Alchemist

LBMA

The London Bullion Market Association ISSUE 46 May 2007

In this issue

The Festival of Lights – Diwali, the Indian autumnal festival that marks the victory of good over evil, features the lighting of lamps – such as these Sky Lanterns – symbolizing hope for mankind. During the five-day celebration, blessings are sought from the Goddess of Wealth, gifts are exchanged and fireworks are set off.

This year, Diwali will take place in early November – followed shortly by the LBMA's eighth annual Conference, from 18 to 20 November at the Taj Mahal Palace Hotel in Mumbai.

To ready our membership and readers for the Conference, this issue features two articles on different aspects of Indian gold consumption on pages 12 and 14, along with an editorial, in English and Hindi, from Kamal Naqvi. Mumbai main milenge! (See page 22).

Precious White Cinderella

By Wolfgang Wrzesniok-Rossbach, Head of Sales & Marketing, Heraeus Metallhandelgesellschaft m.b.H.

As ruthenium rises from two- to almost four-digit prices in less than a year, many are left wondering why. And many more may wonder what it is.

Left – Sputtering targets for magnetic data storage devices.

Below – Heraeus: production of sputtering targets for the electronics industry in Chandler/Arizona.

All photos courtesy Heraeus

Imagine that, in a year's time, gold is trading at $7,000 an ounce or oil at $600 a barrel – both around ten times above their current, already high prices. Impossible? Well, in the last twelve months one of the platinum group metals has experienced exactly such a performance: ruthenium.

This extraordinary price move has attracted great attention in the precious metals community, and that has led to a kind of "second discovery" of ruthenium, nearly 165 years after it was first isolated as an element by Karl Klaus. Klaus, born in Estonia and of German descent, was a professor at the University of Kasan. He named the metal after Ruthenia, the Latinized form of the word for his Russian homeland. Today, this platinum group metal is used in the chemical and electronics industries.

Now, more than a century and a half later, equity analysts, who had barely heard of the white metal until six months ago, suddenly have started to discuss its technical uses, its chemical characteristics and, above all, its potential to boost the earnings of the platinum mining community, especially in South Africa. And even the ruthenium that is far from being a primary product has begun to inspire the precious metals community. One of the junior miners in South Africa, expecting to commence production in the second half of 2008, announced in March that it expects its future revenues to rise by $10 million a year compared to their original feasibility study – simply because of the rise of the ruthenium price.

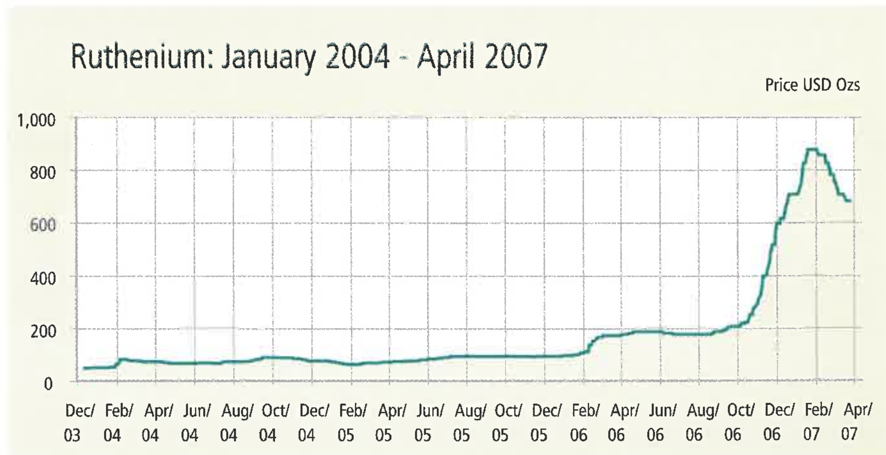
From Footnote to Fast Track

A metal that has in the past been at best a footnote in annual reports has grown up, featuring in articles on Reuters, Bloomberg, Platts and, now, in the *Alchemist*. Suddenly all the leading mining houses provide detailed production information about what has become the third-most-expensive platinum group metal. Anglo Platinum Ltd. announced in February that its annual output of ruthenium is around 500,000 ounces. In the same week Impala Platinum said that it plans to dig out about 250,000 ounces in 2007, and Lonmin Plc's production will stand somewhere between 150,000 and 200,000 ounces at the end of this year, according to figures published for the first quarter.

All in all, little more than a million ounces will reach the market during the current year, with the entire quantity more or less consumed by the various industries using it.

For 2006, Johnson Matthey reported annual industrial consumption of nearly 940,000 ounces (versus 834,000 ounces for 2005), and the number for 2007 is expected to exceed last year's figure.

With physical consumption rising, it does not seem likely that the future increase in production – a result of the expansion of the South African mining industry into the eastern parts of the Bushveld complex containing ore with higher ruthenium portions – is weighing too heavily on the metal's supply and demand



Targets are produced for the electronics industry.

Hard disk drives are coated with a total of up to 16 different layers, four of them containing ruthenium.

balance. But if production and consumption are not too far apart, what in the end was responsible for the tenfold increase in the value of ruthenium over the last 12 months?

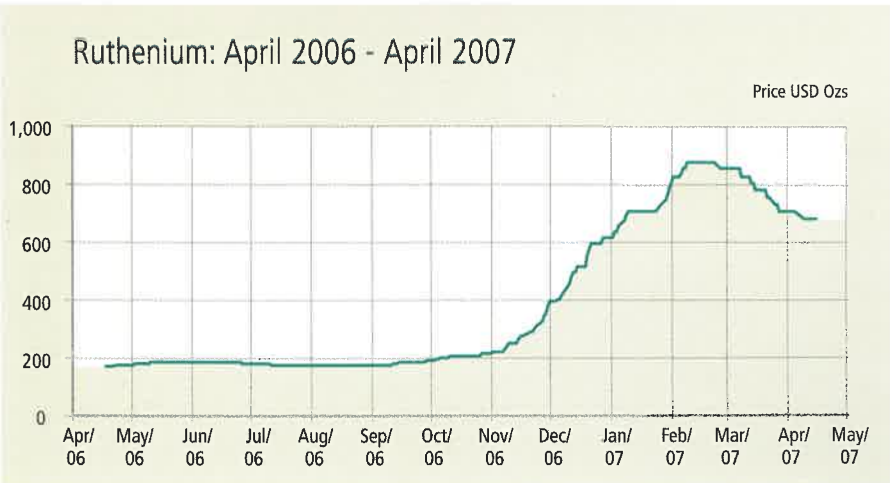
Unlike the cases of other precious (and probably base) metals, the investment community did not cause the price rise – neither the more short-term-oriented speculators nor the more long-term investors. There were some limited investments in ruthenium when the price first started to fly, but compared to the overall market size, they appear to have been relatively small, with most investors apparently opting to refrain from any activity in this market. Given its extremely illiquid nature, this is an understandable reaction. There were a number of occasions in recent months when it was almost impossible to buy or sell any quantity of the metal at all.

In addition to the small stocks in the hands of investors, there certainly was also a reserve of refined, but unsold (i.e., unneeded in the past) metal in the vaults of the mining corporations. However, when prices started to rise, neither of these additional supply sources lasted very long. Instead they were emptied due to profit taking and liquidation, in the region of $300 to $450 an ounce.

Therefore the cause for the dizzying price rise was not a production shortage. Nor was it a result of massive investment money flowing into this small market, which in early 2006 had a total value of less than $100 million. It has grown in the past twelve months to a size of around $600 million – still about one quarter of the size of the much more renowned palladium market.

Of Flat Screens and Thin Films

In our view there were two reasons that explain the price increase. First was that global refining capacity wasn't able to cope with the sudden rise of the market size on both sides of the supply/demand equation, thus creating a backlog. Secondly industrial demand did not grow smoothly; rather it was jumpy and concentrated in the second half of 2006. This was certainly in part a result of the healthy state of the global economy, with its general hunger for raw materials, but it was even more a consequence of capacity increases and of technological changes in the most important industries for ruthenium, the chemical sector and the electronics industry.



Chemical companies use the white metal as process catalysts, for example in ammonia synthesis and for homogeneous catalysis. Ruthenium is also used in the electrochemical sector, as a coating for titanium electrodes in chlorine manufacturing. In the past, both sectors have accounted for about 30 percent of annual consumption.

That significant share of the chemical industry is shrinking currently as new applications in the already biggest sector, the electronics industry, are becoming more and more important. A few years back, ruthenium was used in electronics mainly for the manufacturing of printed electronic resistors. Now two new uses have led to a sharp rise in consumption in recent months and years. First is the use of the metal in large flat-screen plasma television sets, where ruthenium is used to improve the quality of the images.

However, by far the more significant increase came from the introduction of new technologies in data storage on hard disc drives. Here the technology shifted recently from longitudinal (horizontal) to perpendicular (vertical) data storage. The increase in storage capacity of ruthenium use is now four (of 16) layers of a hard disc drive, which grew 35 times. While the consumption of ruthenium would increase for that reason alone, forecasts predict that the production of hard disc drives will rise from the 261 million produced in 2003 to 750 million in 2010. In the next five years the industry expects to produce as many hard disc drives as it had in the last 50 years.

At least in the beginning of that expansion phase, the consumption of ruthenium in the sector will grow even faster than the actual sales numbers of drives would indicate. The reason is that the sputtering targets (metal plates containing pure metal or alloys of varying sizes) used for the coating of a substrate are not completely used up in the production process for disc drives: only around one third of the metal (be it ruthenium, platinum or others) actually ends up on the substrate. The remainder has to be recycled into fresh targets. This technique obviously requires a huge stock of material that is bound in the various stages of the sputtering process. Therefore, as long as the production capacity for various uses grows, the metal amounts bound in the process rise disproportionately.

Volatility, noun; see: Ruthenium

The Thin Film Materials Division of Heraeus is one of the world's largest manufacturers and suppliers of targets for hard disc production. Our magnetic data storage materials coat more than one-third of all the hard discs produced globally. In close cooperation with the end-users of the targets, every possible attempt is currently undertaken to not only reduce the need for excess metal, but also to speed up the process of refining 'used' targets.

It seems that only by doing so can the ruthenium market be kept somewhat in balance, thus avoiding further price explosions like the one seen in the last 15 months. Starting from less than $100 per ounce, the ruthenium price increased within 12 months by more than eight times, and peaked in February at $875 an ounce. Just before the end of the fiscal year in Japan, demand dried up and traders trying to take profits on their long positions later drove the market back below $650. The price is now around 25 percent off the highs seen in early February and, surprisingly, industrial demand is still absent. The big question is whether the market will come off further or resume the up-trend that it experienced for most of 2006.

While the ongoing expansion of production facilities in the electronics industry makes the second scenario more likely, the first one cannot be discounted totally. There are already industries scaling back their ruthenium use, notably the chemical industry, but also the aircraft engine industry, where ruthenium otherwise might have been increasingly used in high-temperature single-crystal super alloys.

So can the price still go to $1,000 an ounce? It's a tough call, but given the developments in recent weeks this seems less likely. On the other hand, could it fall back to $100? That is even more unlikely. There are too many possible applications, and too many potential users are waiting for a massive price setback in order to set foot into this small, $600-million-sized – but nevertheless extremely exciting – sector of the precious metals market. ■

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He was previously a Director for Dresdner Bank AG and its investment banking arm, Dresdner Kleinwort Wasserstein. He spent 21 years with Dresdner in Frankfurt and Singapore as precious metals and derivatives trader and, later, as head of the precious metals and commodities desk in Frankfurt.

Italy's Gold Districts

Is this the end of the crisis?

By Stefania Trenti, Banca Intesa SPA

In recent years, 'crisis' has become the most common description of Italy's gold sector, which since 2001 has seen exports fall off significantly. This article attempts to shed some light on the main competitive and structural problems in the Italian jewellery industry.

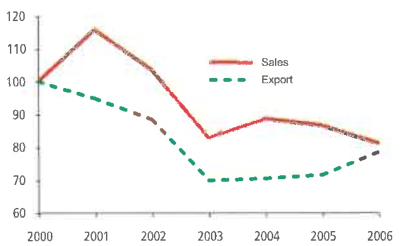
The export recovery seen in the Italian gold sector at the end of 2005 – and confirmed in 2006 – has attracted the attention of sector analysts, given that these figures might represent the first glimmer of hope after the severe crisis of recent years. Export data represent one of the few sources of information available to help monitor the economic situation in the gold industry, both at sector level and regionally. And despite a number of limitations, export statistics appear more accurate and informative than the figures on domestic demand or production where, as the operators themselves admit, there are many grey areas.

The word 'crisis' has become the most common descriptor of the state of Italy's gold sector, which has seen exports fall off significantly since 2001. This, combined with sluggish domestic consumer spending, has led to a decline in production and job losses. The crisis was felt particularly strongly in some of the provinces where the historical 'gold districts' are located – Vicenza, Arezzo and Alessandria, where Valenza Po is located.

According to figures from the Vicenza chamber of commerce, the area's gold district lost around 18% of its workforce (2,300 employees) and 17% in sales in the period from 2002 to 2005. Similar figures were recorded by the chamber of commerce in Arezzo, where there was a 15.6% decline in the workforce (around 1,620 employees, over the same period).

Photos courtesy Unoaerre SpA

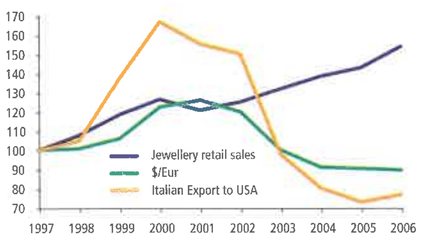
1. Sales and Exports in the Italian Gold Sector*
(2000=100 at constant prices)



* Figures in this and subsequent charts (unless otherwise specified) refer to the product group ATECO 362, which, according to the ISTAT definition, includes both the minting of coins and the manufacture of jewellery.

Source: Intesa Sanpaolo chart from ISTAT data

2. The US Market: Italian Jewellery Exports, Retail Sales and Currency
(1997 indices = 100)



Source: Intesa Sanpaolo chart based on data from ISTAT and the US Census Bureau

In this article, I will attempt to shed some light on the main competitive and structural problems in the Italian jewellery industry to determine whether these recent figures may be interpreted as the end of the crisis (and if so, how), or whether they simply reflect the sharp rise in the international price of gold – in which case, the end is not yet in sight.

Competitive Challenges

For some years now the Italian gold sector has been undergoing a period of crisis and transformation, mainly due to increasingly fierce competition in the international markets.

Given the weak economy and changes in the tastes and habits of consumers (especially those relating to purchases for special occasions), domestic demand was unable to offset the fall in exports, resulting in declining sales for companies (Figure 1).

Following a particularly critical phase that lasted until 2003, during the last two years the sector seems to have stabilised, although it has not managed to regain the momentum it had in the 1990s. Both exports and sales remained broadly constant in 2004 and 2005 at the levels reached in 2003, before beginning to show signs of improvement at the tail end of 2005 – which were confirmed in 2006, as we shall see.

The slowdown in the sector was undoubtedly triggered by the collapse of the US market, which coincided with a recession caused by the bursting of the dot-com bubble and the after-effects of the September 11 attacks. The US had represented the Italian jewellery sector's key market, accounting for more than a third of the sector's exports in 2000. Although the decline in retail jewellery sales in the US market was confined to 2001, as Figure 2 shows, Italian exports to the US have continued to fall, accelerating their decline in 2003-2004 in tandem with the period that saw the dollar's greatest devaluation against the euro.

Table 1 - Gold Jewellery's Share of the Global Markets*
(% in current dollars)

	1996	2000	2004
Italy	29.8%	29.1%	17.0%
India	3.5%	5.8%	11.7%
USA	5.1%	6.6%	10.4%
Hong Kong	6.5%	8.6%	8.9%
Switzerland	9.6%	7.6%	8.8%
UK	8.6%	4.8%	6.9%
China	5.2%	9.0%	6.4%
Turkey	0.7%	2.4%	3.8%
China + Hong Kong**	8.3%	10.7%	11.6%

*HS Code: 711319 "Articles of jewellery & parts thereof of precious metals (excluding silver)"

**The share of China and Hong Kong was obtained by subtracting the bilateral flows from the sum of the two countries' exports

Source: Intesa Saopaolo chart from UNCTAD data

The link between jewellery exports and the exchange rate trend is quite significant, both on account of the US market's dominance (US imports are either sold on the fertile domestic market or re-exported) and because of the general tendency to use the US dollar as the benchmark for goods in this sector. Despite this, the strong euro is not enough to account entirely for the negative trend in Italian exports.

An analysis of gold jewellery's share in dollars of the global export market (this product represents the bulk of Italian exports in the sector) shows the strong growth of new competitors (Table 1). India, China (including Hong Kong) and Turkey in particular have, in a short space of time, managed to make significant inroads in the market, rapidly eliminating Italy's until-recently undisputed leadership.

Table 2 - Exports and the Gold Sector Balance by Province
(2006 - at current values, provisional data)

	Export	% share of national export	Trade balance
Vicenza	1399	32%	1217
Arezzo	1344	30%	1312
Milano	500	11%	277
Alessandria	499	11%	133
Treviso	175	4%	172
Roma	143	3%	-40
Firenze	79	2%	53
Padova	69	2%	51
Total	4425	100%	3242

Source: Intesa Saopaolo from ISTAT data

In addition to the countries with low labour costs, others ranked as main exporters, such as the US and the UK, are also among the biggest importers of jewellery (with 34% and 14% of global imports respectively), and often trade or re-export the products to other countries. Note also the role of Switzerland, a country with a strong watch-making tradition, which delegates a significant part of its gold work (e.g. bracelets and watch straps) to Italy: around 30% of Italy's exports to Switzerland are re-exports, highlighting Italy's role as the location for Swiss companies' workshops.

The decline of Italy's position vis-à-vis the US market has been even more dramatic (Figure 3). In 1996, Italian products made up over 30% of US imports. This has now fallen to 11%, according to provisional data for 2005, which saw the position of 'leading overseas supplier of gold jewellery' go to India, followed by China and Hong Kong.

Recent Export Trends from Italy's Gold Districts

Within the bigger picture of this rather complicated sector, the Italian provinces with a high concentration of goldsmiths (Vicenza, Arezzo and Alessandria) show differing trends, partly due to the varying features of their products and the main key markets.

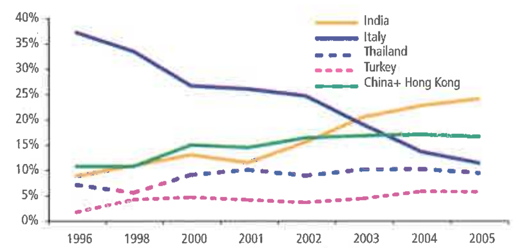
Arezzo, Vicenza and Alessandria together account for nearly three-quarters of Italian exports; the figure rises to 85% if the province of Milan is included – an important centre for goldsmiths but not considered one of the region's gold districts in the true sense of the term.

There are two other specialist regions in Italy, both in Campania: Tarì in Caserta, where an industrial centre dedicated to gold was set up, and Torre del Greco, the leading coral-working centre. These are not, however, among the main exporters, given that they mainly focus on jewellery making for the domestic market, whether for the end customer or other Italian companies, which in turn may export the products.

Export growth in Arezzo, Vicenza and Alessandria showed signs of improvement as early as 2004, although this looks more like the end of the severe decline of the previous years rather than a proper recovery.

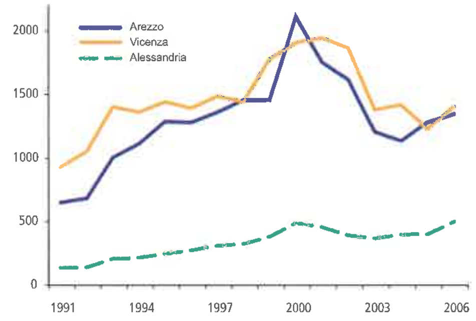
The situation in Alessandria, in particular, seems better thanks mainly to lower initial exposure to the US market compared with the other two provinces. The role of the US in Arezzo and Vicenza has also declined, as shown in Table 3, due partly to the dollar's slide

3. US Imports of Gold Jewellery*



* HS Code: 711319 "Articles of jewellery & parts thereof of precious metal (excluding silver)"
Source: Intesa Saopaolo chart from UNCTAD data

4. Exports in the Provinces where Specialist Districts are Located
(in EUR million, at current values)



Source: Intesa Saopaolo chart from ISTAT *2006 provisional data

Table 3 - Key Markets from the Gold Districts by Province
(% in current values)

Alessandria	**2003**	**2004**	**2005**	**2006***
Switzerland	21%	29.7%	25.8%	23.0%
United States	20%	16.7%	18.2%	15.8%
France	7%	5.8%	7.0%	12.3%
United Kingdom	8%	8.6%	5.0%	6.4%
Spain	3%	3.7%	4.5%	4.7%
Hong Kong	4%	2.7%	4.1%	4.6%
United Arab Emirates	5%	5.7%	4.4%	3.6%
Japan	6%	5.6%	5.1%	3.6%
Belgium	2%	1.7%	3.2%	2.6%
Vicenza	**2003**	**2004**	**2005**	**2006***
United States	34%	27.1%	25.1%	25.6%
United Arab Emirates	6%	6.7%	9.4%	11.7%
Jordan	2%	4.5%	6.1%	6.1%
Hong Kong	5%	5.5%	4.8%	5.3%
France	6%	5.5%	6.1%	5.0%
United Kingdom	8%	8.1%	5.6%	4.5%
China	3%	4.1%	4.4%	4.3%
Poland	3%	0.9%	2.3%	3.6%
Turkey	2%	2.1%	2.3%	2.6%
Arezzo	**2003**	**2004**	**2005**	**2006***
United Arab Emirates	11%	12%	18%	19%
United States	30%	23%	20%	16%
United Kingdom	10%	9%	6%	7%
France	7%	8%	6%	6%
Turkey	2%	3%	4%	6%
Spain	4%	6%	5%	5%
Panama	0%	4%	3%	4%
Hong Kong	3%	3%	4%	4%
Germany	4%	4%	4%	3%

Source: Intesa Saopaolo from ISTAT data. Figures for 2006 are provisional.

(at the same volume of sales, revenues translated into euros are lower), and partly to the severe loss of market share undergone by exporters on that market, as shown above.

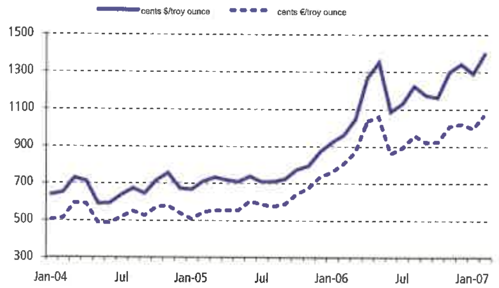
As the US has declined in importance for Vicenza and Arezzo, so has the significance of other countries grown, first among which is the United Arab Emirates. Thanks to its favourable customs regime, this country also acts as a platform for subsequent exports to other countries in the Gulf region and, to some extent, to Asia.

The end of the decline and the first signs of recovery in some markets are therefore partly due to the ability of companies in this sector to reposition themselves at global level and find outlets to new destinations. It is only right to mention, however, that the growth recorded at current prices – which is moreover not enough to regain lost ground – is taking place in a strongly inflationary environment for the sector, caused by the surge in international gold and silver prices (as shown in Figure 5).

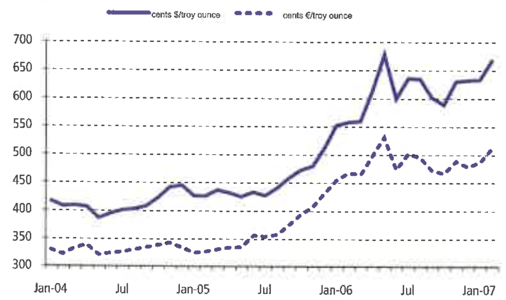
In the absence of provincial data on quantities sold, total national exports show how in both 2005 and 2006, despite a stable or positive trend in export values, export quantities declined, indicating an increase in prices (the opposite to what was seen during the crisis of 2001-2003). However, this rise seems less than proportional to the price growth of the commodities used.

5. International Gold and Silver Prices

Gold



Silver



Source: London Bullion Market

Amid Complexity, Some Positive Signs

As these observations indicate, the picture of the Italian gold sector and the main districts that make up its backbone is complex.

The decline in employment and in the number of companies in certain districts confirms the assumption that the once highly fragmented sector is still undergoing a major period of rationalisation. Some companies are seeking to form joint ventures, both with their former competitors in Italy as well as with companies in other countries, where production costs and export considerations may be more favourable.

Recognising the difficulty of competing with countries with low labour costs on the production of low-added-value products, some Italian manufacturers have begun to concentrate their efforts on high-end pieces, emphasizing the element of exclusivity in their marketing. And some fabricators have sought to tie in their designs with those of fashion houses.

The gold industry still has some weaknesses, such as its dependence on currency trends. The sector has also been at the mercy of the high and volatile precious metal prices seen over the last year, which have curtailed jewellery purchases on a global basis.

While it is difficult to confirm that the recent growth is the precursor to a real recovery, there are signs that the basic picture is improving and it is clear that the industry has begun to address the challenges it faces going forward. ■

Stefania Trenti is an analyst at the Research Department of Intesa Sanpaolo. She is responsible for coordinating the research activity on industrial sectors, concentrating on forecast and analysis for major Italian industries and local districts.

End-of-Year Fixing Schedule – 2007

There will be no PM fixings on
Christmas Eve, Monday 24 December
and
New Year's Eve, Monday 31 December

Proactive Monitoring: A Success Story

Results of the First Three-Year Cycle of PAM

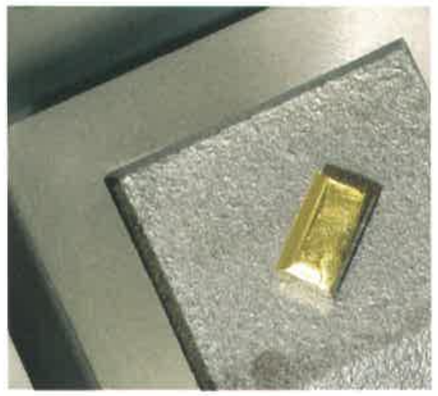
By Douglas Beadle, Consultant, LBMA

The LBMA's Proactive Monitoring (PAM) regime, whereby refiners on the Good Delivery List have their assaying competency tested approximately every three years, was announced in January 2004, with the first cycle of the three-year rolling monitoring programme getting underway in June of that year.

We are now reaching the conclusion of round nine, the final round in the first-three year cycle. The main objectives of PAM are to ensure that refiners on the Good Delivery List continue to maintain the highest standards of technical competence and also to encourage technical improvement throughout the gold and silver refining industry.

Refineries that are listed on both the Gold and Silver Good Delivery Lists count as separate operations for PAM purposes – though whenever possible, the monitoring will be carried out on both operations at the same time. To date, 50 gold and 58 silver refiners have been monitored and have undergone the LBMA's assaying tests (these being all refiners that have been on the Good Delivery List for three years or more).

Each gold sample is approximately 10 grams.



PAM covers not only a refiner's ability to assay, but also provides the LBMA with an opportunity to check on the refiner's level of production over the immediately preceding three years and its Tangible Net Worth (TNW) – and also to verify that the photographs and line drawings held by the vaults of the recognised custodians in London are still current.

To create dip samples, molten metal is poured into the LBMA moulds. The casting then has 5-mm cropped from each edge and is cut into eight individual samples. Silver samples are approximately 35 grams each.

Of the 114 refiners issued with notification of PAM letters, one gold refiner and four silver refiners decided that the cost and work associated with undergoing PAM were not justified by their then-current refining operations, and they were duly transferred to the Former List of Acceptable Melters and Assayers. One silver refiner underwent a group re-organisation, resulting in its TNW falling significantly below the LBMA's normal minimum requirement (£10 million equivalent) and, as no group company with sufficient TNW could be found to provide the LBMA with a letter of support in respect of the refining operation, that refiner was also transferred to the Former List.

The LBMA Executive and Physical Committees consider the PAM regime to have been a great success. That does not mean that every refiner has passed the assaying tests without incurring a problem. Indeed, had that been the case it could justifiably be argued that PAM was unnecessary and a waste of time, effort and money. On the other hand, significantly reducing the number of refiners on the Good Delivery List was not an objective of PAM. It is interesting to note that to date not a single refiner, including those that incurred problems, has complained about the costs and work associated with PAM. In fact, several have placed on record their satisfaction at having successfully passed the assaying tests, which they feel adds to the prestige of being included on the LBMA Good Delivery List.

Under Fire: The Test Results

Let us now look at the technical results of PAM.

At the time of this writing, two 'four-nines' gold refiners are in the process of being re-tested, having failed the initial six-reference sample assaying test.

Of the 50 gold refiners that have undergone PAM assaying tests, 31 elected to be monitored as four-nines producers, and therefore to assay a set of six reference samples supplied by the LBMA rather than producing their own lower-grade dip samples (which may have possibly led to contamination of their four-nines production lines).

So far six refiners that elected to be treated as four-nines refiners and one refiner that provided a dip sample failed the initial assaying test. With regard to the four-nines refiners, such failures were mainly due to the fact that, as they only ever produce 999.9 gold, the accuracy of their fire assaying techniques had, over the years, been allowed to fall. This was in some cases exacerbated by experienced staff having retired and not being replaced by staff with sufficient knowledge of fire-assaying techniques. If a four-nines refiner exhibits a significant positive bias, that is also likely to count as a failure as it is absolutely fundamental to the Good Delivery concept that the customer always receives fair value.

And in some cases, the refiner's equipment or processes were outdated or inadequate for the job in hand. Where a refiner fails the initial four-nines assaying test on six reference samples, it is allowed to retake the assaying test on a further six-sample set. If it fails the second assaying test, then it has take and pass a full 24-reference-sample test in order to remain on the Good Delivery List. During this process the refiner is encouraged to seek additional professional training on fire assaying techniques, either from an LBMA referee or other source of the refiner's choice. Whilst this process is going on, such refiners are permitted to remain on the Good Delivery List because their ability to produce and assay 999.9 gold is not necessarily in doubt, since such metal can and normally is assayed by spectrographic methods. However, the LBMA insists that all Good Delivery gold refiners must be able to assay across the full range of finenesses – from 995 to 999.9 – in case they should ever wish to market bars of a lower fineness than 999.9.

As mentioned above, two four-nines producers are in the process of retaking the assaying test. Two of the remaining four refiners passed the second six-sample test without a problem, one obtaining a 100% pass rate and the other failing on just one sample, which is permitted under the PAM rules. The final two four-nines refiners had to go on and take the full 24-sample test, where they both subsequently obtained a 100% pass rate – and one produced the best set of results seen in the whole of the three-year programme. The gold refiner that initially chose to produce a dip sample passed at the second attempt. These results were most gratifying for the five refiners concerned and clearly demonstrate how the PAM regime is succeeding in its objective of lifting assaying standards in the gold and silver refining industry.

Of the 58 silver assaying tests carried out, three are still in process, and the results will be available within the next few weeks. So far, only one refiner has failed the initial assaying tests, but this refiner subsequently went on to successfully complete a full ten-reference-sample assaying test (the same test undertaken by an applicant for silver Good Delivery accreditation), after having invested in some new equipment and made changes to its procedures.

With two gold retests in process and three silver results still awaited, it has not been necessary to transfer any refiner to the Former List on technical grounds.

Non-Technical Issues

Looking now at the non-technical aspects of PAM, a number of instances came to light where refiners had changed their name and/or bar marks without prior advice to the LBMA, as a result of which the Good Delivery List has had to be updated and new photographs and line drawings obtained and circulated to the vaults in London.

During the first three-year cycle it became evident that official agencies in some countries still exercise excessive control over refiners in their jurisdiction – or that there is excessive internal administrative bureaucracy within some of the refining operations, both of which greatly impede the efficiency of those refiners. In some cases, long and involved contracts for the supply of commercially insignificant quantities of gold or silver have had to be drawn up and exchanged between the LBMA (relating to the supply of reference samples by the LBMA or even smaller quantities of metal supplied by the refiner in the form of dip samples). Also, there have been cases where national customs authorities have significantly delayed the import of reference samples from the United Kingdom or their delivery to the refinery whilst minute issues are raised on export documentation. It is hoped that refiners that have experienced such problems will put pressure on the authorities to allow much more flexibility so that, in the next three-year programme, such problems do not recur.

As stated at above, the first three years of PAM are regarded as having been an LBMA success story, but this would not have been the case without the co-operation of the refiners that have been monitored and the tremendous amount of work put in by the five LBMA Referees in producing and proving-up the reference samples, cross-checking dip assay results and providing training on fire assay techniques when the need has arisen. To all of the companies and individuals involved, the LBMA extends its thanks. The LBMA would also like to thank the LBMA Supervisors for all their work undertaken in connection with the Proactive Monitoring programme. ■

A Funny old Market

And Then There were the Comedians

The LBMA Annual Party was held at the Jongleurs Comedy Club on Thursday 1 March. The evening included a cocktail reception, dinner and two comedy acts, which entertained the 180 attendees.

The annual party is open to all Members and Associates. We welcome suggestions for next year's theme, venue and / or menu.

From Monsoons to New Moons

When do – and don't – Indians buy Gold?

By Rajan Venkatesh, Managing Director, Bank of Nova Scotia, India

The vast subcontinent of India encompasses an array of cultures and subcultures, with innumerable communities, customs, food and dress habits – but the lure and importance of gold cuts across all caste and economic boundaries. In India, gold is religion, and the country's love affair with it is timeless, reaching across centuries and spanning millennia.

Indians see the yellow metal as a symbol of purity, prosperity and good fortune. Local customs demand the purchase of gold for special occasions – weddings and birthdays, to celebrate festivals or as an offer to deities. And in cities and villages across the country, it is not uncommon to see dishevelled peasants or matronly types lining up outside jewellery stores.

To Gold There is a Season

Jewellery demand in India is seasonal, with the second and fourth quarters normally the strongest due to the Indian wedding season and the harvest festivals. The first and third quarters are usually low seasons, with fewer gold-giving occasions. Also, the third quarter sees the Shrad – a fortnight whose religious significance is not propitious for gold buying by Hindus.

The months from October to January and April and May constitute the main marriage season. During this period also falls Diwali – the festival of lights and start of the Hindu calendar year – celebrated across the country, though somewhat less so in the north. Regional festivals like Oman and Pongal in the south, Durga Puja in the east, and Dhanteras and Dusherra for the north and west are major buying occasions. The festival of Akshaya Thrithiya, which usually falls in April, has also become a red-letter day for gold purchases: one of the most auspicious days in the Hindu calendar, it has become a major gold buying occasion, especially in the south.

Deeply ingrained in Indian society is the custom of gifting gold in marriages, and special ornaments called solah shringar are made practically for every part of the body. There are 16 types, including rings, bangles, necklaces and special pieces for the head, nose, ankles and waist. Hindu women also wear the mangalsutra, a gold ornament strung across a thread or chain, to signify their marital status. In the southern state of Kerala, gold is considered pure and sacred, so the bride is expected to turn up covered from head to toe in necklaces, bangles and earrings – in total, she will be carrying a kilo of the metal.

The gilding of the nation's temples with gold and silver represents another manifestation of the country's obsession with gold. Throughout the country, as funds allow, famous temples are continually replacing the silver plating on their idols with gold, and smaller shrines replace copper deities with silver ones.

An Appetite Untarnished – And Undiminished

India buys at least one fifth of the global gold supply each year, making it the world's largest consumer of the metal, and it's clear that – despite some predictions to the contrary – India's gold appetite has not been markedly diminished in recent months. And although the majority of gold used in India is imported, most jewellery is fabricated within the country. As a result, India has both a thriving jewellery industry and has become a major exporter.

The fact that Indians are still buying gold – especially given the recent price increases – has no doubt surprised some market participants. But many ask: is the country's gold lust not a relic of a long-gone and unlamented India? An India of weak investor rights and shaky financial systems? Where people distrusted banks and the stock market and preferred to store their wealth in tangible assets, chiefly gold and property, which were considered an excellent security and insurance for a woman in time of crises?

As with such loaded socioeconomic questions, the answers are two: yes and no. But even as the country's economy expands, and as it becomes more westernised, its appetite for gold has not diminished. Its purchase is closely entwined with religious and cultural beliefs. It is deeply woven into the social, cultural, and religious fabric and the psyche of India's people, making the country unique amongst global precious metal markets.

Far Left: During Diwali, diyas (small oil lamps) are placed in houses and around courtyards and gardens.

Left: Procession with an idol of the goddess Durga during Durga Puja.

Above: A caparisoned white Marwari horse, ready to pull a wedding carriage in Mumbai.

Rajan Venkatesh

is Managing Director and Head of the Bullion Business of the Bank of Nova Scotia, India. With the bank for the last 20 years and actively involved in the development of the bullion market in India, he has been responsible for the bank's bullion business since 1998.

Rajan has a post graduate degree in banking and finance and is an Associate of the Institute of Company Secretaries of India.

Above Right: Diwali in Utter Pradesh.

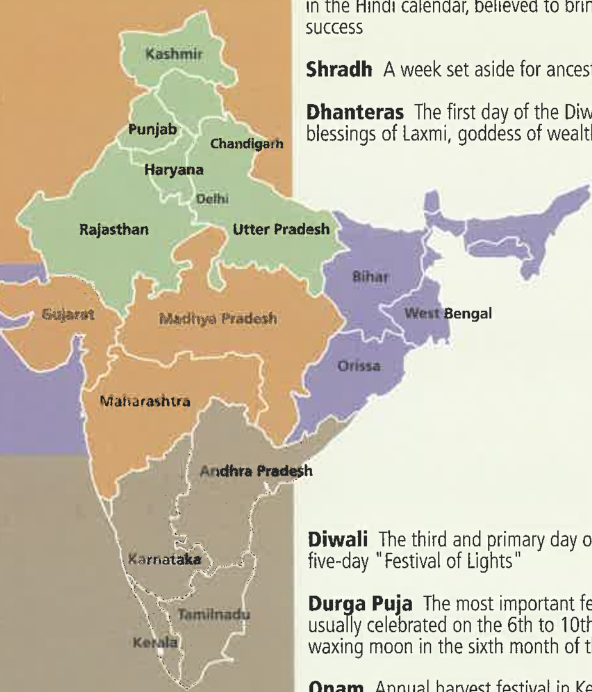
Above: Brides can wear up to a kilo of gold.

Photo courtesy Alukkas and Grendon International

Right: A display of kandils, or sky lanterns, for Diwali.

Bottom Right: An effigy of the evil king Ravana is burnt at sunset for Dassera.

Period	Activity	Reasons
North		
Jan-March	High	Marriages
April-May	High	Harvest
June-Aug	Low	Monsoon
Sept-Dec	High	Dassera Christmas
West		
Jan-March	Medium	
April-May	High	Marriages Gudi Padwa Akhaya Thriti
June-Aug	Low	Monsoon Shradh
Sept-Dec	High	Marriages Dhanteras Dassera Diwali Christmas
East		
Jan-March	Low	No marriages
April-May	High	Marriages
June-Aug	Low	Monsoon
Sept-Dec	High	Marriages Durga Puja Diwali Christmas
South		
Jan-March	Medium	
April-May	High	Marrigaes Akhaya Thriti
June-Aug	Low	Monsoon
Sept-Dec	High	Onam Diwali Christmas Pongal Marriges



Dassera Celebrates the defeat of the demon king Ravana by Lord Rama, symbolising the triumph of good over evil - considered to be an auspicious day to begin new enterprises

Gudi Padwa New Year for Maharashtrians; marks the beginning of spring

Akhaya Thriti One of the four most auspicious days in the Hindi calendar, believed to bring good luck and success

Shradh A week set aside for ancestral worship

Dhanteras The first day of the Diwali festival; the blessings of Laxmi, goddess of wealth, are sought

Diwali The third and primary day of the five-day "Festival of Lights"

Durga Puja The most important festival in Bengal, usually celebrated on the 6th to 10th days of the waxing moon in the sixth month of the Bengali calendar

Onam Annual harvest festival in Kerala

Pongal From the Tamil for "boiling over", a festival in celebration of the harvest

The Flight of the Gold BeES

Gold ETFs Come to India

By Bhargava Vaidya, BN Vaidya & Associates

After months of planning and waiting and discussing, India's gold investors have gained one more savings instrument.

The Gold Benchmark Exchange-Traded Scheme (Gold BeES) New Fund Offer opened on February 15. Gold BeES were listed on the National Stock Exchange on the auspicious day of Gudi Padva – according to legend, the day on which Brahma created the world and, appropriately, a day of great rejoicing – which this year fell on 19 March.

It took almost a decade of planning, and five years from filing the first application, for Indians to have a transparent gold-saving scheme. It is pertinent to note here that two years ago the Indian finance minister announced the launch of gold ETFs in his budget speech. It would seem that the regulators have realised that gold will always be an important savings asset for the Indian populace, and therefore finally cleared the way for this much-needed product.

Given that ETFs are a new investment class in India, it will take some time before investors are comfortable with them – they traditionally prefer to have their gold in tangible form, or to have a guarantee that their paper gold can be converted to physical gold anytime they choose, without restrictions.

The Target Audience

Gold ETFs have a different target audience in India than in other countries – they're aimed at the retail investor. We have recently seen a big increase in the number of investors who invest in small amounts, e.g., one gram at a time.

Although no special effort is needed to promote gold in India – there is clearly an insatiable appetite for the yellow metal – there is one class of investors that has drifted away from gold recently. The traditional strong bond between the buyer and his old family jeweller has, due to increasing urbanisation, meant that some investors have been cut off from their hometown jeweller. Thanks to ETFs, this class of investors can now be roped back into gold's fold.

Gold ETFs will also serve as an important portfolio diversifier for people who have benefited from booms in the stock market and in real estate. Moreover, there is a class of investors, such as mutual funds and banks, which legally cannot participate on the commodity exchanges, but could invest in gold through ETFs.

Hurdles

In India, the biggest consumer of gold has always been the average farmer or agriculturist from rural areas. Unfortunately, in the present form of gold ETFs, this vital class of investors cannot participate. In late 2006, the government issued a notification that only a person having an income tax PAN Card could open a D-MAT account, which is essential to operate gold ETFs on the exchanges. As a rider, the income tax PAN can only be issued to a person having taxable income. However, under Indian income tax laws, agricultural income is exempt from tax liability, thus these investors cannot hold ETFs.

Also, it is a tradition in India to collect gold for children – both boys and girls – from the time that they are born. In the case of girls, the marriage-related accumulation often starts from birth. This investment takes place irrespective of the parents' financial status (whether or not they are income tax payers). Thus, on the same grounds as income-tax PAN cards, this category of investors is also lost to gold ETFs.

Yet another class of investors that cannot participate in gold ETFs at present are co-operative banks, which like to invest in gold but are barred from investing in mutual fund units.

All these hurdles are being addressed, and representations have been made to the regulators and concerned authorities to ensure that all investors in India are provided with a transparent gold market.

Thus, gold ETFs in India in their present format represent just a small step forward, but one that has huge potential for growth. Given 12 months – during which time the issues mentioned above should be addressed – and Indian gold ETFs could flourish into something really big. ■

Structure of Gold ETFs in India

Number of ETFs to date:
Two, Benchmark's Gold BeES and UTI's Gold Share.

Quotes: Per unit, i.e., one gram of gold.

Custodian: Scotia Bank for both funds. The gold is held in allocated accounts.

Load: Entry load only at the time of new fund offer.

Fees: Not exceeding 1% per annum.

Creation Redemption Quantity:
Minimum 5 kg.

Declaration of Net Asset Value:
Daily, per the formula prescribed by the regulator:
{(London Gold AM fix + CIF premium)
X
(RBI reference rate for USD / INR)
+
Custom duties
+
Local levies}
X
Gold held by the fund divided by the number of units.

The amount is further adjusted by other assets, such as cash, if any.

Gold ETF prices track the spot gold price in the domestic market.

Bhargava N Vaidya, *a chartered accountant, is the founder of B.N. Vaidya & Associates, a consulting firm specialising in the gem and jewellery sector. His professional affiliations and memberships include the Bombay Bullion Association, where he was elected director, seats on the Bullion Product Committees of the commodity exchanges in India and advising banks on bullion products.*

Packing Standards for Physical Bullion

By Tony Dean, HSBC Bank USA, NA, London Branch

Inadequate Packing = Dangerous Stacking, an article on the importance of properly packing gold and silver bars – and what makes for dangerous packing – appeared in Alchemist 44 (October 2006; page 27). The article can also be viewed on the LBMA's website in the Publications and the Good Delivery sections.

This article is supplementary to the aforementioned article, and focuses in particular on the actual packing of bars, although, as noted in the previous article, the finish of the bars can affect the stability of a stack. For this reason, silver bars with a raised lug in the end elevation (more commonly seen on some Chinese brand bars) may not be classed as Good Delivery, and can be rejected by the vault manager if the lug is prominent and the edges are sharp.

Packing of Gold Bars: Preferred Standards

- Gold bars should be placed on well constructed pallets made of sturdy wood that individually can carry one tonne (the recommended maximum per pallet) and are capable of being stacked up to six pallets high
- Recommended pallet dimensions are: L 700mm x W 600mm x H 140 mm. Timber used should be at least 25mm thick.

A gap of 100mm is also required to allow standard forklifting equipment to move the pallet and metal. All pallets must be heat treated, fumigated and carry a mark to prove this – any bullion packed on pallets or in wooden boxes without this mark could be rejected by Customs

- The bars should be adequately strapped such that when being moved on a forklift or Collis truck that might be brought to a sharp halt, the bars will not topple with the generated forward momentum. It is preferable that bars should be protected with bubble wrap (or similar) to prevent bars rubbing together whilst in transit
- Gold bars should be packed in wood, plastic or carbon-fibre boxes and securely strapped to each pallet whilst in transit. Boxes need to be marked with the packed weight and a unique reference number. Alternatively, 40 bars (500 kilos) packed on a pallet and covered in a plastic tote are acceptable.

The tote should be nailed to the base of the pallet with a lid with drill holes allowing for metal pull-tight seals, at each corner, to seal the tote. Suitable metal/nylon banding should be used to band the box itself.

Unacceptable Standards

- Plastic pallets are not considered suitable, as they are not strong enough to support large weights. It is not unknown for a stack of inferior-quality pallets to suddenly collapse, causing several tonnes of gold to crash to the vault floor. Fortunately, to date no one has been injured, but health and safety regulations mean that active steps must be taken to prevent such accidents
- Pallets constructed of poor, very dry or brittle timber should be avoided. This prevents the risk of pallets collapsing under weight
- To avoid making the stack unstable, bars of different dimensions should not be mixed on a single pallet
- Single bars should not be packed in drums, as packaging of this nature makes handling very onerous and time consuming.

Especially in the extremely high levels of physical movements that the market is currently experiencing, it is not possible for a vault to repack and re-strap inadequately packed pallets. The only option for a vault manager facing this problem is rejection of part or all of the shipment. Consequently, producers and carriers need to be aware of the need for safe and secure packing and take appropriate preventive action.

Packing of Silver Bars: Preferred Standards

- 30 silver bars should be placed in three even layers of ten bars per layer on well constructed pallets made of sturdy wood that individually can carry one tonne (the recommended maximum per pallet) and are capable of being stacked up to six pallets high
- Recommended pallet dimensions are: L 700mm x W 600mm x H 140mm. This pallet design allows for easy handling from containers using hand-operated pallet trucks. The thickness of timber used should be at least 25mm. A gap of 100mm is also required to allow standard forklifting equipment to move the pallet and metal
- Silver bars should be adequately strapped such that when being moved on a forklift or Collis truck they remain stable
- Silver bars should be stacked and securely strapped to pallets in a uniform manner for safe transit
- As previously indicated, all pallets must be heat-treated and fumigated, and carry a manufacturer's mark to prove this. Any bullion packed on pallets or in wooden boxes without this mark could be rejected by Customs
- No more than 20 tonnes of silver should be loaded in a container at any time
- It is preferred that silver grain is packed in 25kg bags placed inside large wooden containers secured to sturdy pallets. This enables the London vault to stack and store large volumes of grain efficiently.

Unacceptable Standards

- Plastic pallets are not considered to be suitable, as they have been found to be not strong enough to support high weights. Inferior-quality pallets can suddenly collapse, causing several tonnes of silver to crash to the vault floor. Fortunately, to date no one has been injured, but health and safety regulations mean that active steps must be taken to prevent such accidents
- To avoid the risk of pallets collapsing under the weight of bars, poor, very dry or brittle timber should not be used. Silver has been recently received on pallets constructed of plywood, which requires the receiving vault to immediately move the bars onto stronger pallets to enable safe stacking. This process is very labour intensive and is not necessary when metal is received in a safe manner

Below – Gold prepared for domestic transit by vehicle may be securely strapped to a pallet by metal or nylon strapping, using a minimum of two bands.
Right – The preferred size of the pallet gap.
Below Right – An example of metal prepared for safe transit via air.

Properly packed silver grain.

An example of how silver should not be packed for transit.

Correct method of preparation of silver bars for safe transit and storage.

Silver bars of various brands have come loose from their strapping whilst in transit, rendering pallets very unstable and dangerous.

- Large, i.e. Euro-sized pallets, are sometimes used to pack silver, but they are too difficult to move around and tend to be overloaded by packers because they have a larger surface to cover. Euro pallets should only be used if a client expresses a preference for his metal to be delivered in this way
- Bars of different dimensions should not be mixed on a single pallet. This will enable silver to be stacked safely and avoid any unstable stacking
- Single bars should not be packed in drums
- Bars should not be packed in boxes or bagged or covered in plastic or any form of wrapping
- It is preferred that silver grain be packed in bags. Strapping to a pallet should be avoided, as there is a high risk of bags splitting in transit and loosing their contents. Additionally, grain cannot be stacked several pallets high, making for an inefficient use of vault storage space.

In summary, failure by a producer, shipper or customer of the London market to observe these simple guidelines on production, packing and transportation may result in the proposed delivery being rejected and any additional costs being incurred by the consignor. ■

Additional input for this article was provided by Jeremy Charles and Philip Clewes-Garner of HSBC, HSBC vault staff, and staff at JP Morgan, Brinks, ViaMat and G4.

Tony Dean *is the Assistant Manager for the Precious Metals Operations Group at HSBC Bank USA N.A. London Branch. During his 19 years in the London bullion market, he has also held positions with Samuel Montagu & Co Ltd and HSBC Midland Bank. Tony is a member of the LBMA's Physical Committee and a director for the London Precious Metals Clearing Co Ltd.*

Top – The condition of silver bars wrapped in plastic bags when they finally reached their destination vault in London. The bars have slipped from their pallets and fallen off into the truck, putting vault and carrier staff at risk of falling bars when the tailgate is opened. Bags are slippery to handle and put vault personnel at risk of dropping the bars when trying to handle the metal.

Above – Packing in plastic bags also makes silver bars too unstable for stacking pallets more than two high. Here a stack has collapsed as a result of the use of bags and poor pallets.

Left and below – Two examples of silver wrapped in sacking and polythene. This type of wrapping means that London vault staff will have to handle the bars more than is necessary, and severely slows down the inspection process upon receipt of a silver consignment.

Assaying and Refining Seminar

By Douglas Beadle, Consultant, LBMA

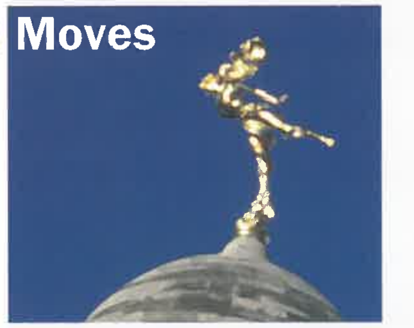
Following its first such seminar some 18 months previously, on 21 and 22 March, 2007, the LBMA hosted its second Assaying & Refining Seminar in the historic surroundings of Armourers' Hall in London. The seminar was attended by 75 delegates from 19 countries, including representatives from 34 refiners on the London Good Delivery List.

The presentations included a number of technical papers on different aspects of spectrographic analysis of precious metals. More general subjects were also covered, such as the LBMA's proposals for amending the Rules governing the accreditation of refiners on the Good Delivery List and the results of the first three-year cycle of the LBMA's Proactive Monitoring Programme.

However, it was not only the formal presentations that were educational. Perhaps the most rewarding aspect of the seminar was that the delegates took full advantage of the coffee and lunch breaks and the evening drinks reception to meet and discuss technical issues and share their knowledge with their opposite numbers from around the world, which the LBMA is pleased to encourage, as it serves to increase the technical competency of the worldwide precious metal refining and assaying industry.

From the feedback that the LBMA has received, the delegates found the event interesting, useful and enjoyable. And on one topic they were all in agreement: that there should be further such events in the future.

Market Moves



Jonathan Farr to Standard Chartered, London

Jonathan Farr has joined Standard Chartered Bank in London as Head of Commodity Operations. He brings to his new role more than 20 years of experience in banking operations, having previously worked at JP Morgan, UBS, Macquarie and, most recently, Standard Bank Plc.

Tom Kendall to Mitsubishi

Tom Kendall has joined Mitsubishi Corp. (UK) Plc in London as Precious Metals Strategist. Prior to the move, Tom spent five years at Johnson Matthey Plc, firstly as editor of the company's Platinum Review, and most recently as General Manager responsible for JM's global precious metals market research team. Tom's previous experience includes nine years as a journalist with Metal Bulletin Plc and two years as a minor metals market analyst with the Roskill Consulting group.

Chris Kenny

Chris Kenny has returned to London from Johannesburg, having spent the last three years as Rand Refinery's Global Markets Director, responsible for the sourcing of all feedstock material for the gold refinery and smelter, as well as the marketing of a range of gold products to the world's major consumer markets.

Chris will continue to work for Rand Refinery as a consultant/representative on a non-exclusive basis, using his extensive precious metals market experience, which includes positions with N.M. Rothschild and Engelhard Ltd.

Michael Ludwig to BNP Paribas

With effect from December 2006, Michael Ludwig joined BNP Paribas, London branch, responsible for the implementation and structuring of physical deliveries of precious metals and their administration.

Prior to joining BNP Paribas, Michael worked for Commerzbank International S.A. in Luxembourg since Nov 2000, where he had been in charge of processing physical deliveries of precious metals.

Alastair McIntyre to Natexis

Alastair McIntyre has joined Natexis Commodity Markets Ltd as Head of Metals Sales in Hong Kong, effective 19 March.

Prior to joining Natexis, Alastair was Head of Marketing for ScotiaMocatta Asia. He has also held positions with the ScotiaMocatta/Commonwealth Bank of Australia alliance in Sydney, Scotiabank in Toronto, and the Royal Canadian Mint in Ottawa, and has worked as a mine geologist in Atlantic Canada.

Kamal Naqvi to Credit Suisse

Kaml Naqvi will join Credit Suisse Group in June. He will be a Director and Head of Hedge Fund Coverage for its metals trading alliance with Glencore International AG. He will be based in London and will report to Alex Toone.

Kamal joins the firm after three years at Barclays Capital, where he was most recently responsible for the coverage of hedge funds and institutional clients across commodity products. Kamal is a longstanding member of the LBMA's Public Affairs Committee.

Cindy Pavia to Heraeus

Cindy Pavia joined the trading team at Heraeus Precious Metals Management LLC in New York on February 1st, managing gold trading activities.

Before joining Heraeus, Cindy spent over 25 years with Prudential Financial and its predecessors, where she managed the New York precious metals trading desk.

Peter Smith to Bear Sterns

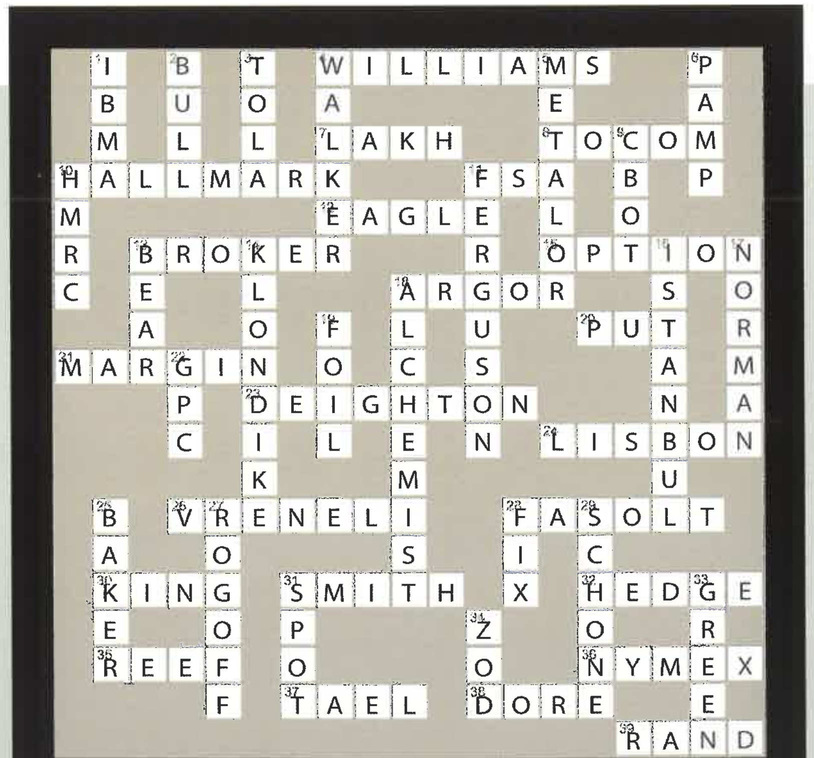
Peter 'Biffa' Smith has joined Bear Stearns as Managing Director. He will be trading spot gold and silver out of London.

Peter's career in precious metals started in 1985, and has included Chase, Barclays, Credit Suisse and, most recently, eight years at ScotiaMocatta. He is a former member of the LBMA Public Affairs Committee. ■

LBMA Crossword Solutions

At right, the solutions to this year's LBMA crossword, which was published in the January issue.

Below, Stewart Murray presenting the prize bottle of champagne to winner Paul Merrick of Dresdner Bank AG, London Branch.



Compiled by Yarrum Trawets

LBMA News

By Stewart Murray, Chief Executive, LBMA

MEMBERSHIP

Members

The Management Committee has approved applications for ordinary Membership from the following companies:
Marex Financial Ltd,
from 1 February 2007

Calyon Financial,
from 1 May 2007

HSBC Bank plc,
from 1 May 2007.

The membership held by Sumitomo Corporation Europe Ltd was transferred to Sumitomo Corporation Global Commodities Ltd on 1 March 2007.

With effect from 8 January 2007, Bache Financial Ltd changed its name to Bache Commodities Ltd.

The address for EBS Dealing Resources International Ltd has changed to:
2 Broadgate, London EC2M 7UR.

Associates

The following companies have been admitted as Associates:
Emirates Gold DMCC, from 1 February 2007

Dubai Multi Commodities Centre, from 1 March 2007

Noble Jewellery LLC, from 1 March 2007.

Harmony Gold Mining Company Ltd resigned as an Associate with effect from 31 December 2006.

In February 2007, Gerald Metals Inc. relocated to:
680 Washington Boulevard, PO Box 10134, Stamford, CT, 06904, USA.

GOOD DELIVERY LIST

Silver

The Daye Non-Ferrous Metals Company of China was admitted to the Silver List on 5 February 2007.

Gold

Musuku Beneficiation Systems Pty Ltd of South Africa was transferred to the Former List following cessation of refining at its operation in the Free State in mid-2006.

COMMITTEES

Management

The Management Committee has met three times in the first four months of the year. Most of the business dealt with consisted of reviewing and taking decisions on the proposals put to it by the subcommittees (see below). The main decisions taken by the Committee during this period included:

- Approvals for a number of applications for Membership and Associateship (see above)
- Agreement on a new system of sponsoring applications as proposed by the Membership Committee. This was described in outline in *Alchemist* 45. Details of the new system can be found in the *Who We Are* section of the website
- Agreement to make donations to two South African charities (Hospice Association of Witwatersrand and Starfish) and a further donation to support students at Wits University in Johannesburg (this being the third annual donation made to Wits)
- Approval of a submission made to the European Commission concerning the continued use of the troy ounce in the Bullion Market.

The Management Committee has also held discussions with the London Platinum and Palladium Market about a number of areas of cooperation, including: the joint conference to be held in Japan in the autumn of 2008, comparisons of the two organisations' approaches to their Good Delivery systems and the possibility of producing a joint guide to the London Bullion Market (based on the LBMA's existing publication).

The Committee endorsed the new version of the Non-Investment Products Code, which will be published shortly on the Bank of England's website. The Code has been drawn up by market practitioners representing principals and brokers in the foreign exchange, money and bullion markets, and includes an annex prepared by the LBMA on the wholesale bullion market for gold and silver in spot, forwards and deposits.

Physical

The Physical Committee has met each month during the first four months of 2007. It has a very full programme of work related to the Good Delivery List. At present, eight refiners are involved in various stages of the application process for Good Delivery accreditation for their gold or silver production.

The Proactive Monitoring scheme has now almost reached the end of the first three-year cycle involving the technical testing of all refiners on the gold and silver lists on a rolling basis.

The Committee was also involved in preparations for the Assaying and Refining Seminar (see below).

The use of the troy ounce is fundamental to the London Bullion Market and, in response to a consultation from the European Commission, the Committee developed a dossier explaining the use of the troy ounce in the Bullion Market and the importance of maintaining this use in the future.

The quality of bullion bars (both chemical and physical) produced by Good Delivery refiners must be maintained at the highest level. The Committee has begun formulating some changes to the Rules to ensure that all future production consistently meets the high standards expected.

Finance

The Finance Committee met in April, as usual, to consider the draft annual accounts, the final version of which was then submitted to the Management Committee for approval at its meeting in April.

Public Affairs

The PAC has met twice in recent months to discuss the program and speakers for the Conference to take place in Mumbai in November 2007 (see below) and also to have discussions with representatives of the LPPM about the timing and venue for the joint conference, which will be held in Japan in the autumn of 2008.

Membership

The Membership Committee has unusually already had two meetings in 2007. These were both to consider the significant number of applications for Membership and Associateship that had been received, and also to formulate the new system for the sponsorship of applications.

Jack Allen, who had been a member of the Committee since 2001 and Chairman since June 2002, has resigned from the Committee. The chairmanship has been taken over by Paul Merrick. The LBMA would like to thank Jack for his service to the Committee.

The LBMA Precious Metals Conference

The LBMA's eighth annual Conference will take place in Mumbai, India, during the period 18-20 November 2007, at the Taj Mahal Palace hotel (see advert on page 5). Looking further ahead, the LBMA has agreed to organise its ninth Conference as a joint venture with the London Platinum and Palladium Market in Japan in the autumn of 2008.

Seminar on Assaying and Refining

The second seminar in the series was held in London on 20-21 March 2007 (see the article on page 18).

A good part of the meeting was spent discussing the project suggested by the Royal Canadian Mint for the refining industry to engage in a collaborative effort to produce solid reference samples for the purpose of standardising spectrographic analyses of gold and silver. There appeared to be an enthusiastic support for this idea at the meeting.

Annual Party

The Annual party for the bullion market was held on 1 March, in the form of a comedy evening at the Jongleurs Club (see photos on page 11). As with last year's event, there was no charge for the staff of Member and Associate companies who attended.

AGM

The Annual General Meeting will take place at the Armourers Hall, 81 Coleman Street, at 5:30 pm on 13 June. Representatives of all Members and Associates are welcome to attend. Nomination forms for the Management Committee will be circulated to all Members on 18 May.

A Sporting Chance

In for Man U: Robert Stein of AIG!

Robert on a visit to Camborne School of Mines in December 1990

Following a 33-year career in the world of commodities, which encompassed base metals and bullion for four major institutions – Brandeis Goldschmidt, Phibro, Goldman Sachs and AIG – Robert Stein will combine his financial nous with his knowledge and contacts within the world of sport to embark on a new venture.

He will be working with both AIG Private Client Services in London and the Sports Desk at Private Bank in Zurich to provide finanical solutions for professional sportspeople, sports clubs and associations. AIG is a main sponsor of Manchester United.

Robert's participation with the LBMA began when he joined the Management Committee shortly after the Association's formation in 1987, and ended in 1992. He served as Chairman of the Finance Committee for four years, during a period when the surplus cash yielded 12% p.a.

DIARY OF EVENTS

May

14 – 15
Hard Assets Investment Conference
New York
T: +1 314 824 5516
iiconf@iiconf.com
www.iiconf.com

15
LPPM Cocktail Reception
London
T: +44 (0)20 7489 6761
anne.dennison@mitprecious.com

16
LPPM Platinum Dinner
Details as above.

15 – 17
World Mining Investment Congress
London
T: +44 (0)20 7092 1230
F: +44 (0)20 7242 4303
caroline.thoresen@terrapin.com
www.worldminingcongress.com

21 – 22
Gold and Precious Metals Investment World 2007
Dubai
T: +44 (0)20 7827 5947
Oisin.commane@terrapinn.com
www.terrapinn.com

22
42nd Minesite Mining Forum
London
T: +44 (0)20 7395 1935
F: +44 (0)20 7395 1931
www.minesite.com

31
LBMA Annual Golf Day
Blackmoor Golf Club, Hants.
T: +44 (0)20 7796 3067
F: +44 (0)20 7796 2112
debbie.sirkett@lbma.org.uk

June

9 – 12
IPMI 31st Annual Conference
Miami, Florida
T: +1 850 476 1156
F: +1 850 476 1548
mail@ipmi.org
www.ipmi.org

12 – 14
2007 China International Precious Metals Market Conference
Changchun, Jilin, China
T: +86 10 639 70879,
639 78092 - 8067
F: +86 10 639 71647, 71645
jinxiangyun@antaike.com
www.atk.com.cn/2007/gjs/en.htm

13
LBMA AGM
Armourers' Hall, London
T: +44 (0)20 7796 3067
F: +44 (0)20 7796 2112

19
43rd Minesite Mining Forum
London
Details as above.

24 – 27
African Junior Mining Congress 2007
Johannesburg
T: +27 11 463 6001
F: +27 11 463 6903
brian.shabangu@terrapinn.co.za
www.terrapinn.com

25 – 27
Commodity Investment Summit 2007
London
T: +44 (0)20 7368 9465
F: +44 (0)20 7368 9401
commodity@wbr.co.uk
www.commodityinvestmentsummit.com

30 – 31
Precious Metals 07
Brisbane
T: +44 (0)7768 234 121
F: +44 (0)1326 318 352
bwills@min-eng.com
www.min-eng.com

August

6 – 8
Diggers & Dealers Mining Forum
Kalgoorlie, Australia
T: +61 8 9481 6440
F: +61 8 9481 6446
admin@diggersndealers.com.au
diggersndealers.com.au

September

13
GFMS Precious & Base Metals Seminar
Gold Survey 2007 – Update 1
London
T: +44 (0)20 7478 1777
F: +44 (0)20 7478 1779
info@gfms.co.uk
www.gfms.co.uk

India, Liz Hurley, Jade – and You

Editorial Comment by Kamal Naqvi, LBMA Public Affairs Committee

It cannot often be that Jade, Liz Hurley and the LBMA all have something in common.

But by the end of 2007, all shall have made special trips to India. Admittedly, it not yet known how much "Hello" magazine have offered Stewart Murray for photos of this year's LBMA Conference Gala Dinner – we may need to organise some elephants.

In truth, India is enjoying a wave of global attention. Far from the past images of hopeless poverty and snake charmers, the financial press now, and rightly, compare and contrast India with China as areas with the greatest potential for economic growth. Indian companies are becoming genuine players on the world stage, ranging across industries from steel to IT. Bollywood – admittedly an acquired taste – is nonetheless becoming increasingly popular outside the country, with new releases regularly featuring in the UK's top-ten films and being reviewed in the mainstream papers.

Given that background of increasing interest, it has struck me as odd that – in the one area that India has dominated for decades – precious metals – India has never been the location for the industry's centrepiece conference.

This year, that will change. Set opposite the Gateway of India, in the heart of the city of Mumbai, there could not be a more appropriate location for the LBMA Precious Metals Conference than the historic Taj Hotel. The conference runs from Sunday 18 to Tuesday 20 November.

More Than Figures: Truth

The ongoing dominance of Indian jewellery demand in world markets would be enough of a reason in itself for the Association to host the conference in India. However, it is not just the figures, but the stories behind them that should be of real interest to the industry.

Why has Indian gold demand held up against much higher prices – and does that raise the "floor" price? But why is this not the case for silver, where demand has collapsed? How is jewellery consumption maintaining its market share against growing westernisation, increasing competition from retail and investment alternatives and severe price volatility? Has the rise of diamond and other gem-set pieces permanently changed the Indian jewellery landscape? And: given the long history of preference for physical metal, can precious metal ETFs ever be as successful in India as they have been in the US? The answers to these questions are best not given in an article – but seen, heard and experienced first hand.

As usual, the conference sessions will focus on topical industry issues of concern to the global market – such as the ongoing impact of investor demand, the return of hedging via private equity, and whether exchange trading is increasing daily price volatility.

However, given the location, I believe it will be the out-of-conference activities that prove more long lasting for most attendees. These may include the much-renowned Mumbai nightlife (!), although I was thinking more of guided tours of the famous Zaveri Bazaar. There, delegates can see for themselves how locals really buy and sell their jewellery – and have the opportunity to ask questions – not to mention taking home a few well bargained souvenirs. Or visiting Mumbai's Export Processing Zone (the SEEPZ), and seeing one of the world's largest diamond, gem and precious metals jewellery industries in action.

These tours are, of course, of direct relevance to the precious metals industry. However, it is the wider experience – the combination of India's unique cultural mix set against its current rapid and very visible economic development – that makes the country, like China, a place where physically being there and absorbing both the positive and negative impressions will prove so valuable and lasting to conference delegates.

Go to Mumbai, and you will never think about the Indian market in the same way again. And, despite my golden words, reading is no substitute for seeing.

In Hindi we say: Mumbai main milenge ("See you in Mumbai").

On Supply and Demand

By GFMS Limited

GFMS are this year celebrating the 40th anniversary of the Gold Survey. The report came into being largely in response to the historic shift in 1967 from a fixed price of $35 per ounce to a free-market float.

For that reason, this column will cover gold's supply and demand for 2006 and 2007 as set out in the recently published Gold Survey 2007, rather than the quarterly statistics that the consultancy prepares for the World Gold Council. The commentary below highlights changes of note in the fundamentals.

The Supply Side

The largest change on the supply side last year was the slump of over 50% in net official sector sales – from 674 tonnes in 2005 to 328 tonnes in 2006 – the result of both lower sales by signatories to the Central Bank Gold Agreement (CBGA), leading them to undersell quota, and a swing by the rest of the world to small-scale net purchases.

Mine production dropped by 79 tonnes last year to 2,471 tonnes, driven by losses in Asia, North America, Africa, Oceania and, to a lesser extent, the CIS. The decline in Asia was dominated by Indonesia, due to losses at the giant Grasberg mine, while in sharp contrast China saw higher mine output. Latin America was the only region to record an increase of note, with a 7% gain, chiefly as a result of new mines. Start-ups also featured in Africa, and, if we remove South Africa, the rest of the continent actually enjoyed a small rise in output.

That total supply did not fall more radically was due to the surge of around a quarter in scrap to record levels over 1,100 tonnes, largely in response to higher prices. The traditionally price-sensitive countries tended, unsurprisingly, to see major gains (though India stood out in that its scrap actually fell), but in addition there were high levels of scrap from the industrialised world, partly as a function of heavy trade destocking.

As for 2007, official sector sales are forecast to remain subdued due to under-quota selling by the CBGA and small purchases elsewhere – while scrap could also decline unless we see markedly higher prices. In contrast, mine output is expected to recover much of 2006's losses.

The Demand Side

The greatest change on the demand side in 2006 was the 16% drop in jewellery fabrication, to 2,280 tonnes (though this sector's true call on bullion supplies, as calculated in offtake excluding scrap, was weaker still, falling by over 20%). There were, however, marked variations in offtake during the year. The second quarter, for example, was down over 30% year-on-year, whereas the fourth was up around 10%.

The principal driver of the overall decline and swings within the year was gold's high price and its volatility. Jewellery offtake in India, for example, fell heavily in the first half, yet rebounded in the second, leaving the full-year decline at a comparatively modest level, thanks largely to robust GDP growth. More marked losses were seen in the Middle East and in most countries in East Asia. An anomaly in the latter region was fabrication growth in China, due chiefly, as in India, to strong GDP growth. Last year's price rise and volatility also upset the industrialised world's jewellery markets, triggering heavy trade destocking. This on top of already weak consumption contributed to the slump in US jewellery imports of almost a fifth and a drop in Italian jewellery fabrication of over a fifth.

In contrast, other fabrication grew by just over 10% last year, with strong gains seen in electronics, official coins and imitation coins. In fact, the only segment to see a decline was dental fabrication.

Important as the changes for total fabrication were in tonnage terms, investor activity can arguably be cited as remaining the principal driver of movements in the gold price last year. This occurred despite a fall of almost 20% in our figure for implied net investment, to less than 400 tonnes (this decline represented more a swing last year to an increasingly two-way market, with activity on both the buy and sell sides, from a primarily buy side market in 2005). This shift was mainly due to the emergence of heavy profit taking and stop-loss selling after the May high. Another area of weakness was bar hoarding, which fell by around an eighth.

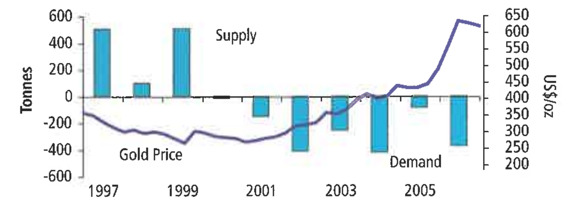
Price support was also received from a surge in producer de-hedging, chiefly in the first half, to over 370 tonnes. This somewhat greater-than-expected change left the producer hedge book by year-end at a level last recorded in 1994.

As for prospects in 2007, de-hedging is forecast to fall somewhat on 2006 volumes, though it should still remain at sizeable levels comfortably over 200 tonnes, while the restocking of depleted supply pipelines should assist jewellery, provided prices do not rally too strongly or turn more volatile. Perhaps more importantly, investor interest could grow yet further due to such factors as potential dollar weakness.

Jewellery Fabrication and World Investment

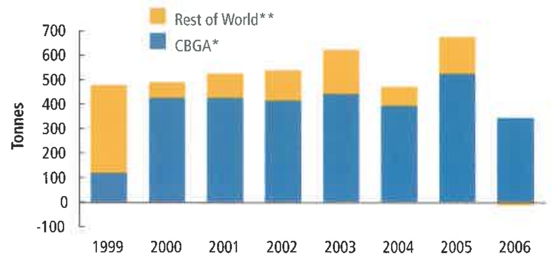
Source: GFMS

Net Impact of Producer Hedging



Source: GFMS

European and Other Net Gold Sales



* signatories to the Central Bank Gold Agreements
** all other countries; Source: GFMS

Scrap Supply

Source: GFMS Copyright Gold Survey 2007

GFMS is a precious metals consultancy specialising in research into the global gold, silver, platinum and palladium markets. The company is based in London and has representation in Australia, India, China, Germany and Russia. The research team comprises eleven full-time analysts and two consultants.

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Clarity

share our view on risk

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