Alchemist

The London Bullion Market Association ISSUE 50 April 2008

LBMA

In this issue

Golden Anniversary – Since the first issue in May 1995, the *Alchemist* has grown in size (from eight two-colour pages to an average of 24 full-colour pages) and circulation (from an inaugural 200 to the current print run of more than 3000). The past 13 years have seen the publication of over 300 major articles and more than half a million words chronicling the ups and downs and ins and outs of an increasingly global precious metals market.

In that time, much has changed. For one, gold has gained $545, while trading between $253 in the doldrums of 1999 and 2001 and the recent record high of $1,030 this March.

And, as ever, much has remained the same. The first issue contained contributions from Rhona O'Connell, who wrote of 'gold's role as a safe haven in the face of a developing currency chaos and problems in the derivative markets'. And Andy Smith, who wrote about 'the drooping dollar, hitting all time lows against almost everything, it seemed, but the Zambian kwacha'. Both points could be made today.

For an authoritative and entertaining look back, read the extended editorial by Jeffrey Rhodes, the first editor, which starts on page 25. The next 50 issues start now.

Trends in the Japanese Precious Metals Market

By Hideya Okamoto, President and CEO, Tanaka Kikinzoku Kogyo K.K.

The main store of Tanaka Kikinzoku Jewellery, located in Ginza, Tokyo *All photos courtesy TKJ*

The View from the Field

Thursday, 10 January 2008, is a day unlikely to be forgotten either by ourselves or by the Japanese precious metals market. A queue of several dozen people formed outside of Tanaka Ginza, the main store of Tanaka Kikinzoku Jewellery (TKJ, the group member responsible for sales of precious metal jewellery and investment-grade bullion to consumers), well before the store was due to open. As soon as they were able to enter, these customers rushed to the bullion sales counter on the third floor. Many came in groups: couples, siblings, families. In age they ranged from 20 or so to well over 70, and almost all of them were carrying bags and backpacks that looked to be heavy. Inside those bags were gold bullion and coins, platinum bullion and coins, precious metal jewellery and precious metal handicrafts. All were now offered for sale.

While we had been seeing some selling as the price rose last autumn, on that day we had not expected to be swamped with so many sellers at once, and neither our facilities nor our staff were adequate to the task. The result was an unfortunately long wait between reception and completion of the transaction. On an ordinary day, we can have a customer in and out in about 20 minutes, but on that day the average wait was in excess of three hours.

The congestion and the wait only grew worse as the day progressed. The store officially closed at 4:30 pm, but it was another eight hours until the last customer left – 12:00 midnight. It goes without saying that we did our best to make people comfortable during their wait, offering beverages and snacks and arranging for taxis to take the late-leavers home. Most sat patiently on the chairs until their number was called. There were surprisingly few complaints.

At all of TKJ's other stores elsewhere in the country – Shinjuku, Yokohama, Nagoya, Osaka and Fukuoka – similar scenes were reported. In total, more than 1,600 customers came to TKJ stores that day. This does not include the customers who went to the 138 agent shops we have around Japan to handle precious metal trading in

JAPANESE SUPPLY AND DEMAND FOR GOLD

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Supply															
Import	168.5	194.2	261.7	136.8	125.7	92.9	115.7	80.7	49.7	90.4	55.5	84.9	61.8	41.8	41.0
Coin(Import)	7.6	8.6	10.2	5.9	4.4	3.8	4.6	3.0	3.5	8.5	6.4	6.0	3.5	1.3	1.0
New Production	108.8	102.8	113.1	127.5	136.1	129.9	147.7	147.1	155.8	144.7	161.4	136.6	146.2	144.1	157.0
Recovery	20.0	14.5	15.9	18.7	27.3	24.4	16.1	13.5	13.9	22.0	24.6	28.6	24.5	27.1	30.0
Adjustment	-	-	-	-	-	0.7	7.5	14.8	12.0	3.7	10.5	21.5	34.3	21.0	10.0
Total	304.9	320.1	400.9	288.9	293.5	251.7	291.6	259.1	234.9	269.3	258.4	277.6	270.3	235.3	239.0
Demand															
Industry	94.3	99.0	110.9	113.0	125.8	111.5	117.4	136.5	96.4	108.9	129.2	136.8	141.7	153.5	144.0
Electrical	65.3	69.2	76.0	78.8	91.5	82.4	89.0	106.5	68.8	80.4	100.4	108.0	112.4	123.6	116.0
Dental	16.5	17.0	20.0	19.5	21.3	20.0	20.0	20.9	21.2	22.7	22.3	22.3	23.0	23.2	22.0
Other Industries	12.5	12.8	14.9	14.7	13.0	9.1	8.4	9.1	6.4	5.8	6.5	6.5	6.3	6.7	6.0
Coin Medals	36.5	0.4	0.4	0.4	2.0	1.1	4.3	0.1	0.2	1.8	1.8	1.8	1.8	1.0	1.0
Jewellery	88.0	85.0	74.7	59.6	43.9	33.0	31.5	24.5	25.2	22.6	21.9	22.3	22.3	21.1	20.0
Investment	31.0	58.0	132.4	33.5	43.6	61.9	106.0	63.0	72.1	100.0	42.0	61.0	37.0	-47.0	-23.0
Export	8.0	13.9	13.7	18.4	23.2	44.2	32.4	35.0	41.0	36.0	63.5	55.7	67.5	106.7	97.0
Adjustment	47.1	63.8	68.8	64.0	55.0	-	-	-	-	-	-	-	-	-	-
Total	304.9	320.1	400.9	288.9	293.5	251.7	291.6	259.1	234.9	269.3	258.4	277.6	270.3	235.3	239.0

GFMS Gold Survey 2007/Tanaka Kikinzoku Kogyo

other areas. They too were swamped – in excess of 3,000 consumers visited our network which, during the course of the day purchased more than two tonnes of gold from customers, and that does not include other precious metals. Indeed, it was not uncommon during January and February for the six directly owned TKJ stores to see more than 1,000 customers a day, and the situation continues as of this writing, at the end of March, as current price levels continue to attract selling.

Overview of the Japanese Gold Investment Market

The Japanese gold investment market focuses primarily on physical trading. Customers desiring to purchase bullion bring cash to our stores, exchange it for our brand of bullion at the counter and then carry away their purchases. Likewise, customers desiring to sell bring their precious metal bullion back into our stores and exchange it for cash.

Japan deregulated gold imports in April 1973 and exports in April 1978. The metal can be traded freely today: anyone can buy or sell. Ever since deregulation, ordinary Japanese consumers have gradually become more aware of gold bullion as an asset to be held and, in some cases, an investment instrument to be traded for profit. Japan has in fact experienced a number of gold investment booms.

Gold Investment Booms

We keep records of precious metals trading on the general investment market and have charted the market's booms. The current one – the 14th among Japan's gold rushes to buy or to sell – began in October 2007 and culminated with the flood of customer sales we are seeing today. In October of last year, the domestic Japanese gold price was 2,900 yen per gram. In November, it crossed above the 3,000-yen line for the first time in 24 years.

The previous 13 booms were triggered almost entirely by ordinary consumer purchases of gold bullion at certain key price levels. The last boom in consumer sales of gold occurred between 17 November 1981 and 9 September 1982 as the domestic gold price rose from 2,990 yen to 4,220 yen per gram. Other than that period of time, when consumers purchased and sold shortly afterwards, they have been consistent purchasers of gold for the last 30 years or so. Indeed, the Japanese gold price bottomed out at 917 yen per gram on 17 September 1999, so those who purchased with the expectation of turning a profit on their gold have not had any opportunity to sell, so they have been holding onto their purchases. The recent surge in gold prices has finally given them the chance to unload their investments.

Historically, consumer gold purchasing booms were triggered when gold prices dropped below certain thresholds. The second boom in 1981 was triggered when the Japanese gold price fell below 3,000 yen/gram; the fourth was in 1984 when it was below 2,500 yen; the fifth in 1986; the seventh in 1988, when the price was below 2,000 yen; and the 11th in 1999, when it was below 1,000 yen. Consumers who purchased at each of these junctures were clearly looking to sell once prices rose. The current boom represents the first opportunity in 24 years for those who purchased at a variety of prices below 3,000 yen to be able to take a profit. Given how long they had to wait for the price to rise, it's perhaps not surprising they were willing to wait patiently for a few more hours in our stores. Looking at this phenomenon, we think that the next sales boom will probably occur when the price rises above the 3,500 yen/gram line, and that there will be another when it surpasses 4,000 yen/gram.

Jewellery Scrap

In addition to price movements, stories in the mass media also influence gold trading. The trigger for the upsurge in customers on 10 January (later termed a 'fever') was a story that ran on the NHK television station (Japan's public broadcaster) during its news show about the rise in gold prices. Other TV stations and newspapers have also covered soaring gold prices. The result was that consumers were reminded about the gold they purchased long ago – till then sleeping safely in their drawers and safes – and pulled it out to sell.

They rushed to the bullion sales counter on the third floor... couples, siblings, families... ranging in age from 20 or so to well over 70... carrying bags and backpacks that looked to be heavy. Inside those bags were gold bullion and coins, platinum bullion and coins, precious metal jewellery and precious metal handicrafts. All were now offered for sale.

Likewise, consumers are coming into stores to liquidate unwanted jewellery: they would rather have cash. Jewellery shops are bringing in crowds with signs offering to purchase gold and platinum at favourable prices, and scenes similar to our recent experience are taking place in cities around Japan. Operators outside of the precious metals industry are also getting into the business of purchasing consumer jewellery. Mobile telephone dealerships and ticket agencies have started aggressively seeking this business.

Japan is in the midst of a countrywide jewellery scrap boom. The jewellery purchased is recycled into bullion, which is resold to jewellery makers. As a result, the demand for new metal in the jewellery market has declined dramatically since the latter half of last year. In fact, Japan is unable to consume on its own all of the used jewellery scrap – much of it makes its way to the Hong Kong market.

The Expanding Investment Market

Alongside the sales boom of physical metal, both bullion and jewellery, there has been a rapid increase in the number of people joining our 'Gold Accumulation Plan' (GAP) and 'Platinum Accumulation Plan' (PAP) programmes, as well as our internet-based savings vehicle, the 'G&P Planner' (GP). These programmes were developed and launched in Japan in 1982. During the four-month period between December of last year and March of this, we recorded approximately 30,000 new memberships.

Under these accounts, customers enter into a contract in which a set amount of money is withdrawn from their bank account each month for dollar-cost averaging into the metal of their choice, which accrues in their account. They are free at any time to sell all or part of their balance, withdraw it in the form of bullion or exchange it for jewellery or for gold coins, and they can do so in our stores, over the phone or via the internet. Most members are in their 30s and 40s.

Even as some customers are lining up to sell the long-held physical metal, the current gold boom has also resulted in a growing number of new consumers wanting to make purchases. Our 30,000 new members translate into additional annual demand of approximately 500 kilograms of gold and 250 kilograms of platinum. In our most recent annual Japanese consumer awareness survey, the 2007 edition found that 39% of ordinary consumers who found gold to be an attractive investment had taken its global aspect into consideration: gold 'has value anywhere in the world.' Another 20% were attracted by the transparency of its prices – the fact that it is 'traded at a fair price around the world.'

However, given the elevated prices, perhaps the surprising figure is the 19% who were attracted by the 'potential for price gains.' In 2003, only 9% agreed with that statement, so the figure has approximately doubled in the last five years. Expectations of higher prices among Japanese consumers have – to some extent – encouraged new participation in the gold investment market.

Our survey finds that approximately 8% of consumers are interested in gold, with in the region of 1% having actually purchased it in some form. Traditionally, purchasers of gold in Japan have been the wealthy and people in their 50s and 60s, who generally hold anywhere from several kilograms to several dozen kilograms as a long-term asset. However, a growing number of consumers today are purchasing gold in the same fashion as any other investment asset – equities, bonds, foreign exchange or real estate.

Nor is it just the wealthy or the older generations who are in the market today – we are seeing a growing number of housewives and people in their 20s considering gold investments. For these investors, a bulk purchase of several kilograms of gold bullion is probably not appropriate. It is usually better for beginning investors to use a system like GAP, which can be started for as little as 3,000 yen per month, or over the internet for as little as 1,000 yen. Given the growing uncertainty in local and world economies, Japan's gold investment market may well expand, as consumers come to see gold as another means of diversifying and protecting their assets.

Gold Demand in Japan, Today and Tomorrow

In 2007, our estimate for Japanese gold demand was 239 tonnes. For investment, 23 tonnes of bars hoarded domestically were sold on the market, representing the second year in a row in which sales volumes were higher than those for purchases. The repurchased bars and the bullion recovered from jewellery scrap was exported, bringing the total to 106.7 tons in 2006, with 2007 coming in at another relatively high figure of 97 tonnes. One thing that sets the Japanese gold market apart is the high volume of industrial demand from the electrical, electronic and dental materials sectors. The recent upswing in the world economy triggered an increase in gold demand from these sectors, from approximately 100 tonnes in 2002 to roughly 150 tonnes last year and the year before, and has been one of the primary factors supporting gold demand in Japan.

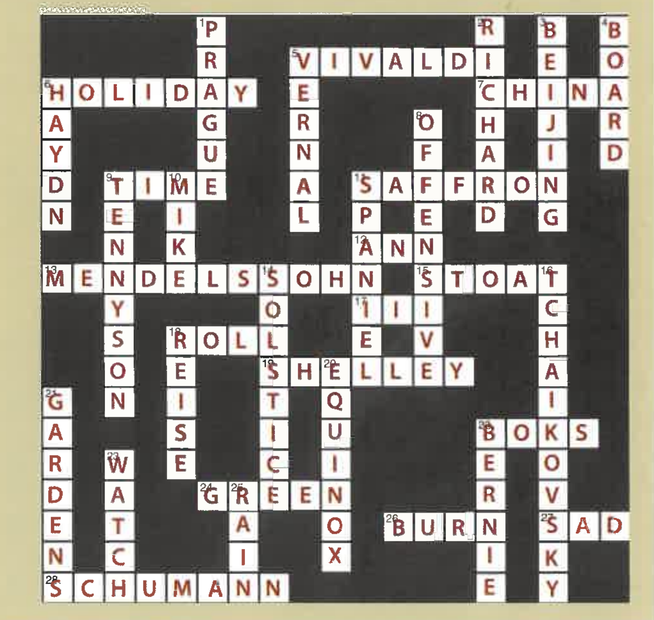
Depending on price trends, the consumers who are currently taking profits on their bullion holdings are the potential purchasers of gold in the future. They can be expected to join an increasing number of new consumers who are just starting to invest in gold, along with continued strong demand from the industrial sector to produce a steady, gradual increase in Japan's demand for the metal – a trend that we will continue to monitor closely. ■

Hideya Okamoto *is president of Tanaka Kikinzoku Kogyo K.K. and chairman of Tanaka Kikinzoku Jewelry K.K. He has been with the company, in positions of increasing responsibility, since 1987. Prior to joining Tanaka, he was with Mitsukoshi, LTD. He graduated from Keio University in 1980 with a bachelor of economics.*

LBMA Crossword Solutions

The solutions to this year's LBMA crossword which was published in the February issue

The prize of a bottle of champagne goes to Chris Elston, who submitted the first correct set of answers.



Gold, the US Dollar and G7 Central Banks

By Michael Lewis, Managing Director, Global Head of Commodities Research, Deutsche Bank

From its $255.50 low, the gold price has rallied by approximately 290% over the past seven years – marking not only the most durable gold price rally in history but, in US dollar terms, the most powerful since gold become freely floating in 1971. However, the sudden price pullback across the precious metal complex during March has raised concerns that the bull run in this sector has drawn to a close.

Figure 1: **Gold price rallies in comparison**

	Low USD/oz	High USD/oz	USD change	Magnitude	Duration (months)
Aug-71 to Feb-75	35.4	183.9	148.5	419%	42
Aug-76 to Jan-80	103.5	850.0	746.5	721%	41
Jun-82 to Feb-83	296.8	509.25	212.5	81.6%	8
Feb-85 to Dec-87	284.3	499.8	215.5	75.8%	34
Apr-01 to present	255.6	1003.0	747.4	293%	84

Although the gold price had been rising before August 1971, we take this as the start point for this rally since it marks the date the US government informed the IMF that the US dollar was no longer be convertible into gold. This consequently led to the collapse of one of the main pillars of the 1944 Bretton Woods system.

Highs and lows in the gold price relate to closing prices. Source: DB Global Markets Research

We disagree. We believe US interest rate and exchange rate trends remain bullish, and are therefore positioning for the dollar to retest its all-time lows – and for the gold price to move above $1,100 by the end of 2008.

However, we believe investors need to be on guard for coordinated central bank FX intervention to rescue the dollar. Indeed every dollar cycle since 1978 has ended with coordinated central bank intervention to correct extreme misalignments in exchange rates.

The dollar, interest rates, equity markets, producer de-hedging, strong fabrication demand and geopolitical risk have all been working in favour of the gold price at some point during this decade. Of these, we believe the most powerful has been the dollar. In fact, we find that the dollar trade-weighted index (DXY) started its long-term downtrend in May 2001, which almost exactly coincides with when the gold price began its long upward march.

Indeed, since April 2001 the gold price has risen by almost 300%, and approximately $750 – the most powerful rally since the gold price became freely floating in 1971. In terms of duration, this rally is now seven years old, and consequently also represents the most durable rally in recorded history (Figure 1).

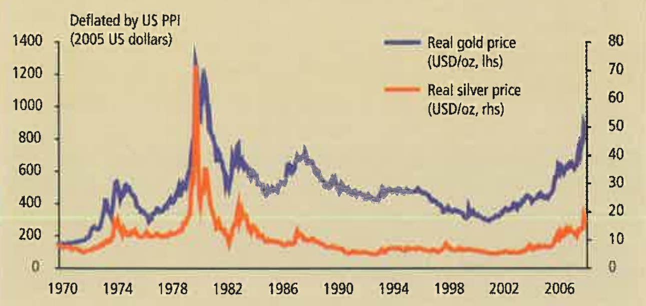
Even so, in real terms, and relative to per capita income, precious metal prices still remain cheap on an historical basis. While gold and silver prices in nominal terms have been rising steadily for the past few years, in real terms they are still trading below the highs hit at the beginning of the 1980s. For gold and silver prices to hit their all-time highs in real terms today would require nominal prices to rise to $1,415 and $80, respectively. If the period of market manipulation in the silver market during 1980 is excluded, then the silver price would need to hit $34.

Further, in terms of G7 per capita income, we have tracked how many ounces of gold and silver could be purchased by an average G7 consumer since 1972. We find that while purchasing power has deteriorated during the current decade, gold and silver prices would have to rise to $2,390 and $80.90 for purchasing power to deteriorate to the levels that prevailed in 1980.

We expect the course of the dollar will continue to play an important role in driving the gold price. In March it fell to a new lifetime low against the euro, and we expect EUR/USD to rise further.

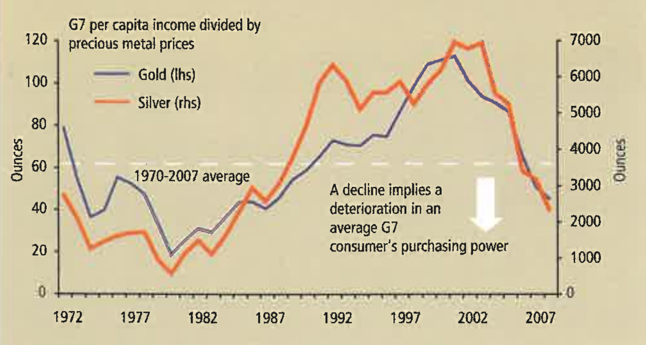
For gold and silver prices to hit their all-time highs in real terms today would require nominal prices to rise to $1,415 and $80, respectively.

2. Gold and silver prices in real terms



source: DB Global Markets Research, IMF

3. G7 per capita income relative to gold and silver prices



source: DB Global Markets Research, IMF

However, such a misalignment in the dollar should not be considered unusual: an overshooting in the dollar has been a typical feature at the end of every dollar cycle since 1972 (Figure 4).

In fact, the euro would need to rise above 1.64 for it to push the dollar to its most undervalued level versus Purchasing Power Parity since the birth of floating exchange rates in 1972. Consequently, we believe investors need to consider at what point the dollar is set to embark on a new long-term uptrend since, when this occurs, it is likely to be ferocious. Since 1980, we find that in the first year of a dollar turn, the greenback moves by on average 27% in the first year and a further 14% and in the same direction in the second year (Figure 5).

Figure 5: **Tracking US dollar reversals in the two years after the turn**

USDDEM	Year 1	Year 2
1980 USD bull cycle	40.8%	0.4%
1985 USD bear cycle	35.0%	-26.3%
1995 USD bull cycle	11.3%	13.5%
2001 USD bear cycle	-19.9%	13.9%
Average*	**26.7%**	**13.5%**

* absolute average change in the US dollar in Year 1 & Year 2

Source: DB Global Markets Research, Bloomberg

A Dollar Turnaround? Unlikely

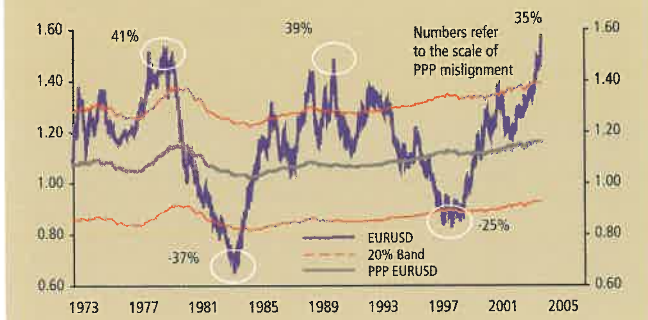
To assess the likely timing of a new long-term uptrend in the dollar, we examined past turning points in the currency and found six valuable lessons, of which the majority suggest that an imminent turn in the dollar is unlikely:

1 – Turning points in the US dollar have been asymmetric such that downturns from up-cycles have been inverted (V-shaped) while upturns from down cycles have tended to be preceded by an extended bottoming-out period. Put another way, US dollar bear cycles tend to be more durable than bull cycles. This would imply that a new long-term uptrend in the US dollar may be several years away.

Assuming this dollar bear cycle conforms to historical averages, then it would imply the US dollar will not embark on a new long term uptrend until August 2010, or 8.5 years. Alternatively, if one assumes the current US dollar cycle will continue to track the 1985-1995 US dollar cycle, then it implies the US dollar only hitting rock bottom in September 2011 (Figure 6).

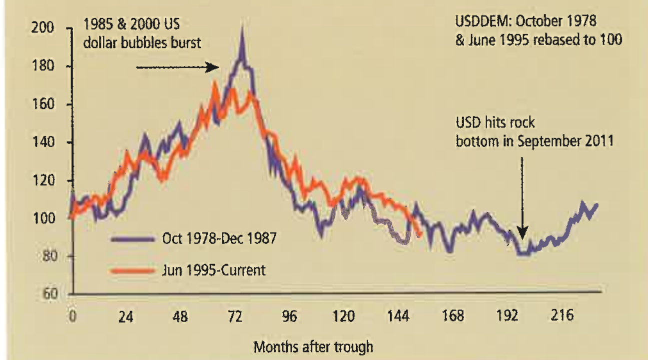
2 – Bull cycles have typically been preceded by a significant narrowing in the US trade deficit. Although the US current account deficit has fallen from 6.2% in 2006 to an estimated 3.9% of GDP in 2008, the deficit still remains large. We believe this will constrain a turnaround in the US dollar's fortunes for the time being.

4. Tracking over-/under-shooting in the US dollar since 1972



source: DB Global Markets Research, Bloomberg

6. The 1985 and 2000 US dollar bubbles compared



source: DB Global Markets Research, Bloomberg

3 – The start of a new uptrend in the US dollar has tended to coincide with a turn in interest rate differentials in favour of the US dollar. However, we expect rate differentials between the US and Euroland will continue to shift against the US dollar during 2008.

4 – A trend reversal in the US dollar has historically been associated with longer-term turns in capital flows. However, US credit markets have been the primary channel of capital inflows into the US in recent years. Consequently ongoing stress in the US credit and housing sectors are expected to hinder a turnaround in US capital flows in the near term.

5 – The pressure for adjustment from valuation extremes is greater when the US dollar is uniformly cheap rather than unevenly so. While the dollar has been cheap against the euro, on a trade-weighted basis the US dollar has not yet overshot, which reflects the fact that the US dollar is still expensive against most Asian emerging market currencies. This is therefore lowering the pressures for a reversal in the US dollar currently. However, this needs monitoring closely, as USD/JPY falls below 100 and as the US dollar moves to cheaper levels against the Japanese yen.

6 – Every turn in the US dollar since 1978 has coincided with aggressive rounds of G3 foreign exchange intervention. Dollar weakness may not yet be a policy headache for public sector authorities, as it assists in dampening inflationary pressures in Europe in a rising commodity price environment while it helps cushion the slowdown in the US economy. As a result, we believe investors should only position for dollar strength or at the very least stability in the US dollar exchange rate when central banks start intervening and buying the US dollar.

Another factor likely to keep the US dollar depressed is the slowdown in the US economy. We find that during US recessions and measured on a peak-to-trough basis, there has been a fairly consistent pattern of a 9% decline in the US trade-weighted index in four out of the last five US recessions (Figure 7). Given the 6% decline in the US dollar since its peak in January, history would suggest the US dollar TWI has a further 3% downside.

The fact that the Fed is expected to push the Fed funds rate to 1.5% over the next three months at a time of ongoing inflation shocks suggests the gold price is also expected to benefit from US real interest rates moving deeper into negative territory. Indeed, Figure 8 illustrates the strong performance in gold returns as US real interest rates decline. We find that when real interest rates in the US move below -3%, gold returns have tended to be significant.

Figure 7: The US dollar trade-weighted index from peak to trough in the last five US recessions

Peak in recession		Trough in recession		
Date	Level	Date	Level	Total decline
21-Jan-74	91.29	14-May-74	82.93	-9.2%
4-Apr-80	86.89	13-Jun-80	79.01	-9.1%
4-Aug-81	98.27	30-Nov-81	89.41	9.0%
2-Jul-90	79.91	11-Feb-91	72.77	-8.9%
6-Jul-01	100.34	21-Sep-01	95.78	-4.5%

Source: DB Global Markets Research

Conclusion

We believe weakness in the dollar has not been exhausted, and with US real interest rates expected to move deeper into negative territory, we are maintaining our bullish outlook towards gold and silver prices. However, given the increasing maturity of the current dollar cycle and the non-negligible risks of a looming dollar crisis, we believe central banks may be poised over the coming year to intervene and rescue the dollar with aggressive rounds of FX intervention.

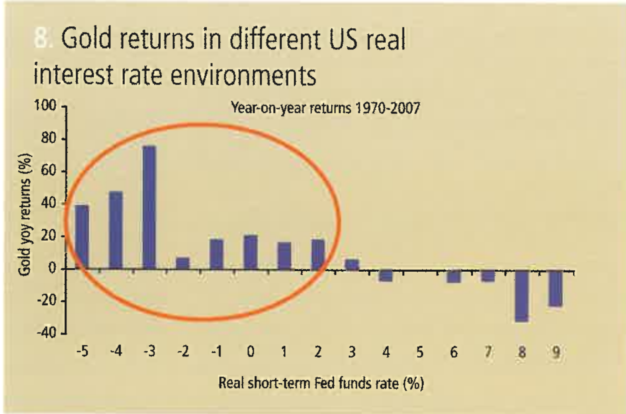
The options market continues to take a relatively relaxed view towards a sustained strengthening in the dollar. In terms of cumulative Black-Scholes EUR/USD knockout probabilities, the options market attaches a 75-80% probability of EUR/USD trading at the 1.50 level over the next two to three years (Figure 9).

The options market is also indicating that the rally in the gold price over the past few years is unlikely to unravel, and it attaches an 80% probability of the gold price trading at the $900 level for the foreseeable future (Figure 10). ■

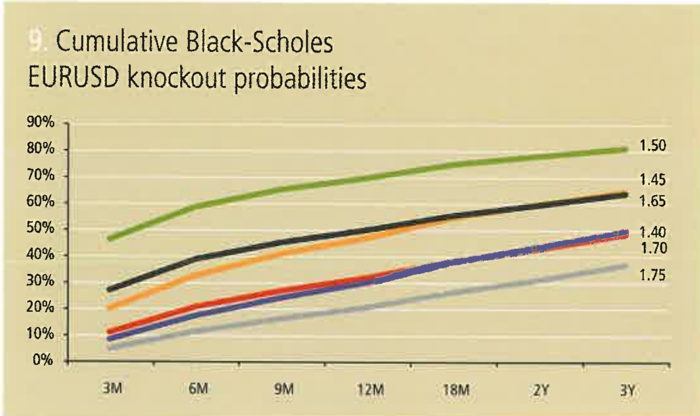
We believe investors need to consider at what point the dollar is set to embark on a new long-term uptrend since, when this occurs, it is likely to be ferocious.

This article was written by Michael Lewis, Global Head of Commodities Research at Deutsche Bank AG (DB). It has been adapted from and was first published in the Deutsche Bank Global Markets Research publication, 'Commodities Quarterly', on 28 March 2008. The opinions or recommendations expressed in this article are those of the author and are not representative of Deutsche Bank AG as a whole. DB does not accept liability for any direct, consequential or other loss arising from reliance on this article.

Michael Lewis *is a Managing Director and the Global Head of Commodities Research at Deutsche Bank. He joined the bank in 1990. His group analyses the macro-fundamental forces driving commodity markets, delivering directional, curve and volatility trading strategies, with particular focus on the global energy, power, industrial metals, precious metals, agriculture, freight and coal markets. The group also examines the properties of commodities as an asset class, as illustrated by a number of award-winning commodity index products. Michael holds a BSc in economics from the University of Bristol and an MSc in economics from the London School of Economics.*



source: DB Global Markets Research, Bloomberg



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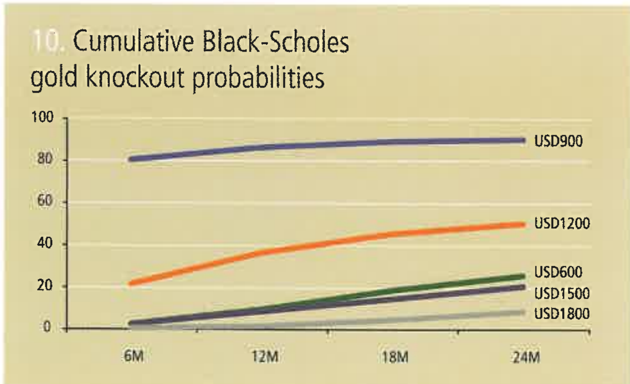


source: DB Global Markets Research

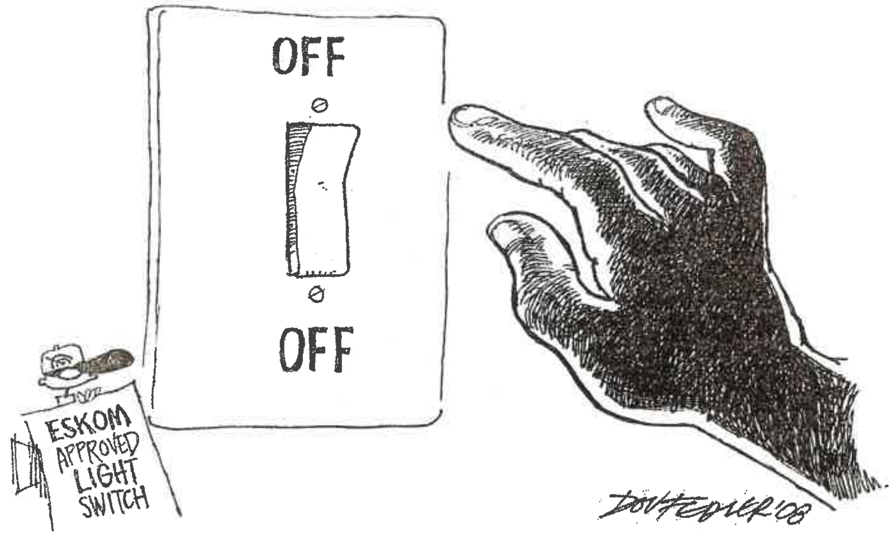
Keeping the Lights On

As metal prices – and demand – rise, the focus turns to mine activity. That takes power. And that's South Africa's problem.

By Dr Edel Tully, Head of Precious Metals Research, Mitsui Global Precious Metals

'We are…in a position contractually of an emergency or force majeure. All pre-arranged emergency options have been used and exhausted. The system is extremely vulnerable and any unforeseen events could have consequences on a national level.'

Eskom, 25 January 2008



Excerpted from a letter sent to the company's 138 largest industrial customers, that statement by Eskom, South Africa's monopoly utility company, abruptly announced the country's power crisis. And without a reliable source of power, the country's major mines soon announced that they would be forced to temporarily shut down.

The combination of the sudden reality of force majeure, the fallout from suspended mine production and the likelihood of a multiyear power crisis swiftly led to precious metals prices heading steeply northward. While South Africa's share of newly mined gold supply is a sizeable 10%, with close to 80% of platinum production emanating from the region, it was unsurprising that the platinum market experienced a much more intensive reaction.

Eskom had been forced to load shed – a term meaning blackout or power cut – as a result of a shortage of supply capacity. As the last in a series of measures that had been taken by Eskom to reduce demand on the electricity system and prevent a total collapse of the national supply system, the company's letter to its customers synthesised the emergency situation facing the South African economy.

The Developing Power Vacuum

When and how did the power generation situation come to fall apart? Although the crisis seemed to come about without warning, in reality, as early as 1997 the government had recognised that major investment in the electricity network would be required for the country not to suffer a power crisis by 2007. Unfortunately, neither the utility company nor the government invested in the network infrastructure or planned for the future. Here we are in 2008, and the scenario predicted more than 10 years ago has become a firm reality.

In examining the reasons for the crisis, cost was, as ever, one factor. South African electricity historically has been extraordinarily cheap – the gap between the electricity prices of South Africa and those in the rest of the world grew significantly over the years, and the country is now 74% cheaper than the next low-cost nation, Canada. As long as electricity was so economical, there was no incentive for either industrial or residential consumers to alter their consumption patterns, and the continuance of this situation was taken for granted. Furthermore, the inexpensive electricity ensured a lack of competition: private companies simply could not compete with Eskom prices, and so the company's state monopoly continued.

Increasing demand was the second factor. According to Eskom's official figures, electricity consumption grew 4.3% in 2007 compared to 2006 – not an exceptionally steep rate of increase, but it does signify how pressured the electricity network was just one year ago, and how a relatively small increase in consumption was enough to temporarily cripple the South African precious metals mining community. Moreover, peak demand consumption was greater for each week in 2007 than it was in 2006.

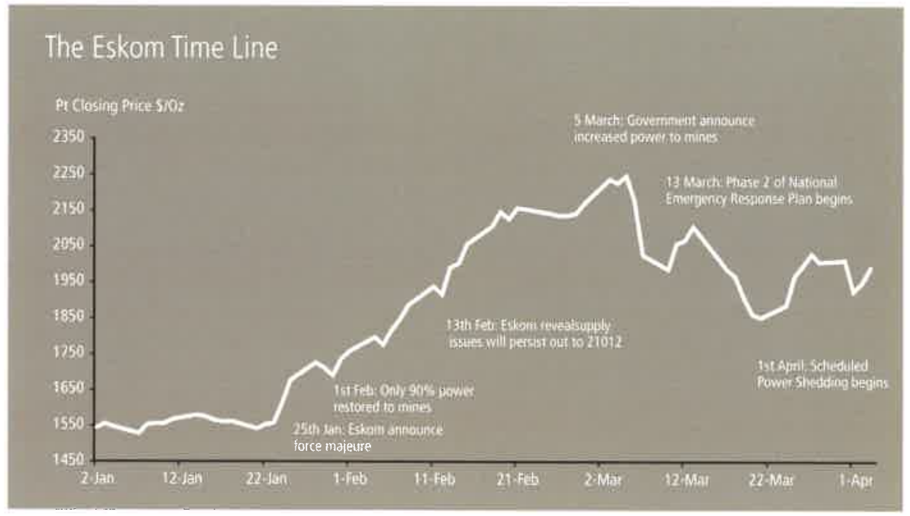
To a certain extent, the country has been a victim of its own success: the South African economy has grown by leaps and bounds, with GDP close to 5% since 2004. Fuelled by investment from both home and abroad, the expansion of the economy has placed additional pressure on an already stretched electricity network. The reserve capacity of the national grid, which represents the spare power available to meet all electricity needs at any point in the day, was pushed to unprecedented levels. The reserve margin – the surplus electricity that exists when demand is at peak levels – fell from a historically high level of 25% in 2002 to almost nil in 2008.

Eskom report 15% as their minimum preferred reserve margin, a level that gives them the flexibility to carry out maintenance regularly without overly stressing equipment. However, with the reserve margin now almost gone, there are fewer opportunities for essential maintenance, and power stations are being effectively overworked – a state of affairs that does not bode well for the future.

Thirdly, the present situation has also been aggravated by serious issues with both coal supply and quality (wet coal after heavy rain), which has culminated in the significant hike in unplanned outages and generator trips. Poor weather conditions have increased the demand for electricity, and this has also led to very difficult coal handling situations at power stations. Furthermore, coal stockpiles were allowed to fall below a 10-day supply in January, with some power stations dangerously close to full coal depletion. Eskom are striving to rebuild their inventory to 20 days – however, as of 2 April, stocks remained precariously low (at an average level of 12 days) with some stations close to only five-days worth of stockpiles.

Watts and Wherefores: The Problems and Solutions

A little technical background will help in understanding why the recent outages occurred. South Africa has a generating capacity of just under 37,761 megawatts (one megawatt, or MW, is one million watts). At the end of January, the system lost over 5,000 MW due to boiler leaks and failures,



equipment failure, poor coal quality and issues with coal supply. In addition to this, close to 3,700 MW was lost to planned essential maintenance. Therefore, supply fell below 80% capacity – insufficient to meet consumption needs – which forced Eskom to load shed. This situation continued until 90% power was fully restored on 4 February.

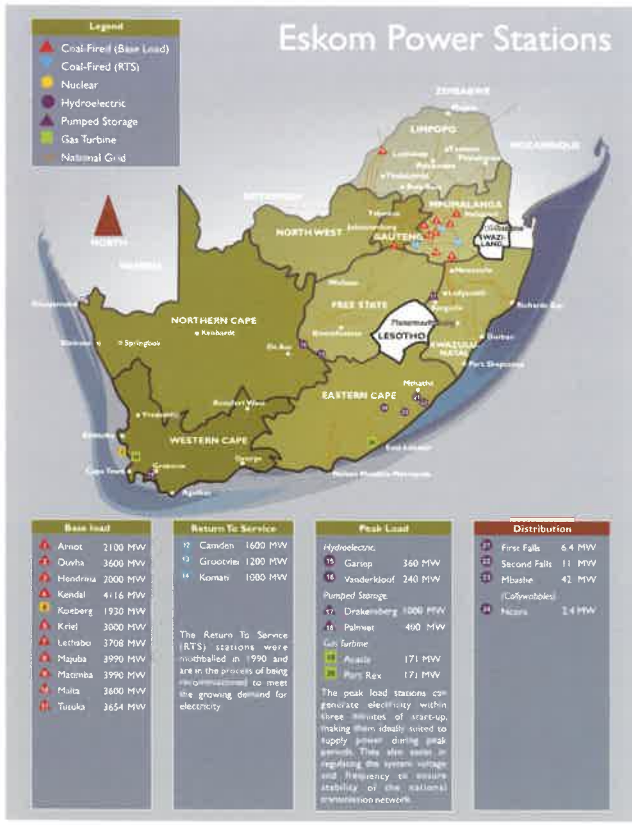
In order to address the problem in the very short term, either the demand or the supply side of the equation had to give; Eskom demanded a 10% fall in electricity consumption from its users. While the company did begin the process of re-opening power stations that had been mothballed over 10 years ago, along with re-hiring retired skilled workers to correct a chronic shortage of competent staff, the rationing formula was the sole option that could produce immediate results. Therefore the only viable short-term option to restore a sufficient reserve margin lay firmly in the hands of the consumers.

Eskom implemented a three-stage National Emergency Response Plan, going out to 2012, to establish a 'secure supply of power.' Phase 1 – the Stabilisation Programme – began immediately. The company sought a 4000-MW reduction in electricity consumption, comprising 1000 MW through appeasement of coal-related issues, an 1800-MW load reduction from municipality customers and a further 1200 MW (10%) from industrial consumers.

In an ideal world, this conservation of power would have negated the need for further load shedding. Indeed, mining houses were 100% behind this move and Eskom praised their efforts to reach their targets. However, other business sectors and residential consumers were slow to change their ways, and there were signs of a lack of commitment from the entire community. The Minister of Public Enterprises stated that 'large industrial customers have delivered demand reduction since February. However, we have not been able to achieve significant savings from the commercial and residential sectors. This means that we are unfortunately forced to move to scheduled load shedding from March 31, 2008, to ensure that there is greater equity in dealing with the capacity constraints.'

On 13 March, Eskom announced the beginning of Phase 2: Power Rationing, to last from March until July 2008. As part of this stage, Eskom is seeking the full support of all users and is asking that the commercial sector, residential and other smaller customers cut their power demand by 10%. Unfortunately, due to adverse weather conditions and unplanned generator failures, the pressure on the electricity network persisted, and the move to Phase 2 also corresponded with the return of emergency load shedding.

Eskom publicly stated that the burden of reducing pressure on the electricity grid should not rest with key industrial users, and the utility company moved to supplement power to certain consumers. However, the



Eskom's 24 power stations can be found in almost every province of South Africa. The map shows the type and location of these power stations. *Source www.eskom.co.za* move to augment power consumption to the mining community was not applicable to the full industry – rather allocations will be decided on a case-by-case basis.

The Chamber of Mines stated that Eskom, along with the government, 'will take into account the circumstances of a company, in particular the number of jobs threatened as a result of a power rationing.' This pointed towards an obvious increase for the gold industry. Goldfields, which have publicly stated the real risk of 6,900 job losses, have received 95% power capacity at certain mines. While welcoming this move, Terence Goodlace, Head of Gold Fields South African Operations, also acknowledged that, 'the additional power allocation will not prevent the forecast production losses of more than 20% in the current quarter [Q3F08].'

But power concerns remain a long-term issue for the South African nation, with an Eskom target of five to eight years. Phase 3: Power Conservation, to be enforced from August 2008 until 2012, will focus on the sustained reduction of 3000 MW. Over the next five years, the company plans to invest ZAR300 billion in new generation capacity, with a capital expenditure plan of ZAR1.3 trillion to 2025. Programmes such as the implementation of efficient compact fluorescent lights (CFLs), the restriction on the sale of traditional incandescent light bulbs, solar water-heating programmes, more efficient building standards and the substitution of electricity for liquefied petroleum gas are being examined by both the government and Eskom. This crisis presents huge opportunities for private enterprises to provide viable alternative sources.

Increasing Cooperation, Conservation – and Costs

The reality facing the mining industry is that a 10% reduction in power supply will likely translate into lost output in the short run as miners adapt to a more 'mine smart' approach. Based on this rationale, it is not impossible that the South African platinum output could decline by in excess of 500,000 oz in 2008. In such a situation, forward rates will intensify and the market would likely return to backwardation.

For gold – already in a challenged supply environment – the slowdown in South African production will only continue, and a 10-to-15% decline in metal output is not an improbability. However, given the threat of sufficient job losses in the gold industry, this sector should benefit from any increase in electricity capacity awarded by Eskom, and supply pressures should be alleviated to a certain extent.

The January statistics for South African gold and PGM output, which fell 16.5% and 15.9% respectively year-on-year, are a very real indication of the immediate ramifications of the electricity crisis on mining production. Indeed, the figures are unlikely to improve in the months ahead, as the lack of full power requirements continues to hit final production directly.

Capturing the nervousness of participants within such an illiquid market, platinum has been characterised by severe intra-day price swings – a market volatility that is not welcome by end users of the metal. Will auto manufactures concentrate on thrifting their platinum requirements and intensify their focus towards palladium substitution? In many cases, auto companies alter their PGM loadings on the occasion of new product launches. Therefore, there is likely to be a considerable lag before any decline in platinum autocatalysis demand becomes apparent.

However, this is not a one-way street, and such a scenario needs to be factored against a world moving towards tighter emission legislations. This will lead to continuing high requirements for platinum from the auto industry. Jewellery demand, with more immediately price-elastic consumers, would typically react negatively to such intense price movements. However, recent platinum turnover on the Shanghai Gold Exchange is surprisingly healthy. Indeed, Q1 2007 volume was 29% greater than the same period in 2007, therefore the initial appetite for platinum in the current price environment is not so negative when put into context of 2007 figures. Of course, it is still early days, and consumers will display their true colours as time progresses.

There is one factor in this mess that almost everyone seems to agree on – the current situation must be seen as an opportunity to fix a decades-old problem. Out of a once mighty and envied power generation and distribution system, a new, improved – and perhaps more economically sensitive – power network will be built. Power costs will increase: there is no choice. Indeed, the national energy regulator granted a 14.2% increase in March (however, Eskom are currently seeking a revision of this hike to a massive 53% from April this year).

If such an increase were granted, the knock-on effects to production costs across the mining sector would be significant. With the South African winter in force from May to August, Eskom's ability to provide adequate power to the mining industry will be severely tested as pressure on the electricity grid escalates. How capacity issues are addressed is in the hands of the South African government and its people.

It cannot be stressed enough that this is not a short-term problem – power usage must be increased along with the needs of the country's economic growth. In tandem with increased capacity, energy conservation must be a fundamental part of the way forward.

Dr Edel Tully *joined Mitsui Global Precious Metal in July 2006. As Head of Precious Metals Research, she has global responsibility for market analysis and forecasting across gold, silver and the platinum group metals. Prior to joining Mitsui, Edel was a researcher and lecturer from 2002 to 2006 whilst earning her doctorate in gold calendar seasonality dynamics at Trinity College, Dublin.*

London Precious Metals Clearing Limited *has announced that the cut-off time for its Members accepting client instructions for the transfer of gold and silver on Christmas Eve, Wednesday 24 December 2008, and New Year's Eve, Wednesday 31 December 2008, will be 2.00 pm London time*

The Introduction of ETFs in Japan

By Jeff Toshima, Regional Director, Japan/Korea, World Gold Council

The Japanese gold investment market is undergoing a structural transformation, affecting everything from the participants in the market to the products on offer. In addition to the traditional local players such as bullion houses, trading companies and mining companies, major investment banks and Japanese securities companies are entering the market. These companies are establishing a new commodities desk – or reinforcing an existing operation – adding personnel and diversifying their product range. One result: headhunters are continually searching for talented traders in the commodity sector.

This surge in interest in offering commodity products is the result of increased efforts to attract a portion of the huge pool of savings in this country (1,560 trillion yen; approximately 15.2 trillion US dollars), held in large part by the 'baby-boomer' and 'senior' segments, which account for over 60% of the total. These companies recognise the desire of investors to preserve the value of their nest eggs by diversifying their investments. With the sluggish stock market and the subprime-related uncertainties surrounding the bond market, gold's safe-haven aspect is becoming more and more attractive. Meanwhile, the unprecedented level of public debt (over 800 trillion yen) has led many investors to conclude that, at some point, the government will be forced to inflate its way out when it reaches a critical situation. Therefore, gold's traditional role as hedge against inflation also resonates strongly. Under these circumstances, the investment case for gold in Japan is compelling.

ETFs: A Long-Awaited Entrance, and a Quick Difference

The traditional investment product has been the Gold Accumulation Plan (GAP), which was introduced in 1988 and tends to attract retail investors. Perceived to be an entry-level product for first timers, starting with monthly instalments of US$50 equivalent, the accounts are held for three to five years on average. Upon maturity, customers have several options: they can simply keep the gold in the account, take physical delivery, exchange the balance for the equivalent gold jewellery or cash out the balance. GAPs are offered by Tanaka, Mitsubishi and Sumitomo, with approximately 450,000 accounts held in total. (Tanaka launched a major TV campaign to attract further interest in 2007, which is continuing this year. Thus far they have acquired over 30,000 new customers.)

Gold ETFs are newcomers to the product range. They have attracted much investor interest in other market centres, but their introduction in Japan faced some hurdles. Under the Mutual Fund Law, which has undergone several revisions since its introduction in 1951, underlying assets were initially confined to securities. This was expanded to include real estate in 2000 – but not to commodities.

Gold ETFs appeal to savvy HNW investors as well as institutional investors, who regard kilobars and coins as too primitive and gold futures as too risky.

Therefore, the first Japanese gold ETF, which was listed by Nomura Securities on the Osaka Stock Exchange (OSE) last August, is backed by gold-linked bonds rather than physical metal. Nevertheless it has sold some 10 tonnes (30 billion yen) and is ranked among the best performers in the fast-growing ETF sector in Japan. Gold ETFs appeal to savvy high net worth (HNW) investors as well as institutional investors, who regard kilobars and coins as too primitive and gold futures as too risky. What particularly appeals to HNW investors are the tax implications: the profits and losses of stocks and gold ETFs can be offset.

During 2007, a new law designed to protect the interests of investors and strengthen compliance within financial institutions took effect. Its major purpose was to put all types of investment vehicles under one jurisdiction, as opposed to having different laws for different investment vehicles.

Under the previous regime, gold ETFs fell under two regulatory bodies, METI (the Ministry of Economics and Industries), under whose jurisdiction gold as a commodity fell, and the FSA (the Financial Services Agency, which was created in 2000 with the mission of protecting investors, and under whose jurisdiction gold as an investment fell). Under the new regime, ETFs fall exclusively under the FSA.

Negotiations between the TSE and the FSA lasted for some time, but finally, at the end of February, new listing rules approved by the FSA were announced, which broadly allowed commodity-backed ETFs. (It is hoped that a gold ETF backed by physical gold will shortly be cross-listed on the Tokyo Stock Exchange by StateStreet and the WGTS under a strategic alliance between the NTSE and TSE.)

In the meantime, the proposed commodity-backed ETF scheme created turf wars between the FSA and METI. Finally the issue was raised within the Prime Minister's Office, where the Advisory Board officially recommended merging stock and commodity exchanges into 'one-stop' exchanges in future. It took a sense of crisis that the Japanese financial market was falling behind in the international competition to finally prompt a government-level consensus. As a result, TOCOM has established a strategic alliance with the TSE and OSE, and the three entities have established an advisory board to enable them to work together.

A Market is Transformed and Reinvigorated

The potential impact of this sea change is not trivial: it is transforming the entire landscape of the Tokyo gold market.

In the futures market, some Japanese commodity futures merchants are being slowly driven out due to weak balance sheets and their handling of compliance and corporate governance issues, which in some cases has left much to be desired. Also, under the new compliance regulations, these traditional local players are under heavy pressure to abandon their usual hard-sell tactics. They are merging into either Japanese 'keiretsu' business groups or foreign major investment banks. For its part, TOCOM has implemented a 'revitalisation plan', which includes measures such as the extension of trading hours, but the exchange still faces an uphill battle to maintain its customer base.

The changes are not only in the market: the profile of gold investors is also changing dramatically. Those hoarders (or bargain-hunters or value buyers, depending on the point of view) who bought gold around $300 are happily taking profits. In 2007, their gross selling-back of metal swelled to 100.8 tonnes, a trend that is accelerating in 2008.

Meanwhile a new breed of gold buyers has been entering the market. They are basically 'momentum buyers', seeking to join the bull market. In 2007 they bought 42 tonnes.

Overall, on the surface net gold investment offtake appears to have declined significantly (down 58 tonnes), but this does not represent the whole picture of what is going on in the Japanese gold market: there has in fact been a steady shift of gold investors from one generation to the next.

The listing of gold ETFs only serves to accelerate this trend, attracting as it does new buyers from the stock and bond markets. ■

Jeff Toshima *As Regional Director of the World Gold Council, Jeff Toshima is responsible for operations in Japan and Korea and has also been involved in the cross-listing of a gold ETF between the New York Stock Exchange and the Tokyo Stock Exchange. He joined the Council in 1986. Prior to joining the WGC, Jeff worked as a foreign exchange and precious metals trader at Mitsubishi Bank and the Swiss Bank Corporation. He has a degree in economics from Hitotsubashi University.*

Recent Developments in the Japanese Gold Market

1. TSE announces a plan to cross-list GLD, which is listed on the NYSE
2. TOCOM establishes a strategic alliance with the TSE and OSE
3. TOCOM increases its foreign membership to include Standard Bank, Goldman Sachs, Morgan Stanley, Engelhard, Lehman, Barclays, and Credit Suisse. Standard Bank establishes a Tokyo Branch, headed by Bruce Ikemizu
4. Two major stock brokers (Nomura and Daiwa) establish commodity desks
5. Sumitomo Corporation establishes a Financial Services Division, naming Bob Takai as Executive Officer and General Manager. Gold falls under this division, along with equities and other financial products.

Golf and Gold: Toward a Long-Term Investment Strategy

In considering a move into gold, newcomers from the stock market are clearly looking for familiar benchmarks to help them make purchase decisions. In the Q & A session after a recent WGC gold seminar, one participant picked up a kilobar on display and asked "What's the PER [price/earnings ratio] of this stuff?"

In the annual WGC gold investor survey in 2007, the respondents (HNW individuals) were asked to choose – from a list of reasons to buy gold – those that they agreed with. The three most popular options were:

Gold has a value of its own and is no one's liability; it will not become a worthless piece of paper – 50.7% of respondents. (After the subprime crisis, we expect this reason to become even more popular this year. There is a historical precedent: gold was perceived as a 'safe haven asset' amid the banking crisis that gripped the nation in the latter half of 1990s and early 2000s)

Need to diversify into the commodity sector – 47.8% of respondents. Here, finally, what has been preached at investment seminars is being put into practice

Hedge against inflation – 35.8% of respondents.

'Pursuit of capital gains in the long term' was ranked only fifth at 19.4%, while 'Expectation of quick gains' was 11th at 9.0%.

This data confirms that gold is positioned as a risk-management vehicle. Japanese investors have learnt the hard way through the so-called 'bubble economy' that there is no magic wand in the art of moneymaking. They hope now to preserve the long-term value of their hard-earned nest eggs, so that they can either pass them on to their children (it is no coincidence that we see mothers opening a GAP in the name of their child), or ensure a comfortable retirement for themselves.

One example that never fails to draw audience attention in the gold investment seminars is, 'This speaker loves playing golf and wants to continue to do so every week, even at the age of 70. At current prices, it costs him JPY 50,000 a month to play golf once a week. Which option do you think is most likely to enable him to enjoy his hobby in the future – a bank deposit of JPY 50,000, or a gold coin that is now worth JPY 50,000?'

REACH

What the EU's New Chemical Legislation Means to the Precious Metal Market

by Caroline Braibant, Secretariat & Trustee, Precious Metals and Rhenium Consortium

REACH is the new unified EU chemicals legislation that will manage the safe use of all chemicals within the European Economic Area (EEA) throughout their lifecycle. According to REACH – which stands for Registration, Evaluation, Authorisation, and Restriction of Chemicals – each EU member state is responsible for implementation, while a centralised European Chemicals Agency (ECHA), based in Helsinki, will coordinate implementation at pan-European level.

Prior to REACH, EU chemicals registration legislation was a patchwork of guidelines and regulations that had been put into place by various member states over a long period of time. In order to better structure and unify the different approaches, in December 2006 REACH was adopted. It entered into force in June 2007.

Principles and Method

REACH is based on the principle that the manufacturer, the importer, and the downstream user must ensure that the chemicals they place or use on the market in volumes of one tonne or more per year are not harmful to human health or the environment. All the information and test results proving the safety of a substance need to be compiled in a "Registration Dossier", which needs to be compiled jointly by all the potential registrants (manufacturers and/or importers) of that substance and submitted individually by them to the ECHA before the applicable deadline (2010, 2013 or 2018, depending on the tonnage band and the substance properties).

As and when required, registration must be performed:

Per substance – including both dangerous and non-dangerous ones

Per legal entity – with each legal entity having to register its substance(s) and tonnage(s) individually. A manufacturer that is not established in the EEA has the option of appointing a legal entity within the EEA to act as an 'Only Representative' on its behalf to fulfil REACH obligations for its substance(s), thus allowing it to retain product stewardship, rather than leaving this to the importers.

Pre-registration under REACH

In order to benefit from the extended registration deadlines noted above, the substances must go through a pre-registration process, starting 1 June 2008 and lasting until 30 November 2008. This is highly recommended for all substance manufacturers and importers.

By pre-registering, the entity is put on a Substance Information Exchange Forum (SIEF), a list of candidates that have declared their potential intention to register a common substance, as well as benefiting from extended deadlines. Pre-registration does not commit the registrant to proceed with full registration should that no longer be deemed necessary.

If an entity does not pre-register, it will be obliged to stop the manufacture or use of the substance until it has prepared and submitted a full Registration Dossier to the ECHA, which can take up to several months.

Precious Metals: In or Out?

Precious metals are considered to be chemicals in the context of European chemicals legislation. However, the need to register precious metals in massive form under REACH depends on whether EU authorities consider them to be articles or substances. Under REACH, an article can be distinguished from a substance in that it has been given a specific shape, surface or design that determines its function to a greater degree than does its chemical composition. Precious metals have various industrial, medical and investment applications, for which the metal is given specific forms; in some cases these can be considered as article forms. However, as long as it is the chemical composition that determines the function of the massive precious metal, it will be considered as a substance and therefore will have to comply with REACH.

An attempt has been made to apply the above statement to precious metal ingots or bars. These are indeed given a specific shape to facilitate transport and storage, but the composition – the precious metals content, the purity of the ingot or bar – still plays the key role in determining its function. Moreover, some ingots or bars can be re-melted to be used for other purposes or functions. In order to confirm this interpretation, ECHA Technical Guidance Documents were carefully scrutinised and the question was ultimately asked of the ECHA. The ECHA responded that, '*precious metal ingots are regarded as substances*'.

Accordingly, all those entities manufacturing precious metals or importing them into the EEA in volumes of one or more tonnes per year are potential registrants under REACH, including banks. In the event of a precious metal manufacturer and/or importer fails to pre-register or register by the given deadlines, that entity will no longer be allowed to manufacture or import these precious metals. Manufacturers and importers in this situation would no longer be able to place physical precious metals within the EEA, nor export them outside the EEA after 30 November 2008.

In light of this commercial risk, LBMA Members and precious metals manufacturers and/or importers in general are invited to contact the Precious Metals Consortium in order to prepare for Pre-registration and ultimately for joint Registration under REACH (for more information, see contact information at end of article).

Readers are asked to understand that the information and opinions given in this article are based on the most recent knowledge currently available to the Precious Metals Consortium. However, interpretation of the REACH regulation will continue to develop over the next few years and may in future change our understanding of – and approach to – these issues.

Information for this article was also contributed by Dr Andrew Griffiths (Umicore), Chair, Management Committee and Dr Jeff Levison (Vale Inco) Co-chair, Management Committee.

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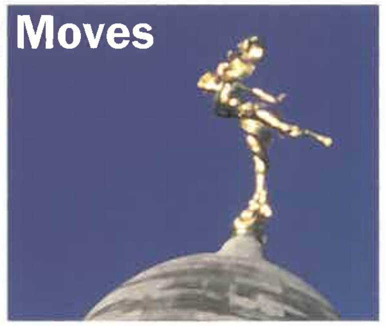
Caroline Braibant *is the REACH and GHS Manager of the European Precious Metals Federation (EPMF). She is also a member of the secretariat and a trustee of the Precious Metals Consortium.*

Caroline joined the EPMF in January 2007 in order to manage the joint implementation of REACH regulation by the precious metals industry. Her responsibilities include organising and supervising the drafting of the Consortium's legal agreement and advising potential members. She has also compiled three precious-metals and precious-metals-compounds inventories and has put a framework in place to launch early discussions within the Consortium on substance identity and substance sameness.

A native of Belgium, she first attended university in Costa Rica, earning a degree in biotechnology engineering. She returned to Belgium to obtain a postgraduate degree in human ecology and a master's in environmental sciences and management.

Market Moves



Sierra Highcloud, Ayako Furuno and Gargi Shah to GFMS

The GFMS team continues to expand, with two new recruits in London and a second full time analyst in Mumbai.

In London, Sierra Highcloud will focus on developing and expanding gold, silver and PGM forecasting. Covering all precious metals, Ayako Furuno has joined the supply team. Gargi Shah, based in Mumbai, will initially focus on supply and demand issues on the Indian subcontinent.

Paul Burton of World Gold joins GFMS to form GFMS World Gold Ltd

Although GFMS World Gold will continue to publish the long-established and respected World Gold Analyst, the new joint venture – GFMS World Gold Ltd – will focus on providing bespoke equity reports on individual companies, as well as country and regional reports.

Randy Weinerman to Commerzbank

Randy Weinerman has joined ZCM Precious Metals desk in New York as senior sales, reporting to Adrien Biondi in Luxembourg. Randy will be responsible for marketing all products to the bank's customer base in the US region. He will integrate the desk in order to expand the bank's customer base.

Randy has over 15 years of commodity finance and marketing experience with an emphasis on precious metals. He joins from Bank of America where he was responsible for Commodities Metals Marketing and later in specialised Industries sales for last three years. Prior to that, he worked for 11 years at Bank of Nova Scotia as Director of Precious Metals Marketing.

On Supply and Demand

By GFMS Limited

GFMS have prepared their Gold Supply and Demand table for 40 years, including it in their annual Gold Survey as well as updating it for the two interim Gold Survey Updates. In this column, which appears on a regular basis, GFMS present a brief commentary highlighting the critical supply and demand elements at play last year with a focus on the fourth quarter of 2007.

The Supply Side

In Q407, provisional figures for mine production disappointed as levels declined by 33 tonnes or 5% against the analogous period in 2006. Output remained nearly flat on the previous quarter's figure, as production was constrained in part by a surge in world cash costs, which rose in 2007 to above $400/oz for the first time.

One noteworthy event over the year was South Africa's loss of its position as the world's leading gold producer to China, a title the former had held since 1905. After having already experienced production declines five years running, South Africa saw its place eroded as the country faced significant key issues concerning the accessibility of remaining reserves, which combined with the safety-related slowdowns in the final quarter of 2007. As China moved to become the top gold producer, its mine production rose to over 270 tonnes.

Net official sector sales in the final quarter of 2007 experienced a noticeable reduction of 43% on Q3. In addition, at 96 tonnes, the net total for the period was up by almost two-thirds on the Q406 figure. This increase was mainly due to Central Bank Gold Agreement (CBGA) sales returning to 'normal' levels from the exceptionally low figures recorded in 2006. CBGA signatories once again provided the bulk of gross sales over the period. Within the group, sales came from the ECB, France, Switzerland, the Netherlands and Sweden. Interestingly, countries outside the CBGA were net purchasers of bullion overall, as a result of a handful of modest additions to certain countries' reserves taking place over the quarter.

Scrap supply recorded a healthy rise in Q4 of 15% year-on-year and, more impressively, 31% quarter-on-quarter. What is interesting to note, however, is that despite the gold price spiking over the quarter, the traditionally price-sensitive markets experienced unusually low recycling, with high markup, western jewellery markets representing the bulk of the quarter's gain. The cause of the low levels in the developing world was expectations of yet higher prices, with holders anticipating, specifically, a breach of $1,000.

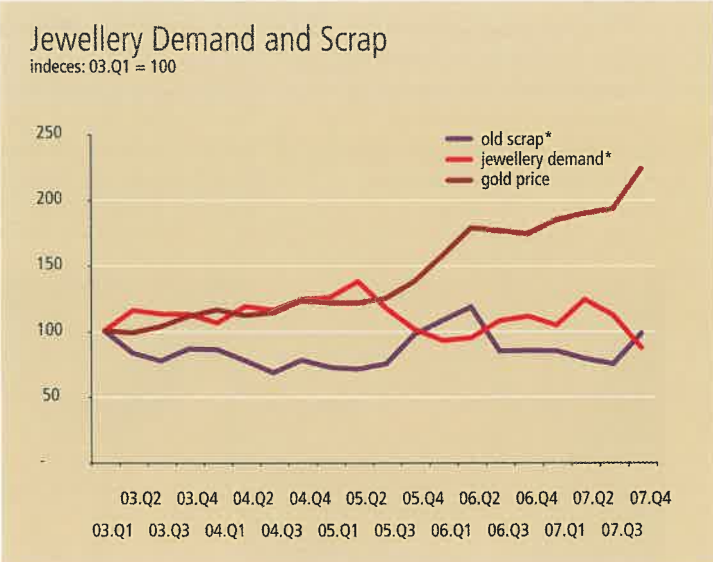
The Demand Side

The final quarter of 2007 saw implied net investment rocket to its highest level since Q405, gaining a remarkable 124% on the quarter prior to reach 279 tonnes, or more than five times the Q406 level. The increase in investor involvement in the metal was attributable to several factors, chiefly weakness in the dollar and global financial instability. These were compounded by a rise in volatility in the VIX index (a widely used gauge of the market's expectation of short-term volatility) to its highest level since Q103, as fears over the US economy and bank failures roiled equity markets and saw investors seek out the safe haven of gold. The quarter also witnessed activity on the Comex reach unprecedented levels, with net non-commercial and non-reportable positions setting an historic reporting record of over 240,000 contracts in early November.

Fabrication demand during Q4 fell markedly, with a drop of around 20% on both the Q307 and Q406 figures, in response to the high and volatile gold price. The fall in jewellery manufacturing of 140 tonnes on the previous quarter left the Q4 total at its lowest level since Q103 and nearly 285 tonnes below the fairly recent high in Q205. The most pronounced fall was experienced in India, where Q4 demand fell by some 120 tonnes, equivalent to 66% year-on-year. In contrast, Chinese offtake saw a gain of 16% on Q406 thanks to still robust GDP growth. Western jewellery consumption fell in Q4, with sales in the United States dropping particularly heavily, as consumer confidence weakened notably due to slowing growth, higher energy costs, rising inflation and a greater degree of economic uncertainty.

Producer de-hedging in the fourth quarter is now estimated at 68 tonnes, or somewhat higher than initial expectations. This revised figure was roughly double the prior quarter largely as a result of further buy-backs, most notably by Newcrest, and the continued noteworthy absence of producers establishing fresh positions. Volumes, however, were markedly lower than in the first half of the year, when the average quarterly net figure was around a hundred tonnes higher. ■

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.



World Gold Supply and Demand

tonnes

	07.Q3	07.Q4	yoy
Supply			
Mine production	639	632	-5%
Official sector sales	169	96	64%
Net producer hedging	-	-	
Old gold scrap	213	279	15%
Implied net disinvestment	-	-	
Total Supply	1,020	1,007	4%
Demand			
Fabrication			
Jewellery	629	489	-22%
Other fabrication	173	142	-11%
Total Fabrication	**802**	**631**	**-20%**
Bar hoarding	60	30	-60%
Net producer de-hedging	34	68	22%
Implied net investment	125	279	457%
Total Demand	1,020	1,007	4%
Gold Price (London PM, US$/oz)	680.13	786.25	28%

LBMA Certified Reference Materials

Project Update

At the LBMA Assaying and Refining Seminar held in March 2007, it was agreed to investigate the possibility of setting up a cooperative venture to produce and sell solid Certified Reference Materials (CRMs) in high-purity gold and silver that would be suitable for the verification of spectrometric analysis techniques.

Following the Seminar, an initial survey of Good Delivery refiners indicated that there was indeed a demand for such reference materials, and also established which elements would prove of most use to the majority of laboratories. A steering committee was then established under the auspices of the LBMA, with Dr Mike Hinds of the Royal Canadian Mint as its chairman and project coordinator (see *Alchemist* 49 for more details).

Good progress has been made with the project over the past three months. Site visits to the two manufacturers (Krastsvetmet of Russia for silver and Tanaka of Japan for gold) by Dr Hinds and the LBMA Chief Executive have allowed details of the production process to be agreed. For each metal, the Reference Materials will consist of a set of two rectangular blocks – RM1 and RM2 – weighing approximately 50 grams and containing, respectively, relatively low (generally around 10 ppm) and relatively high (generally around 30 ppm) contents of approximately 20 elements.

Offer Document

The Steering Committee has approved the terms of an offer document, which has been sent to all Good Delivery refiners, who may purchase the Reference Materials at a discounted price, as long as they place their orders before 31 May 2008. After this date, the LBMA will also accept orders from other laboratories, subject to surplus material being available.

Manufacturing

Manufacturing will only commence once a minimum number of confirmed orders has been received from Good Delivery refiners. This is to ensure that the project income will cover the substantial front-end costs of the manufacturers.

Manufacturing will commence with the melting and homogenisation of the charge in a vacuum induction furnace that can also operate with an argon atmosphere. Various master alloys containing high concentrations of the selected elements will be used. The two main challenges in producing the Reference Materials are:

- Ensuring that the final casting (which will be of the order of 10kg) is homogenous in respect of the distribution of all the approximately 20 alloying elements
- Ensuring that the final compositions for volatile elements are close to the target levels.

Production of reference materials containing precise predetermined levels of volatile elements is virtually impossible. During melting of the master alloys and the subsequent homogenisation, varying amounts of these elements will be lost by evaporation. The manufacturers will endeavour to ensure that the content of these volatile elements is close to the target levels and that there is a sufficient gap between the levels in RM1 and RM2 to make them useful in a practical situation.

Following homogenisation in the crucible, casting into a graphite mould will produce a plate, which will then be rolled to a thickness of 6 to 7 mm. The samples will be cut into blocks by guillotining.

Homogeneity testing will be carried out by the manufacturer (a procedure involving analysing, in a random order, the content of each of the impurity elements at each of a number of specified locations – not only at the surface, but also at a quarter and at a half the depth of the plate). The resulting analyses will then be subjected to a sophisticated analysis of variances, indicating for each element whether the material is homogeneous. Verification of homogeneity will be provided by members of the Steering Committee reviewing the results and, if necessary, by having another laboratory carry out the same homogeneity analyses on the chosen samples. Once the Steering Committee is satisfied that the materials are homogeneous, the project will move to the next stage. Here, shavings from the samples will be mixed and then sent to approximately ten different Good Delivery laboratories, each of which will determine the content of all of the elements. The mean values of these determinations will be used to calculate the certified alloying contents of the materials.

Tanaka Clean Room Meeting – The Project Team Tanaka plus Mike Hinds and Stewart Murray at the company's Shonan plant, following their visit to the clean room casting area that will be used for the production of gold master alloys to be used for the manufacture of gold reference materials (left to right: Stewart Murray, Hitoshi Kosai, Mike Hinds, Ichimitsu Itabashi, Hiroshi Sawai, and Nobuyasu Ezawa). Photo taken by another Team member, Nori Iwata.

Certification

The certificate accompanying each Reference Material will comply with the ISO Guide 31 for Reference Materials.

Availability and Prices

The Reference Materials should be available in the first half of 2009. For each metal, a set will consist of two materials, RM1 and RM2, each consisting of a square block of thickness 6 mm (gold) or 7 mm (silver) and weighing approximately 50 grams. The fixed part of the price is shown below and will be invoiced when the materials are ordered. There is also a variable part which will be invoiced when the materials are available for shipping. The variable part will include the cost of shipment and insurance and, in the case of gold, the value of the metal content. VAT will be added as appropriate depending on the location of the purchaser.

Reference Material Price (fixed part of price per block)

LBMA Good Delivery Refiners, Members and Associates
Orders received before
31st May, 2008: US$1,500
Orders received after
31st May, 2008: US$1,875

Other purchasers *:
US$2,250

* *including bona fide laboratories and equipment manufacturers*

Assuming that the critical number of orders is reached by the target date of 31st May, all Good Delivery refiners and Members who have placed orders will then be invoiced for the fixed part of the Reference Materials price.

Disclaimer

The LBMA, the Steering Committee, the manufacturers and the laboratories involved in the chemical analysis of the Reference Materials will use their best endeavours to ensure that the Reference Materials are homogeneous in respect of the contained elements and that their concentrations are accurately determined. However, all assayers will recognise that there can be no absolute guarantees in relation to these parameters. For example, it cannot be totally ruled out that the Reference Materials may contain extraneous inclusions (though such foreign bodies would be readily detected by the using laboratory). In addition, minor deviations from complete homogeneity that are not detected by the homogeneity testing are conceivable. Purchasers will therefore be required to agree to a disclaimer absolving the LBMA and the project participants from responsibility if the Reference Materials do not fully match the target specification.

Further Information

Any Good Delivery refiners interested in purchasing the Reference Materials and who have not received the offer document should contact the LBMA Chief Executive (stewart.murray@lbma.org.uk) urgently to ensure that they can place their orders before the 31 May deadline. Other laboratories may similarly obtain full details of the offer. Orders received from non-Good Delivery purchasers will be accepted after 31 May, 2008 on a first-come, first-served basis.

Krastsvetmet Furnace Meeting – The Project Team at Krastsvetmet demonstrate the vacuum furnace that will be used for making master alloys to the LBMA visit team (left to right: Edward Sorokatyi, Tatiana Ilyusha, Irina Khobyakova, Stewart Murray, Mike Hinds, and Dmitry Shulgin) Photo was taken by another Team member, Konstantin Shatnykh.

LBMA News

By Stewart Murray, Chief Executive, LBMA

MEMBERSHIP

Members

The UK Branch of Fortis Bank S.A./N.V. relocated at the end of 2007 to new offices at:
5 Aldermanbury Square
London EC2V 7HR
Tel: (0) 20 32968600
Fax: (0) 20 32968986

Marubeni Europe relocated from Moorgate to a new office in early March 2008:
River Plate House
7-11 Finsbury Circus
London EC2M 7AF
Tel: (0) 20 7826 8718
Fax: (0) 20 7826 8615

Associates

One new Associate was admitted to the LBMA – the Istanbul Gold Exchange – with effect from 3 March 2008.

Finorafa of Switzerland resigned as an Associate in February, though the parent group of Finorafa continues to be represented in the LBMA by Valcambi.

GOOD DELIVERY LIST

Gold

The application from Allgemeine Gold- und Silberscheideanstalt AG of Germany to be admitted to the Gold List was accepted from 8 April 2008.

Silver

The Tongling Nonferrous Metals (Group) Inc. of China introduced an amended brand mark for its Jinchang Smelter in Tongling City, Anhui Province. The new mark was listed with effect from 20 January 2008 and shows the new name of the company (Jinchang Smelter, Tongling Nonferrous Metals). The company logo and assaying mark remain unchanged.

COMMITTEES

Management

The Management Committee has met only once in the first quarter of the year. Not so many years ago, the committee met almost every month, but with the increasing activity and volatility in the precious metal markets over the past year, it has been increasingly difficult for members to attend meetings. The committee's business is now concentrated into approximately six meetings a year and, in addition, rather than meeting during the day, the meetings now commence at 6:30 pm.

As always, most of the committee's work consists of reviewing and generally acting upon the recommendations of the various subcommittees described below. In addition, the committee has approved a charitable donation to the fund that Sarah Longhurst, daughter of David, has set up in support of Cancer Research UK. The committee has also discussed developments on the European Union's REACH legislation (Registration, Evaluation, Authorisation and Restriction of Chemical Substances). The article on page 16 provides further information, including on the important question of whether bullion bars will be considered as chemicals. The committee noted that the European Chemical Agency is considering classifying gold and silver bullion bars as chemicals, which would force importers and suppliers of such bars to register with the EU authorities. The strong view within the LBMA is that it would not be appropriate to regard bullion bars as chemicals in this way.

On the membership front, the committee agreed that if members resign within four weeks of receiving their subscription invoices at the start of the year, their liability to pay the annual subscription would be waived.

Physical

The Physical Committee continues to meet monthly, reflecting the heavy workload (on both the committee and the Executive) from the large number of refiners that are currently interested in being accredited on the LBMA Good Delivery List. Currently, in addition to the three full applications that are being considered, there are 11 enquiries (five gold and six silver) that are likely to be converted to full applications during the coming year.

Following the substantial changes to the Good Delivery Rules that were announced in July 2007 and which took effect on 1 January 2008, the committee has been monitoring the response of Good Delivery Refiners. It was pleased to note that most refiners had complied with the new requirements in terms of the casting and marking of bars. However, a few refiners have not so far complied with the requirement to show the year of production as a separate four-digit mark or as part of the bar number. The Executive has informed those refiners that have not yet complied with this requirement that they have a grace period – until the end of June 2008 – to do so, after which vault managers will have discretion as to whether to reject bars that do not have a suitable year marks.

The committee continues to research the possibility of finding an electronic balance that would be good enough to replace the use of beam balances for the weighing of gold bars. The problem is that the specification is very demanding because of the extremely high accuracy and reproducibility of beam bar weighings. Currently the committee is investigating whether a mass comparator can produce the necessary reliability.

Progress towards the establishment of a Visual Guide to Good Delivery defects continues. The Guide will illustrate typical physical defects found in Good Delivery bars, with an indication of their severity and whether or not the defect would result in a bar being considered unacceptable for Good Delivery purposes.

The committee also monitors the LBMA's technical work in relation to the Good Delivery List, in particular the Reference Materials Project. (See the article on page 20.) In addition, the committee has recommended that a further Assaying and Refining Seminar should be held in the spring of 2009. Good Delivery Refiners and others with an interest in the subjects of assaying, analysis and casting are invited to submit proposals for topics to be included.

Finally, the committee has welcomed the launch of a new intranet-based documentation system with which the London vaults can view photographs and drawings of all current and former list bars. This system also includes photographs of defects in varying degrees of severity. Although the system is limited to recognised LBMA vaults, it is possible that in future parts of it will be made available to other market participants.

Public Affairs

Two new members have joined the committee – Edel Tully of Mitsui and Stephen Pender of Fortis. This follows the resignation of Kamal Naqvi, who has been one of the most active members of the committee, as well as serving as its chairman in the period June 2001 to December 2005. Kamal has indicated that he will maintain an active interest in the committee's work and will be willing to offer advice, particularly on the development of the conference programme. Our thanks to him for his invaluable contribution to the LBMA over the years.

The committee has met jointly with representatives of the LPPM Conference Committee three times during the first quarter and, as a result, the programme has reached an advanced stage of completion. The conference brochure and registration form will be issued to all Alchemist readers at the end of April, (See the advert on page 19).

Membership

Although the committee has only met once in 2008, its work continues via email. The committee is currently discussing whether any changes should be made to the LBMA's rules in relation to applications for membership from foreign companies.

Finance

The Finance Committee met as usual in early April to review the draft accounts that will be presented to the Annual General Meeting in June. (See the box opposite).

Annual General Meeting

Wednesday 25 June 2008
Armourers' Hall
81 Coleman Street
London EC2R 5BJ
Starting time will be 5:30pm.

The AGM is open to all interested members of staff of Member and Associate companies (although only the nominated representative of Full Members may vote). After the formal business there will be a drinks reception. The AGM represents an ideal opportunity to meet other participants in the market and to hear about the LBMA's various activities in detail.

DIARY OF EVENTS

April

22
51st Minesite Mining Forum
London
T: +44 (0) 20 7395 1935
F: +44 (0) 20 7395 1931
www.minesite.com

24
GFMS Platinum & Palladium Survey 2008
London, Johannesburg
T: +44 (0) 20 7478 1777
info@gfms.co.uk
www.gfms.co.uk

May

7 – 8
World Silver Survey 2008
New York, Mexico City
info@silverinstitute.org
www.silverinstitute.org

12 – 13
Hard Assets Investment Conference
New York
T: +1 314 824 5516
iiconf@iiconf.com
www.iiconf.com

20
52nd Minesite Mining Forum
Details as above

20 –22
Peru: Eighth International Gold Symposium
Lima
T: +511 421 0400 ext. 236
F: +511 222 6484
ii-simposiumdeloro@stimulus.com.pe
www.snmpe.org.pe

21
LPPM Platinum Dinner
Royal Courts of Justice, London
T: +44 (0) 20 7489 6761
anne.dennison@mitprecious.com

21 – 22
Commodities Investment World 2008
Dubai
T: +971 4 709 4501
F: +971 4 347 3889
symon.rubens@terrapinn.com
www.terrapinn.com

June

3 – 5
World Mining Investment Congress
London
T: +44 (0) 20 7827 4159
F: +44 (0) 20 7242 4303
saheed.ladapo@terrapin.com
www.terrapinn.com

9 – 12
African Mining Congress 2008
Johannesburg
T: +27 11 463 6001
F: +27 11 463 6903
brian.shabangu@terrapinn.co.za
www.terrapinn.com

9 – 12
IPMI 32nd Annual Conference
Phoenix, Arizona
T: +1 850 476 1156
F: +1 850 476 1548
mail@ipmi.org
www.ipmi.org

11 – 12
Mines and Money Asia 2008
Hong Kong
T: +44 (0) 20 7216 6077
eileen.smith@mining-journal.com
www.minesandmoney.com

19
53rd Minesite Mining Forum
Details as above

25
LBMA AGM
Armourers' Hall, London
T: +44 (0) 20 7796 3067
F: +44 (0) 20 7796 2112

July

7 – 9
Commodity Investment World Asia 2008
Singapore
T: +65 6322 2710
F: +65 6223 3554
debby.lim@terrapinn.com
www.terrapinn.com

August

4 – 6
Diggers & Dealers Mining Forum
Kalgoorlie, Australia
T: +61 8 9481 6440
F: +61 8 9481 6446
admin@diggersndealers.com.au
diggersndealers.com.au

September

16
54th Minesite Mining Forum
Details as above

28 – 30
LBMA/LPPM Precious Metals Conference 2008
Kyoto
T: +44 (0) 20 7796 3067
F: +44 (0) 20 7796 2112
conference@lbma.org,uk
www.lbma.org.uk

The London Gold Market Fixing Limited *has announced that there will be no afternoon gold Fixings on Christmas Eve, Wednesday 24 December 2008, nor New Year's Eve, Wednesday 31 December 2008.*

Rock'n & Roll'n the Dice!

The Rat Pack Live – and LBMA – in the City

The Association's Annual Party was quite literally thrown – and often won – at Revolution Underground on Thursday 28 February.

Open to all Members and Associates, the evening featured a Vegas of casino tables – with prizes for the luckiest high rollers…a Rat Pack cabaret act…and a disco to close the evening.

Plans for next year's event are underway. Watch this space.

The Alchemist – 50 Issues On

Editorial Comment by Jeffrey Rhodes, CEO INTL Commodities DMCC

When Susanne Capano called me a month or so ago to ask if, as the founding editor, I would like to make a contribution to the 50th anniversary issue of the *Alchemist*, I must admit to being shocked at where the time had gone since the London Bullion Market's trade magazine was first launched in May 1995. But of course I was delighted to participate again in a publication that has gone from strength to strength under the guidance of Susanne and the rest of the team at the LBMA – and has become a 'must read' magazine for the international precious metals community.

I thought it might be interesting and a bit of fun to take a look what has happened to the organisations and people active in the LBMA, as well as the markets over the last 13 years. It is really quite remarkable how so many things have changed, while others have stayed the same, with many of my peers in the London market still active after all these years, illustrating just what a tough breed bullion dealers really are.

The *Alchemist* had its origins in a newsletter designed, produced and edited by John Coley, ably assisted by the LBMA secretary, Inga Brereton. John, the Public Affairs Committee for a number of years, was a strong advocate of proactive marketing via the printed word. One of the most interesting and popular features of those early publications was a topical cartoon, and they are as relevant and amusing today as they were then. Two of my personal favourites are reprinted here.

The cartoon above illustrates the changing face of the 'London' gold market even back in 1994, with the established City of London merchant banks and trading houses being taken over or absorbed by much larger

international financial institutions. In addition to N.M. Rothschild & Sons, which chaired the London Gold Fixing for a number of years, the original members that participated at the first-ever fixing on Friday, September 12th 1919, were Mocatta & Goldsmid, Pixley & Abell, Samuel Montagu & Co. and Sharps & Wilkins. At the time of the first issue of the *Alchemist* in May 1995, the fixing membership had changed to those shown in the cartoon.

Today, the members are:

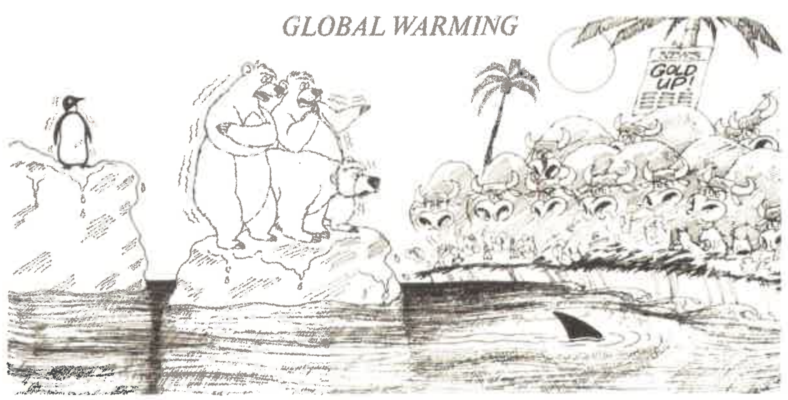
Scotia-Mocatta — successor to Mocatta & Goldsmid and part of Bank of Nova Scotia

Barclays Capital — which replaced N M Rothschild & Sons when they abdicated

Deutsche Bank — parent of Sharps Pixley, itself the merger of Sharps Wilkins with Pixley & Abell

HSBC Bank USA NA — parent of Samuel Montagu & Co.

Société Générale — which replaced Johnson Matthey and, later, CSFB.



The People

As I mentioned, dealers operating in precious metals seem to have a longevity that is almost unique in London's financial markets, and although nearly all of the names have changed places, when I look at the make-up of today's Management Committee and the heads of the subcommittees, I am pleased to say that I still know many of them personally.

Here is a look at the class of 1995 and where they are now:

The Management Committee

Alan Baker, Deutsche Bank Sharps Pixley (Chairman) Alan, who was a key driver of change at the LBMA and a big supporter of the Alchemist, is happily retired after a long and distinguished career

Martin Stokes, Morgan Guaranty Trust Co of NY (Vice Chairman) Martin succeeded Alan as Chairman. After retiring from JPM, he joined a hedge fund in the City, although horse racing remains his real great love

Colin Griffith, Standard Bank London Ltd After retiring from Standard Bank London, Colin spent four years in Dubai helping to build the Dubai Multi Commodity Centre and the Dubai Gold and Commodity Exchange and now represents the interest of both organisations in Europe. When I was developing the *Alchemist*, I asked Colin, a colleague at both Credit Suisse and Standard Bank, what he thought of the name. 'Rubbish,' he said, 'it will never catch on'. For once, and it really doesn't happen very often, Colin was wrong

John Fairley, Johnson Matthey PLC
John had a long and distinguished career with Johnson Matthey, and was very active within the LBMA. He now has his own consultancy and is highly sought after

Peter Hillyard, Barclays Bank Plc
Peter has worked for a number of leading bullion banks and is currently Head of Metal Sales at ANZ Investment Bank

Peter Fava, Montagu Precious Metals
Peter worked for two gold fixing members,

The Markets

(Prices are indications only)

	End May 1995	High	Low	28 March 2008	% Change
Gold	$385.00	$1,030.00 (March 08)	$253.00 (July 99)	$930.00	141.55
Silver	$5.50	$21.25 (March 08)	$4.17 (July 97)	$17.88	225.09
Platinum	$432.00	$2,230.00 (March 08)	$335.00 (October 98)	$2,000.00	362.96
Palladium	$160.00	$1,095.00 (January 01)	$115.00 (November 96)	$441.00	175.63
USD Index	82.70	121.00 (July 01)	70.70 (March 08)	71.68	(13.33)
NYMEX light crude (front month)	$18.90	$111.80 (March 08)	$10.35 (December 98)	$104.95	455.29

N.M. Rothschild & Sons and Samuel Montagu, for number of years and succeeded Martin Stokes as LBMA Chairman. He is now retired

Martin Konig, NM Rothschild & Sons
Martin was a direct peer of mine as we graduated through the respective ranks of Rothschild (him) and Samuel Montagu (me), but sadly I have lost touch and would love to know what he doing now

The Subcommittee Chairmen

Physical Committee:
Peter Smith, Morgan Guaranty Trust Co of NY Peter is the one constant in the ever-changing world of bullion, remaining at the helm of one of the LBMA's most important subcommittees since September 1992

Finance Committee:
Bob Takai, Sumitomo Corp (UK) Ltd
Bob is now the global head of commodity derivatives at Sumitomo Corporation in Tokyo. I recently heard Bob on a business radio station in Dubai giving his views on oil and sounding as articulate as ever

Public Affairs Committee:
William Lamarque, NM Rothschild & Sons I served on the Public Affairs Committee under William before succeeding him as Chairman. He is a Director and Chairman of the Audit Committee at Ecometals Limited, an international mining company engaged in gold and base metal projects

Membership Committee:
Alan Morris, J Aron & Co (Bullion)
Alan, another peer of mine, was a leading market maker for many years before taking a well earned sabbatical from the market. He has now returned to the front line at Société Générale.

It would be remiss not to mention the sterling efforts of Chris Elston, the LBMA's first Chief Executive, who was appointed in 1995 after a long career with the Bank of England. Ably assisted by a dedicated staff that included Stella Thompson, Chris played an important role in raising the profile of the LBMA.

He was succeeded by Stewart Murray who, ably assisted by his team, has helped to the LBMA to grow into a truly international organisation. At the time of the first issue of the *Alchemist*, the Association had a total of 59 Members, 15 Market Makers and 45 Ordinary, all based in the UK. Today there are 66 Members (11 Market Making and 55 Ordinary) and 47 Associates, with membership spread across 20 countries – a great achievement.

Fasten Your Seat Belts

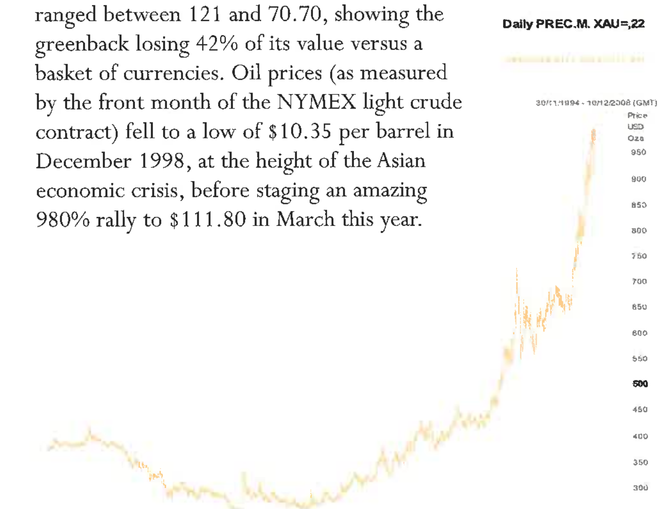
The world's financial markets have undergone some dramatic changes over the last 13 years. For the first half of this period, precious metals were in the doldrums. They – and we – then embarked on a protracted bull run that started in the summer of 2001 and culminated in March this year with all-time record highs in gold and platinum, and with silver at its highest price since 1980, while palladium has endured a rollercoaster ride, peaking at $1,095 in January 2001 from a low point of $115 in November 1996.

The table shows the ranges of all four precious metals over the life of the *Alchemist*, as well as the movement of the twin influences of the US dollar and crude oil, with the former having a much more important impact on the gold price. Gold has gained $545, or 141%, since May 1995, with a trading range between $1,030 (this March) and $253 (the summers of 1999 and 2001). The USD Index ranged between 121 and 70.70, showing the greenback losing 42% of its value versus a basket of currencies. Oil prices (as measured by the front month of the NYMEX light crude contract) fell to a low of $10.35 per barrel in December 1998, at the height of the Asian economic crisis, before staging an amazing 980% rally to $111.80 in March this year.

The first issue of the *Alchemist* contained contributions from Rhona O'Connell, then a partner at T. Hoare and now a Managing Director at GFMS; Andy Smith, then with UBS, now involved with Ridgefield Capital and Tom Griffo, a popular analyst, then with Cargill Investor Services.

Rhona's article was eerily prophetic as she argued that 'the hefty absorption of physical gold in Asia and the Far East particularly has provided continuing evidence that several millions of individuals have unshakeable faith in gold's role as a safe haven in the face of a developing currency chaos and problems in the derivative markets'. Andy, albeit in a typically bearish tone, referred to 'bank failures in the UK (Barings), in France (Credit Lyonnais) and in Japan (two credit banks) where,' he stated, 'two-thirds of housewives saw the "high possibility" of a bank failure in the short to medium term'. He also talked about 'the drooping dollar, hitting all-time lows against almost everything, it seemed, but the Zambian kwacha'. Does this all sound very familiar – and reflective of the current turmoil in financial markets? As I have said before, financial history always repeats itself.

In conclusion, what will the next 50 issues of the *Alchemist* bring? Who can tell, but – if it is anything like the first 50 – fasten your seat belts and hang on to your hats. It's likely to be a rough, tough ride but, as ever, lots of fun. ■



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999
GOLD
1 KILO