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GOLD DEMAND REMAINS ROBUST DESPITE PRESSURE ON JEWELLERY PURCHASES FROM GLOBAL ECONOMIC DOWNTURN AND HIGH GOLD PRICES

Investment demand for gold remained very strong in the second quarter of 2009, rising 46% on year earlier levels as investors continued a flight to quality. Overall demand for gold fell back from recent high levels as weak economic conditions and high gold prices combined to impact demand, according to the *Q2'09 Gold Demand Trends* report published today by World Gold Council (WGC). Although gold demand remains very high on a historical basis, total demand in Q2'09 was down 9% on the levels of a year earlier, a 6% decline in \$US value terms to \$US21.3b.

The figures, compiled independently for WGC by GFMS Limited, show that total identifiable investment demand for gold, which includes exchange traded funds (ETFs) and bars and coins, remained very strong. Investment demand rose to 222 tonnes, a 46% increase on year-earlier levels, but below the extreme highs experienced during the previous three quarters when the economic and financial crisis was at its peak.

Retail investment, which includes demand for physical gold in the form of bars and coins, had another healthy quarter. Net retail investment was up 23% relative to the previous quarter and 12% on the levels of Q2'08 as investors, specifically those in western countries, continued to seek out gold for its unique wealth preservation qualities. Flows into gold ETFs returned to a more moderate, but historically robust level of 57 tonnes after an exceptional first quarter that saw net inflows total 465 tonnes.

Inferred investment, which covers the less visible part of gold demand, stood at 195 tonnes in Q2, up from 10 tonnes for the same period last year. This rise reflected a significant increase in gold held by investors, wary of counterparty risk, in allocated gold accounts.

The impact of high local gold prices (near record highs for consumers in some countries), at a time of severe global economic difficulty, led to a widespread decline in consumer demand for gold jewellery, down 22% compared to the same period in 2008.

The exception was mainland China, which recorded positive growth of 6% in tonnage relative to Q2 2008 due to China's historic low base of consumer demand, the relative stability in the local currency and gold price, and the resilience of the Chinese economy to the global economic downturn.

Industrial demand continued to suffer from the effects of weak economic conditions, falling 21% relative to year-earlier levels. The sector experienced an 18% quarter-on-quarter gain, however, reflecting a significant improvement in the other industrial and decorative and electronics components.

Aram Shishmanian, CEO of World Gold Council, commented:

"This is another excellent quarter for gold demand as gold's unique properties and broad demand and supply base continue to sustain a vibrant market and support the price. Although demand failed to match the exceptional levels seen in previous quarters when the economic and financial crisis was at its peak, demand nevertheless remained very robust throughout the quarter. Investment demand, in particular, witnessed a strong quarter and we believe this indicates a growing recognition of gold as an important and independent asset class.

"The global economic downturn has certainly had a major impact on the purchasing power of gold consumers, as have the high local prices and dollar volatility. However, we continue to see pockets of solid demand in many non-western markets on dips in the gold price. We expect consumers, particularly in India, to look for opportunities to buy back the jewellery that has been recycled over recent quarters."

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In India, despite domestic economic pressures and sustained near record local gold prices, second quarter gold demand recovered from the exceptionally weak levels witnessed in the previous quarter, but remained well below year-earlier levels. Total gold off-take was down 38% on Q2'08, with jewellery, the largest component of demand, falling 31%.

Gold demand in Greater China in Q2 was up 9% on the levels of Q2 2008, equivalent to a 12% rise in \$US value terms. Net retail investment was up a very strong 35% on year-earlier levels, while jewellery demand posted a more modest 4% rise. In both cases, the gains were attributable to ongoing strength in demand in mainland China, partly offset by weakness in Taiwan and Hong Kong.

Total demand for gold in the Middle East region fell by 18% in Q2'09 to 72 tonnes (total demand was up 33% on the previous quarter). The investment component of demand fell 31% to 3.8 tonnes, while jewellery off-take was 17% below Q2 2008 levels at 68 tonnes (demand for jewellery was up 37% on the previous quarter, but this was to a significant extent a seasonal improvement).

In the US, total gold off-take in Q2'09 was 10% above the levels of Q2'08, equivalent to a rise of 13% in \$US value terms, driven by retail investment demand which rose by 91%. Jewellery off-take in Q2 was down 19% in tonnage terms on the levels of Q2'08, and in \$US value terms, the result was broadly similar at -17%. Notably, those rates of decline were significantly less severe than those seen in Q4 2008 or Q1 2009, suggesting that the declining trend in demand may be starting to stabilise.

Total supply of gold was up 14% relative to year-earlier levels at 927 tonnes, driven by lower levels of producer de-hedging, with mine output and recycling activity making a smaller contribution. Q2'09 supply was nevertheless 23% below the levels of the previous quarter. The main contributor was a 41% reduction in recycled gold, suggesting that profit-taking and distress selling has decreased. The central bank sector had a dampening impact on supply - net purchases of 14 tonnes were recorded in Q2'09 compared to net sales of 69 tonnes in Q2'08, the figures indicating the first net purchase by central banks for a considerable length of time.

The full second quarter 2009 Gold Demand Trends report can be viewed at:
http://www.research.gold.org/supply_demand/

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For further information and to receive country reports or the full Gold Demand Trends:

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Notes to Editors:

World Gold Council

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