

**PRESS RELEASE**

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**RECORD DEMAND FOR GOLD IN 2005**

- **2005 demand for gold hits record of \$53.6 billion**
- **26% rise in investment demand in tonnage terms in 2005**
- **Jewellery demand 14% higher in \$ terms than 2004 despite the impact of a volatile price in Q4**
- **Net inflows into Exchange Traded Funds totalled 203 tonnes or \$3 billion**

Consumers and investors pushed demand for gold to a record level of \$53.6 billion in 2005, according to figures published today by the World Gold Council (WGC), with all categories of demand (jewellery, industrial and investment) recording double-digit year-on-year growth in dollar terms.

Identifiable investment demand totalled 600 tonnes in 2005, a 26% rise on the previous year, whilst jewellery demand rose 5% (2,736 tonnes) and industrial demand by 2% (419 tonnes). It was also a record year in dollar terms for total consumer demand (3,132 tonnes) which includes both retail investment and jewellery.

The 2005 figures, compiled independently for the World Gold Council by GFMS Ltd, show that the fourth quarter in particular saw substantial inflows of institutional investment into gold. Investment in Exchange Traded Funds (ETFs) increased by 79 tonnes during Q4 alone and it is estimated that other institutional investment in the period approached 200 tonnes. However, the upward surge in the price that resulted from the investment inflows had a negative impact on jewellery demand and on retail investment due to profit taking. Despite this impact, overall demand in Q4 was sufficiently strong to absorb a 10% year on year increase in supply and a 12% increase in the price.

James Burton, Chief Executive of the World Gold Council, commented today:

“2005 has been a momentous year for gold demand, with record levels of consumer demand in dollar terms and a simultaneous surge in institutional investment. It is clear both from the success of the gold backed ETFs as well as our own marketing to financial audiences that long-term investors are increasingly taking advantage of the investment benefits of gold.

“Similarly our jewellery marketing programme is paying real dividends, and it is gratifying to see that those markets where we are most active also tend to be those markets that have seen the most growth. We have built up a real momentum in 2005 and must continue our marketing and promotional work in the future to ensure that similar levels of growth are seen in 2006 and beyond.”

**Outlook for 2006**

2006 has begun in a similar pattern to the end of 2005 with price volatility leading to strong demand for institutional investment in gold but a cautious approach to jewellery purchasing. Longer term jewellery demand is expected to recover and to resume growth once the price has stabilised, a fact borne out by market research which suggests continued positive sentiment to gold.

On the supply side, more positive remarks by central banks towards gold have prompted market speculation of new central bank buying. The WGC is aware of new interest in gold by certain central banks

but, in view of central banks' long decision-making processes, does not expect immediate substantial purchases.

## **DETAILED ANALYSIS**

### **Investment Demand**

Identifiable investment in 2005 was 26% higher than a year earlier in tonnage terms and 37% higher in value terms. The fastest growing category was Exchange Traded Funds and similar products (ETFs) which grew by a massive 53% in tonnage terms and 67% in dollar terms. Of the total 203 tonnes inflow, 168 tonnes, or 83% of the total, were accounted for by the WGC-backed, streetTRACKS Gold Shares, listed on the New York Stock Exchange.

Market reports indicate that the vast majority of the inflow consists of new investment with little cannibalisation of existing gold investments. Furthermore, the majority of investors appear to be long-term holders. Looking ahead, inflows into the ETFs in the first weeks of 2006 exceeded the average rate of net central bank selling during the whole of 2005.

Aside from ETFs and similar products, there was positive growth in all categories of gold investment for the year as a whole. Despite profit-taking in the fourth quarter, bar hoarding and official coins increased by 8% and 6% respectively over the year while retail investment in medals and imitation coins, a category concentrated largely in India, grew by a substantial 26% over the year.

Overall the substantial growth in gold investment can be attributed to a number of macro-economic and ongoing political tensions, as well as the increasing evidence of strong fundamentals for gold and growing interest among investors in the diversification benefits and price behaviour of commodities generally.

### **Jewellery Demand**

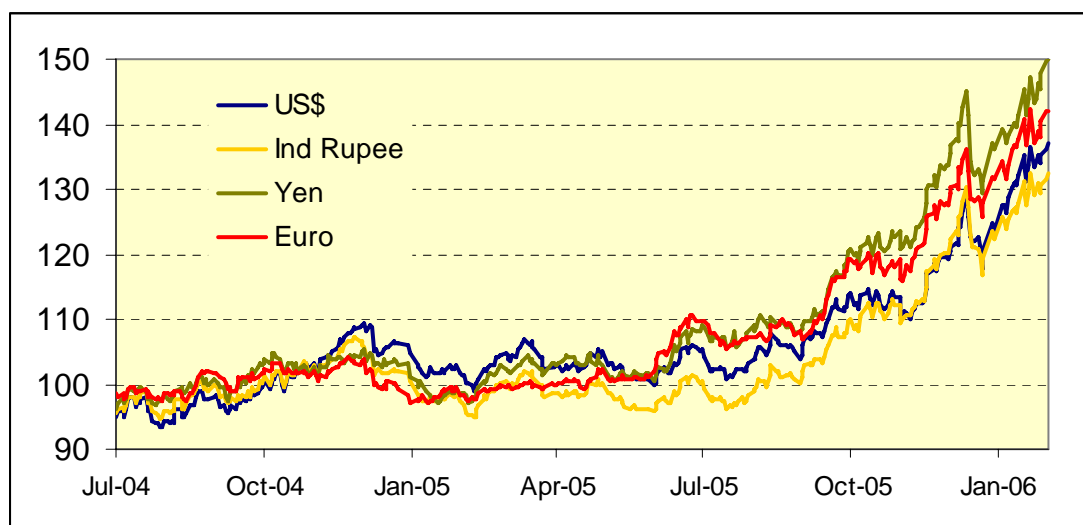
Overall jewellery demand in 2005 was 5% higher than 2004 in tonnage terms and a substantial 14% higher in dollar terms. New annual demand records were set in 2005 in UAE, Vietnam and, for the third successive year, in Turkey.

In tonnage terms, double-digit increases were seen in India (up 14%) and Saudi Arabia (up 12%) with solid increases of around 6 to 8% in China, Taiwan, United Arab Emirates and Turkey for the year as a whole.

Price volatility, rather than increase in price, in the last quarter of 2005 was the prime deterrent to purchase. For the rest of the year, the gold promotional activity of the last few years and the improved product offering in key markets, combined with favourable demographic and macro-economic factors account for resilient demand despite the higher prices compares to 2004.

Market research carried out on behalf of the World Gold Council at the end of 2005 provides both encouragement and additional explanations of why jewellery demand proved so strong in the last two years in the face of a rising price. Economic, demographic and attitudinal changes have together resulted in a significant increase in the size of key markets for gold, i.e. those who have the ability and desire to buy good quality jewellery. Attitudes to gold jewellery and buying intentions remain positive as we move into 2006.

Provided promotion is both sustained and effective and the product offering is attractive to the potential purchaser, the market continues to be fundamentally strong. A summary of this research, which updates a major study carried out in 2002, will be published by the World Gold Council in April 2006.

**The gold price, July 2004 to January 2006**

Source: GFMS Ltd, World Gold Council

**Industrial Demand**

Industrial and dental demand rose by 2% in tonnage terms (11% in dollar terms) in 2005 with the increase in industrial demand slightly offset by a fall in dental offtake mainly concentrated in the first half of the year. 80% of this decline was due to cuts in state funding of German dental work.

Electronics demand for gold rose 4% in tonnage terms in 2005. While growth in the first half of 2005 was constrained by high inventory levels and concerns among fabricators of possible falls in end-product sales, the second half of 2005 witnessed a recovery in demand spurred by the strong US and global economy.

In the last quarter of 2005, electronics demand, which is not price sensitive in the short term, was 12% up on tonnage levels in the same period in 2004. Japanese demand rose strongly and demand in Singapore and South Korea, as well as in the US, was over 5% higher than a year earlier. Industrial demand for gold in China is thought to have risen by at least one tenth during this period.

**Supply**

Overall gold supply in 2005 was 15% higher than in 2004, due to a combination of less de-hedging and higher official sector sales. The pattern of year-on-year supply growth was different in the fourth quarter with less de-hedging and higher scrap levels offset by lower net selling from central banks, making overall supply 10% higher than during the same period in 2004.

Although a number of new mines have come on stream in recent years, mine production in 2005 was only 1% (31 tonnes) higher than in 2004. As expected, 2005 saw less de-hedging than 2004 due to the planned evolution of de-hedging programmes and as a result, total mine supply was 16% higher.

At 663 tonnes, net central bank selling reached record levels. The rise of 41% compared to 2004 was due to the higher net level of annual sales (500 vs 400 tonnes) under the terms of the second Central Bank Gold Agreement (CBGA 2) compared to the first Agreement and the fact that there was no significant buying

comparable to Argentina's purchase of 55 tonnes in 2004. The majority of selling came from CBGA 2 signatories.

### Consumer demand trends in individual countries:

#### Asia

##### *India*

- Overall consumer demand in India in 2005 was 17% higher in tonnage terms than the year before. In rupee terms, this was equivalent to a 25% increase bringing the value of gold demand in India to a second successive annual record.
- Jewellery demand also experienced a second successive annual record of over 20% in rupee terms over 2004. This translated to an increase of 14% in tonnage terms, accounting for 589 tonnes.
- Price volatility, rather than a high price level, was the prime deterrent to purchase in Q4. The first half of 2005 saw extremely high levels of offtake with jewellery demand 53% higher than a year earlier. The third quarter, a period of transition when prices started to rise, saw jewellery demand essentially unchanged from year-earlier levels, while the fourth quarter saw a fall of 51%.
- Net retail investment was less affected by the upward price movement and set a new annual record in tonnage terms, with a massive 34% increase over 2004.
- Evidenced by a consumer survey carried out for the World Gold Council at the end of 2005, the underlying strength of Indian gold demand remains robust and is underpinned by a strong economy and favourable demographics in gold's key target markets. While jewellery demand may have been constrained in the first weeks of 2006, a period of price stability is likely to see a strong level of buying once again.

##### *Greater China*

- The buoyant Chinese economy and the success of the K-gold jewellery promotion saw consumer demand in Mainland China rise by 8% in tonnage terms in 2005 with a 8% increase in jewellery offtake and a 20% rise in net retail investment.
- Demand for jewellery in Q4 was less affected by the sharp rise in the price than some other countries and buying in Q4 was higher than Q4 2004, in part because the rising price favoured the favoured the investment motive for buying jewellery, in particular the traditional 24 carat pieces.
- Throughout the year, growth in *K-gold* (18-carat gold often with Italian-inspired design) grew rapidly, with its share of the total market rising from 12% to around 15% although the winter months have experienced the usual slow-down for this category.
- A rise in net retail investment in gold was primarily due to the progress of deregulation in China. Since the end of 2004 banks have been able to sell bars and coins, but uncertainty over the tax treatment of this trade has hampered the market's development. In November 2005 this issue was finally resolved and there is considerable potential for further growth in the long-term from the current low levels.
- The strong economy, the success of K-gold and the growth in the numbers of people willing and able to buy high-quality jewellery should support demand growth in 2006, particularly once the price stabilises. The Chinese Year of the Dog is also considered generally auspicious for

weddings (unlike the previous year) and this should help the traditional 24 carat jewellery market in particular.

### **Middle East and Turkey**

- For 2005, demand was strong in the Middle East with 9% growth for the region and a new record for jewellery offtake in the UAE (96 tonnes).
- Vibrant economies on the back of high oil prices, construction activity and ever increasing tourist numbers in the Gulf countries, combined with sustained and increased promotion by the gold trade and the World Gold Council, underpinned offtake for much of the year, until the rising price in the last weeks curtailed demand in the last few weeks of 2005.

#### *UAE and the Gulf*

- The booming economy, high tourist numbers, heavy trade and sustained WGC promotion helped to bring about an 8% increase in jewellery demand in the UAE over the year as a whole despite a fall in the fourth quarter. Jewellery buying in the rest of the Gulf region was 5% higher in 2005 compared to 2004 with the price rise in Q4 having only a limited impact on buying.

#### *Saudi Arabia*

- Saudi Arabia showed the strongest growth overall for the region with jewellery demand rising by 12% and overall demand by 13%. The effect of a strong economic backdrop and a relaxation of Saudi-isation rules for jewellery shops, which can now employ one foreign worker per outlet, and a liberalisation of rules on imported jewellery and jewellery exhibitions contributed to this rise.
- The impact of the price rise in Q4 2005 was also more muted in Saudi Arabia than in the rest of the region with jewellery demand dropping by just 3% on Q4 2004.

#### *Turkey*

- Overall demand and, in particular, jewellery buying in Turkey set new records for the third year in succession. Demand for coins was at record levels for the fourth successive year. A combination of successful and increasing promotion, attractive new products and an improving economy have underpinned this success story over the past three years.

### **Europe and United States**

#### *Europe*

- Europe has remained the exception to the generally positive story for gold demand in 2005. Jewellery buying was lower in 2005 than in 2004 in both Italy and in the UK.
- The Italian economy is not performing well and consumer confidence is facing economic and political uncertainties, which are worsened by the spring political elections. Those manufacturers and retailers who have promoted new designs and branding fared better than the mainstream businesses which are suffering the brunt of the downturn.
- In the UK consumer spending on discretionary items was uncertain last year in the face of concern over possibly rising interest rates, higher taxes and price increases for a number of essentials. The number of gold items hallmarked fell by 18%, a similar fall to the number of all jewellery pieces hallmarked. Some differences can be observed between the performance of the mainstream 9-carat market and the more stylish and higher quality 18-carat market. Over

the past five years 18-carat jewellery has generally performed better in the UK than 9-carat, with the number of 9-carat articles hallmarked falling by 30%.

## U.S.A.

- In tonnage terms, US jewellery demand in 2005 was slightly higher than in 2004 – the first year since 2001 not to show a decline. The retail value of items purchased is expected to have risen by 5%, the highest growth rate of the past four years.
- The impact on consumer spending of higher energy prices and two major hurricanes was felt in Q4 and retailers experienced a mixed Christmas selling season.
- Yellow gold is increasingly the driver of gold sales. As throughout 2005, the more innovative jewellers, in both the fashion and mass-market sectors, are performing well. Market research carried out towards the end of 2005 showed positive shifts in sentiment towards gold jewellery and in future purchasing intent.
- The growing interest in gold as an investment also had its impact on retail purchases of bars and coins. This reached 10 tonnes in the fourth quarter, the highest quarterly figure since the beginning of 2003 and 72% higher than a year earlier.

## END-USER GOLD DEMAND (TONNES)<sup>1</sup>

	2003	2004	2005 <sup>2</sup>	% ch 2005 vs 2004	Q3'04	Q4'04	Q1'05	Q2'05	Q3'05	Q4'05 <sup>2</sup>	% ch Q4'05 vs Q4'04
<b>Jewellery consumption</b>	2,477.7	2,618.1	2,736.2	5	604.6	799.5	693.4	740.1	619.5	683.2	-15
<b>Industrial &amp; dental</b>	380.3	409.8	418.5	2	100.8	99.3	98.2	111.5	105.5	103.3	4
Electronics	233.0	259.0	269.5	4	63.8	60.6	61.0	71.7	69.2	67.6	12
Other industrial	80.3	83.0	84.7	2	20.2	21.9	21.8	23.8	20.0	19.2	-12
Dentistry	67.0	67.8	64.3	-5	16.8	16.9	15.5	16.1	16.3	16.5	-2
<b>Identifiable investment</b>	331.3	476.1	599.6	26	75.4	209.4	212.9	107.9	122.3	156.5	-25
<b>Retail investment</b>	291.9	343.4	396.2	15	77.5	96.0	124.3	109.5	84.8	77.6	-19
Bar hoarding	177.9	248.0	267.6	8	58.1	65.6	83.9	81.9	55.2	46.6	-29
Official coin	106.7	113.8	120.4	6	25.2	24.5	40.9	29.6	26.2	23.8	-3
Medals/imitation coin	25.5	29.4	36.9	26	7.9	8.5	9.8	9.8	8.6	8.7	2
Other identified retail invest. <sup>3</sup>	-18.2	-47.8	-28.8	...	-13.7	-2.6	-10.3	-11.8	-5.2	-1.5	...
<b>ETFs &amp; similar products</b> <sup>4</sup>	39.4	132.6	203.4	53	-2.0	113.4	88.5	-1.6	37.5	79.0	-30
<b>Total end-user consumption</b>	3,189.2	3,504.0	3,754.3	7	780.8	1,108.2	1,004.5	959.5	847.3	943.0	-15
<b>London pm fix, \$/oz</b>	363.32	409.17	444.45	9	401.30	433.80	427.35	427.39	439.72	484.20	12

## END-USER GOLD DEMAND (\$M)<sup>1</sup>

	2003	2004	2005 <sup>2</sup>	% ch 2005 vs 2004	Q3'04	Q4'04	Q1'05	Q2'05	Q3'05	Q4'05 <sup>2</sup>	% ch Q4'05 vs Q4'04
<b>Jewellery consumption</b>	28,942	34,441	39,099	14	7,801	11,151	9,527	10,170	8,758	10,636	-5
<b>Industrial &amp; dental</b>	4,442	5,391	5,980	11	1,300	1,386	1,349	1,533	1,491	1,607	16
<b>Identifiable investment</b>	3,870	6,263	8,568	37	973	2,921	2,925	1,482	1,729	2,437	-17
<b>Retail investment</b>	3,410	4,518	5,661	25	999	1,339	1,709	1,504	1,199	1,208	-10
Bar hoarding	2,078	3,263	3,824	17	750	914	1,153	1,125	781	726	-21
Official coin	1,246	1,497	1,721	15	325	342	562	407	370	370	8
Medals/imitation coin	298	386	527	36	102	118	135	135	121	135	14
Other identified retail invest.	-212	-628	-411	...	-177	-36	-141	-162	-73	-24	-35
<b>ETFs &amp; similar products</b>	460	1,745	2,907	67	-26	1,582	1,217	-22	531	1,229	-22
<b>Total end-user consumption</b>	37,253	46,095	53,647	16	10,075	15,457	13,802	13,185	11,978	14,680	-5

Source: GFMS Ltd. 1. Identifiable end-use consumption excluding central banks. 2. Provisional. 3. "Other retail" excludes bar and primary coin offtake; it represents mainly activity in North America and Western Europe. 4. Exchange Traded Funds and similar

# WORLD GOLD COUNCIL

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*products including: LyxOR Gold Bullion Securities, Gold Bullion Securities (Australia), streetTRACKS Gold Shares, NewGold Gold Debentures, iShares Comex Gold Trust, Central Fund of Canada and Central Gold Trust.*

**CONSUMER DEMAND TRENDS IN SELECTED COUNTRIES (ANNUAL)**

*Nb. Consumer demand is gold bought by individuals – i.e. jewellery and net retail investment. Unless otherwise specified all data in this section refer to tonnage figures and growth rates are comparisons with the same period of the previous year.*

	2004			2005 <sup>1</sup>			% change 2005 vs 2004		
	Net retail		Total	Net retail		Total	Net retail		Total
	Jewellery	invest.		Jewellery	invest.		Jewellery	invest.	
India	517.5	100.2	617.7	589.0	134.7	723.7	14	34	17
<b>Greater China</b>	258.7	12.2	270.9	277.7	14.9	292.6	7	22	8
China	224.1	9.8	233.9	241.4	11.7	253.1	8	20	8
Hong Kong	13.8	1.2	15.0	14.0	0.6	14.6	1	-48	-3
Taiwan	20.7	1.2	21.9	22.4	2.5	24.9	8	108	13
Japan	34.6	67.0	101.6	34.0	46.0	80.0	-2	-31	-21
Indonesia	83.9	5.0	88.9	77.0	3.0	80.0	-8	-40	-10
Vietnam	26.1	39.2	65.3	26.9	34.0	60.9	3	-13	-7
<b>Middle East</b>	343.5	17.1	360.6	370.9	22.6	393.5	8	32	9
Saudi Arabia	136.2	5.2	141.3	152.3	7.3	159.6	12	42	13
Egypt	73.0	0.5	73.5	75.4	0.9	76.3	3	80	4
UAE	89.3	6.5	95.8	96.0	10.0	106.0	8	54	11
Other Gulf	45.0	4.9	50.0	47.3	4.4	51.6	5	-12	3
Turkey	185.7	48.9	234.6	196.9	53.5	250.4	6	9	7
USA	350.5	21.3	371.8	352.8	29.4	382.2	1	38	3
Italy <sup>2</sup>	77.2	...	77.2	71.8	...	71.8	-7	...	-7
UK <sup>2</sup>	70.2	...	70.2	57.7	...	57.7	-18	...	-18
Europe <sup>3</sup>	...	-22.7	-22.7	...	-13.9	-13.9	...	...	...
<b>Total above</b>	<b>1,947.8</b>	<b>288.2</b>	<b>2,236.0</b>	<b>2,054.6</b>	<b>324.1</b>	<b>2,378.7</b>	<b>5</b>	<b>12</b>	<b>6</b>
<b>Other &amp; Stk Ch</b>	<b>670.2</b>	<b>55.3</b>	<b>725.5</b>	<b>681.6</b>	<b>72.1</b>	<b>753.7</b>	<b>2</b>	<b>31</b>	<b>4</b>
<b>Total inc. others</b>	<b>2,618.1</b>	<b>343.4</b>	<b>2,961.5</b>	<b>2,736.2</b>	<b>396.2</b>	<b>3,132.4</b>	<b>5</b>	<b>15</b>	<b>6</b>

Source: GFMS Ltd - 1. Provisional. 2. Jewellery only. 3. Net retail investment only

**GOLD SUPPLY AND DEMAND**

	2003			2004			2005 <sup>2</sup>			% change 2005 vs 2004	Q3'04		Q4'04		Q1'05		Q2'05		Q3'05		Q4'05 <sup>2</sup>		% change Q4'05 vs Q4'04
	2003	2004	2005 <sup>2</sup>	Q3'04	Q4'04	Q1'05	Q2'05	Q3'05	Q4'05 <sup>2</sup>														
<b>Supply</b>																							
Mine production	2,593	2,463	2,494	1	648	643	574	607	655	658	2												
Net producer hedging	-270	-427	-138	...	-140	-114	-22	-70	-31	-15	...												
Total mine supply	2,322	2,037	2,355	16	508	528	552	536	624	643	22												
Official sector sales <sup>2</sup>	617	471	663	41	64	214	271	151	79	161	-25												
Old gold scrap	939	834	841	1	183	206	208	191	201	242	17												
Total supply	3,879	3,342	3,859	15	755	948	1,032	878	904	1,045	10												
<b>Demand</b>																							
Fabrication																							
Jewellery	2,478	2,618	2,736	5	656	687	712	770	664	590	-14												
Industrial & dental	380	410	418	2	101	99	98	112	105	103	4												
Sub-total above fabrication	2,858	3,028	3,155	4	757	786	811	882	769	693	-12												
Bar & coin retail investment <sup>3</sup>	310	391	425	9	91	99	135	121	90	79	-20												
Other retail investment	-18	-48	-29	...	-14	-3	-10	-12	-5	-2	-42												
ETFs & similar	39	133	203	53	-2	113	89	-2	38	79	-30												
Total demand	3,189	3,504	3,754	7	832	995	1,024	990	891	850	-15												
<b>Balance<sup>4</sup></b>	690	-162	105	...	-78	-47	8	-111	13	196	...												
London PM fix (US\$/oz)	363.32	409.17	444.45	9	401.30	433.80	427.35	427.39	439.72	484.20	12												

Data in this table are consistent with those published by GFMS but adapted to the WGC's presentation and taking account of the additional demand data now available. Note that jewellery data refer to fabrication and quarterly data differ from those for consumption in tables 1 and 2. 1. Provisional. 2. Excluding any delta hedging of central bank options. 3. Equal to the sum of the first three rows in Table 1. 4. This is the residual from combining all the other data in the table. It includes institutional investment other than ETFs & similar, stock movements and other elements as well as any residual error.

-Ends-

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Notes to Editors:

### **World Gold Council**

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