia and the Newly Independent States (NIS)
Paris, France.
Tel: +44 (0)20 8795 2970/7600
Fax: +44 (0)20 8795 2977
E-mail: lva@lva.co.uk

24
Gold Survey 2002 Launch
Gold Fields Mineral Services
London, Toronto, New York and Johannesburg
Tel: +44 (0)20 7539 7820
Fax: +44 (0)20 7539 7818
Email: laurette.perrard@gfms.co.uk
www.gfms.co.uk

30
CPM Group's Silver Survey 2002
New York
Tel: +1 212 785 8320
Fax: +1 212 785 8325
www.cpmgroup.com

30 April-1 May
RIU Mining and Exploration Investment Conference
Fremantle, Western Australia
Tel: +61 (0) 8 9485 1166
E-mail: sales@riuconferences.com.au

MAY 2002

2-3
Sustainable Mining in the 21st Cen.
Vancouver, Canada
Tel: +1 780 492 3430
Fax: +1 780 492 2030
E-mail: jeremey.richards@ualberta.ca

7-11
Expomin 2002, VI International Exhibition for the Mining Industry
Santiago, Chile
Tel: +56 2 530 7000
Fax: +56 2 533 1667
E-mail: info@fisa.cl

12-15
Resourcing the Future – The Global Mining Initiative Conference
Toronto, Canada
Tel: +44 (0)207 753 2273
Fax: +44 (0) 207 753 2309
E-mail: contact@globalmining.com

14-17
5th International Gold Symposium – Conference and Exhibition
Lima, Peru
Tel: +511 460 1600
Fax: +511 460 1616
E-mail: cmendoza@snmpe.org.pe

23-24
New Opportunities Conference
New York, USA
Tel: +1 305 669 1963, ext. 212
Fax: +1 305 669 7350
Email: johnpanaro@iiconf.com

23
World Silver Survey 2002
New York
Tel: +1 202 835 0185
Fax: +1 202 835 0155
Email: info@silverinstitute.org
www.silverinstitute.org

JUNE 2002

4-7
BiREMin 2002 2nd Balkans International Mining, Exploration and Mining Equipment Exhibition,
Belgrade, Yugoslavia
Tel: +44(0) 20 7596 5213
Fax: +44(0) 7596 5128
Email: mining@miningandevents.com

8-13
Vicenzaoro2
Vicenza, Italy
Tel: +39 0444 969 111
Fax: +39 0444 563 954
Email: info@vicenzafiera.it
www.vicenzafiera.it

10-11
The LBMA Precious Metals Conference 2002
San Francisco, USA
Tel: +44 (0)20 7796 3067
Fax: +44 (0)20 7796 4345
Email: conference@lbma.org.uk
www.lbma.org.uk

15-18 June
International Precious Metals Conf.
Miami, Florida
International Precious Metals Institute
Tel: +1 850 476 1156
Fax: +1 850 476 1548
Email: mail@ipmi.org
www.ipmi.org

JULY 2002

2-5
WAM 2002. 5th West African Mining Conference and Exhibition
Accra, Ghana
Tel: +27 11 783 7250
Fax: +27 11 783 7269
E-mail: exhibmsj@yebo.co.za

AUGUST 2002

5-7
Diggers & Dealers Mining Forum
Kalgoorlie, Western Australia
Tel: +61 8 94816440
Fax: +61 8 9481 6446
Email: suzanne@diggersndealers.com.au
www.diggersndealers.com.au

Changing Times

Editorial Comment by Susanne M. Capano, Editor

January 1997. It was the month that Princess Diana arrived in Angola to lend support to a campaign against landmines. Back home in Britain, the Labour party was heading for a landslide victory. On the pitch, Liverpool was leading in the Premiership.

And here in London, the sixth issue of the Alchemist was coming off press with its own breaking story – Clearing Volume on the London Bullion Market.

It marked the first time that data showing levels of activity in the London market had been released. Though the Alchemist was the first publication to carry the story, it wasn't the only one – the release of that first set of numbers drew a mixture of interest, awe and inevitably, some criticism.

While the clearing statistics drew most of the attention, that edition of the Alchemist recorded a number of other initiatives, among them the introduction of the LGLR page on Reuters showing mid-rates for gold lease rates. And there was a mention of the Association's first overseas event – a debate on gold hedging – held in Johannesburg in February 1997. Then-Chairman Alan Baker noted in his editorial that, with so many initiatives on the cards, Alchemist 6 marked "a major turning point for the LBMA".

"There is no such thing as a typical day at the LBMA."

That was but one of many turning points over the last five years. The market – and the needs of its clients – have changed and continue to change, and with them, the work of the LBMA. As former Chief Executive Chris Elston commented in an editorial in Alchemist 14 in February 1999, "There is no such thing as a typical day at the LBMA."

Over the years the external environment has evolved – VAT on investment gold was removed in 2000, and the FSA has taken the place of the Bank of England as regulator.

Some initiatives are more the result of a gradual evolution – of trends in the market – such as the release of the Bullion Definitions for ISDA in early 1998 and standard ISDA-based documentation for derivatives followed.

There has been increasing awareness of London's role in the international market and the Association has become more involved with market users based outside the UK. The Johannesburg debate was followed three years later on a much larger scale by the first LBMA Precious Metals Conference, which became an annual event so quickly that it is already difficult to remember life before the Conference.

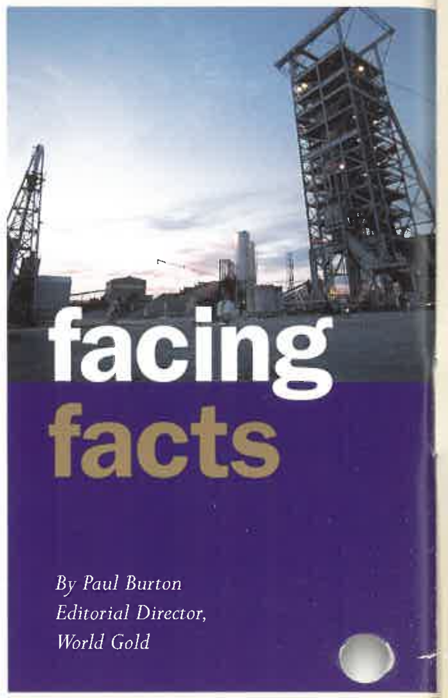
Looking outwards has also led to changes in the membership structure. Five years ago all members were UK-based. But from the winter of 2000, firms based outside – but involved with – the London market were able to join as International Associates.

From the start of this year, that category has changed to Associate, having broadened to include firms based in the UK that provide services to the market. The Membership category has changed as well with non-UK based companies now able to apply (see LBMA News for more details).

The London Good Delivery Bar

Many of the ensuing issues of the Alchemist have flagged at least one change or initiative, and this one is no exception. "Not only are about 86 per cent of [the global market's] gold deals settled in London, but the City also lays down the currency in which the deals are to be paid: the London 'Good Delivery bar'", the Guardian noted in its coverage of that first set of clearing statistics. Maintenance of the Good Delivery Lists has been one of the Association's longest-standing responsibilities. Refiners on the Lists will shortly become subject to regular proactive monitoring – see the interview with Peter Smith on page 14.

Alchemist 6 probably holds the record for covering the most changes in a single issue. Another one: it was my first issue as editor. That's one thing that hasn't changed over the past five years. Here's looking forward to our next 20 editions. ■



facing facts

By Paul Burton
Editorial Director, World Gold

One of the most fiercely fought battles for control in the gold mining industry reached its conclusion on 26 February when Newmont Mining clinched ownership of Australia's largest producer, Normandy Mining. In mid-January, the bid by South African AngloGold for the Australian fizzled out when it succeeded in securing support from only 7% of the Normandy shareholders. It later sold off this holding leaving the way clear for the Denver-based major. Though AngloGold maintained its position as the largest gold producer in 2001, this will change as a result of the takeover.

In fact, the struggle for Normandy was started by the South African company back in September 2001, when Normandy's share price was a lowly A$1.10/share. Newmont entered with a competitive bid in November and the subsequent bidding war drove the price up to A$2.30/share by 26 February.

Newmont, critically, had the support in its bid from Franco-Nevada Mining, which owned almost 20% of Normandy. In fact Newmont's proposal included the acquisition of Franco-Nevada as an integral part of a three-way corporate combination. Newmont shareholders overwhelmingly approved the deal on 13 February and the acquisition of Franco-Nevada was completed on 16 February. By the end of February, Newmont had received acceptances from over 92% of Normandy shareholders and announced its intention of exercising its right under Australian law to compulsory acquisition of the remaining shares.

The combination of Newmont, Normandy and Franco-Nevada has created the biggest and most powerful gold mining company in the world. In terms of production it will outrank AngloGold and the newly-combined Barrick Gold/Homestake Mining. With reserves of over 97 moz of gold and annualised production of over eight moz, it will have a market share of around 9% of a fragmented industry.

The disappearance of Normandy intensifies the degree of consolidation within the industry and places more of Australian production in foreign hands.

On that subject, South African Harmony looks certain to complete its proposed takeover of another Australian, Hill 50, having gained 53% – and control – at the beginning of March. Harmony has also decided to retain a 10% interest in Aurion Gold, the newly merged Goldfields/Delta Gold company.

Late last year, another South African, Gold Fields, acquired the two gold operations of WMC in Australia, and it is now estimated that 60% of Australian production is in foreign hands.

At home, the South Africans are benefiting from a weak currency. Anyone planning a holiday to South Africa, or conversely, undertaking a trip to the Northern Hemisphere from the tip of Africa, knows exactly how much the rand has plunged in recent months. Rapid and startling depreciation has meant that every unit of North American, European or British currency buys a lot more in the waterfront restaurants of Cape Town these days. Conversely, the price of a taxi in London may seem prohibitive to rand millionaires.

The impact on the gold producers, who sell their product at the ruling price denominated in US dollars, has been material. Their gold in local currency has increased in value by over 30% over the past year, and over 20% in the past three months alone, without any significant upward movement in the world price. For most of 2001 calendar year, the South African gold price traded in the range R65,000-R75,000/kg. In September, it broke through the R80,000/kg mark, breached the R90,000/kg level in late November, then smashed through R100,000/kg and R120,000/kg in successive weeks in December and has remained there ever since.

With the spot price moving higher, those producers who might have hedged at lower prices have a limited ability to take advantage of the run up.

AngloGold, for instance, is a significant hedger. The company's price performance in the quarter ending December 2001 was dampened by having hedge contracts in rand. It was thus unable to benefit fully on the upside as the rand plummeted against the dollar.

More extreme is the case of Durban Deep: it has consistently underperformed the spot price as a result of its hedge book.

With currency depreciation, the corollary of high local prices is low international costs, which, in this case, show the South Africans in a very favourable light. They reported some of the lowest cash and total production costs in the industry for the December quarter. AngloGold has become one of the lowest cash cost producers, and the other three large South African producers – Durban Deep, Gold Fields and Harmony – all joined it in the total production cost rankings.

In effect, the South Africans are charging down the international cost curve without having made significant strides in actually cutting costs.

Finally, in early 2002, the London gold price fix has been relatively buoyant. This more bullish tone has induced at least one gold mining company to back its product in a very positive way.

Canadian miner IAMGOLD, which derives revenue from two mines in Mali – the Sadiola (38% owned) and Yatela (40% owned) – has launched a "Gold Money Policy", whereby it has converted its discretionary funds into gold bullion. Not content to be simply long gold in the ground it has adopted a policy of being long gold period.

During January, IAMGOLD converted US$9 million cash into 31,500 oz of gold, or almost one tonne, which is held in an allocated account, meaning that it cannot be lent or otherwise mobilised by the bank.

Adding to the more positive sentiment in the market at present is the fact that a number of producers have decided to deliver into their hedge contracts and are not putting new ones in place. Normandy has already bought back 1.3 moz recently and it will be interesting to see how Newmont now unwinds the rest of Normandy's extensive hedge book. ■

Paul Burton
editor@worldgold.net

Top gold producers in 2001

	MOZ	
1.	AngloGold	6.98
2.	Barrick Gold	6.12*
3.	Newmont Mining	5.41
4.	Gold Fields	3.61
5.	Rio Tinto	3.58
6.	Placer Dome	2.76
7.	Freeport McMoRan C & G	2.63
8.	Normandy Mining	2.44
9.	Harmony	2.29
10.	Ashanti Goldfields	1.58

* Includes production from Homestake (takeover completed in December).

The *Alchemist* is published quarterly by the LBMA. For further information please contact Susanne M Capano, Editor, Stewart Murray or Andrea Smith.
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