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GOLD DEMAND REACHES RECORD VALUE LEVELS IN 2007 BUT DEMAND SUFFERS IN Q4 DUE TO HIGH AND VOLATILE GOLD PRICES

A steady annual increase in overall identifiable gold tonnage demand, coupled with a gold price racing towards the long held \$850 oz record, combined to make dollar demand for gold hit a record US \$79bn in 2007. According to World Gold Council's ("WGC") *Gold Demand Trends*, identifiable gold demand was 4% higher in 2007 than in 2006 at 3,547 tonnes.

There were very positive stories in three key gold markets. In China total consumer demand reached 326 tonnes, 26% above 2006 levels. China has now overtaken the US as the second largest volume retail market for gold jewellery after India, with demand for jewellery reaching 302 tonnes and surpassing 300 tonnes for the first time since 1997. In Turkey, 2007 brought record overall demand for gold. Jewellery demand was, at 188 tonnes, the second highest annual figure ever, up 14% on 2006. Net retail investment demand was up 2% on 2006 at 61 tonnes. Strong growth continued in Russia with jewellery demand rising 11% to set a further annual record. Growth remained vibrant throughout the year with demand in Q4 nearly 25% higher than a year earlier – making Russia the fastest growing country for the quarter.

High and volatile gold prices had a major impact on the fourth quarter, however, with identifiable demand falling by 17% in tonnage terms from year-earlier levels. The figures, compiled independently for WGC by GFMS Limited, show this trend was most keenly felt in India, the world's largest and also most price sensitive gold market, where demand fell 64% on year earlier levels following 40% growth in the first three quarters. The US was also negatively impacted with a combination of a weak economy, poor retail environment and record prices denting jewellery demand which stood 14% down on 2006 figures. It would appear that an "affordability" mark has been reached in certain lower value segments of the market, although time will tell whether this will be overcome.

In the investment sector, Q4 2007 saw record levels of inflows at US\$8 billion, the highest quarterly level in recent years. This was characterised by strong buying in the "inferred investment" category. This sector includes over the counter transactions in spot gold and changes in stocks backing futures and other derivative transactions. Net retail investment, in the form of bars and coins was up 2% year on year in 2007, but the last quarter was heavily impacted by price movements as investors took profits. Net retail investment in Q4 at 67 tonnes was 39% lower than Q4 2006. After record inflows into gold exchange traded funds in the third quarter of 2007(139 tonnes), demand fell back to 78 tonnes for the last quarter. Total ETF demand was 251 tonnes for the year, 4% lower than 2006 levels. Overall identifiable dollar investment demand was up 15% on 2006 levels.

Industrial demand reached a record 465 tonnes in 2007, up 2% on 2006. Demand for the fourth quarter meanwhile, was up 2% year-on-year at 77.4 tonnes. Demand was driven by rising sales of electrical goods such as flat panel displays and MP3 players. High gold prices do not seem to have taken a toll on this sector.

James Burton, CEO of the World Gold Council, said:

"On a yearly basis we have seen a four per cent tonnage rise in identifiable demand for gold and record levels of demand in dollar terms, which is pleasing. However high and volatile gold prices in recent months have meant we have now entered a period of challenging trading conditions in the gold market, which have heavily impacted consumer demand for gold especially in the jewellery and retail investment sectors."

Gold supply remained tight throughout 2007, falling back 3% in tonnage terms. Supply from the official sector rose due to higher Central Bank Gold Agreement sales, but this was offset by increased de-hedging by gold mining companies and lower scrap supplies.

James Burton added:

“Jewellery and retail investment demand is unlikely to be strong in the first quarter of 2008, however gold’s desirability to consumers and investors alike remains very strong and once prices stabilise we believe buyers will come back to the market.

“Investment demand is likely to remain robust in the early part of 2008 as long as the current financial and economic worries and dollar weakness continue. A growing awareness among investors of the long-term benefits that a small strategic allocation can bring to a balanced portfolio should also contribute to rising investment demand.”

ENDS

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

Matt Graydon, Head of External Relations, World Gold Council, on + 44 (0)207 826 4716, or email matt.graydon@gold.org

Rebecca Clark, Capital MS&L on + 44 (0) 207 307 5342, or email rebecca.clark@capitalmsl.com

George Milling-Stanley, Manager, Investment & Market Intelligence, World Gold Council, on +1 212 317 3848, or email george.milling-stanley@gold.org

Notes to Editors:

World Gold Council

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