

Gold Demand Trends

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FEBRUARY 2010

FOURTH QUARTER AND FULL YEAR 2009

Executive Summary

- The volume of total identifiable gold demand during 2009 was down 11% on 2008 levels at 3,385.8 tonnes. In \$US value terms, the two years were broadly on par. Tonnage demand in Q4 was down 24% on Q4 2008, equivalent to a 5% rise in \$US value terms. If we add the less visible side of investment, total tonnage demand in 2009 enjoyed an 11% rise over 2008 levels.
- The \$US gold price in 2009, at an average of \$972.35/oz, was up 12% on \$871.96 in 2008. In Q4, the gold price averaged \$1,099.63, up a very strong 38% on the levels of Q4 2008. Consumers in India and Turkey experienced slightly smaller increases of 32% and 34% respectively, while consumers in the Euro area experienced a considerably smaller 23% rise.
- Identifiable investment in 2009 was up 7% relative to 2008, the only sector on the demand side to record positive growth. Industrial and dental and jewellery demand recorded declines of 16% and 20% respectively. China was the only major jewellery market to record annual growth in tonnage.
- A comparison of Q4 2009 demand against Q4 2008 shows that the only sector to enjoy positive growth was industrial and dental demand (11%), albeit off a low base. Jewellery demand declined 8%, also off a low base, while identifiable investment declined 50% relative to an exceptionally strong Q4 2008. Q1 2009 was also exceptionally strong; although investment flows subsequently tapered significantly, they remained high in absolute terms.
- After a very weak Q1, jewellery and industrial demand enjoyed three consecutive quarter-on-quarter gains. By Q4, jewellery demand had risen to 500.4 tonnes, up from 336.3 tonnes in Q1. The recovery in jewellery demand was driven largely by a rebound in the Indian market. Industrial demand benefited from a strengthening in the electronics sector, reflecting improved economic conditions.
- Strong investment flows in western markets generally offset weakness in non-western markets during 2009. The only non-western country to record positive growth in net retail investment during 2009 was China. India was the largest contributor on the downside, influenced strongly by dishoarding in the first quarter, although this was followed by a subsequent rebound. The strongest quarter-on-quarter performance came from the US, rising 104%.
- Other identified retail investment, which largely covers the western markets, rose 11% between 2008 and 2009 and 77% quarter-on-quarter.
- Bar hoarding, which largely covers the non-western markets, experienced a significant decline in both annual terms and in Q4 relative to Q4 2008.
- ETF demand in 2009, at 594.7 tonnes, was 85% higher than in 2008. The strong 2009 result was driven by an exceptional first quarter, which soared to 465.1 tonnes. Demand in Q4 2009 was significantly lower than in either Q4 2008 or Q1 2009, but still healthy in absolute terms at 31.6 tonnes.

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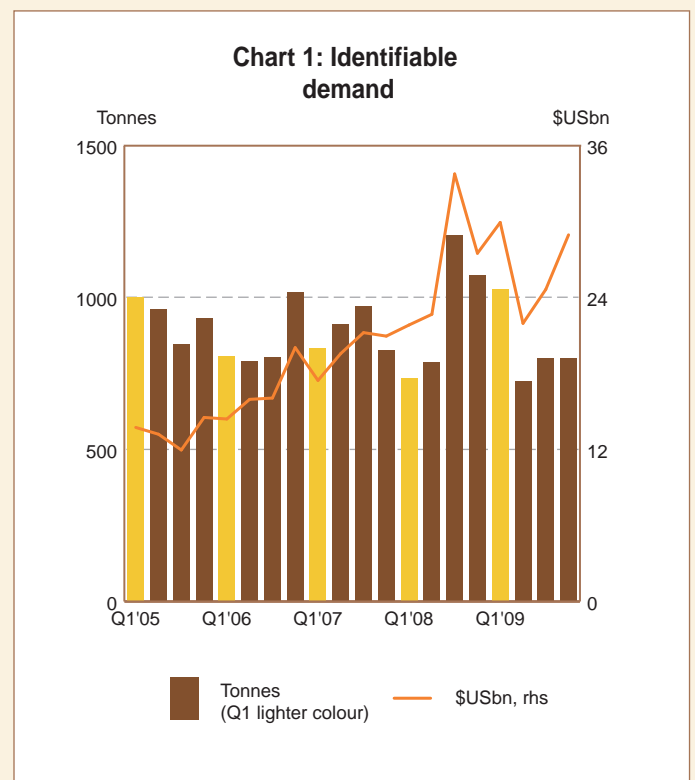
- Inferred investment, which captures the less visible part of investment demand as well as incorporating some residual error, totalled 503.8 tonnes in 2009 compared to net disinvestment of 292.6 tonnes in 2008.
- Gold supply in 2009 was up 11% on the levels of 2008. The single biggest contributor was recycling activity, with mine production and de-hedging also making a sizeable positive contribution. These positive influences were partly offset by a significant reduction in net official sector sales, which totalled just 44 tonnes in 2009 compared with an average of 444 tonnes over the five years to 2008. The annual increase in gold supply in 2009 was centred on Q1. A sharp fall in recycling activity and net buying in the official sector led to a significant reduction in supply in Q2, while higher levels of producer de-hedging had the primary dampening effect on supply in Q3.

Outlook

Regardless of whether the economic recovery gathers momentum or stumbles in 2010, we believe that western investment demand will remain well underpinned. If the global economy falters, then western investors will continue to look towards gold for its diversification and portfolio insurance properties. Conversely, if the economic recovery becomes more firmly entrenched, then inflation concerns are likely to continue to gain prominence. However, the outlook for non-western demand remains price dependent.

While industrial and jewellery demand are expected to strengthen in an environment where economic conditions are improving, this recovery is likely to be relatively gradual. Western jewellery markets are likely to be constrained by high levels of unemployment, while in non-western markets, the limiting factor is budget constraints as incomes have not kept up with the rise in the gold price. Nevertheless, any significant dips in the gold price are expected to be well supported.

Conditions on the supply side are also generally price supportive. While the levels of de-hedging activity that prevailed in the second half of 2009 are unlikely to continue into 2010, the official sector is likely to be a continued source of support for the gold price.



Source: GFMS, WGC

The figures used in this report

The data in this report are based on figures compiled independently by GFMS Ltd. Information from alternative sources is clearly indicated. Different from most commodity markets, the report includes value figures for demand as well as tonnage figures. There are two main reasons for this. First, over 85% of demand is discretionary spending either on a consumer product (jewellery) or as an investment. In both these markets it is customary to comment on value figures. Second, changes in demand can also reflect growth or contraction in the supply of gold. Commenting on both value and tonnage provides a more holistic picture. For global or regional value figures, the US dollar is used as the measure. Apart from the fact that gold is one of the world's major currencies, most of gold's main markets are in countries whose currencies are either linked to the dollar or where exchange rates against the dollar do not normally change greatly from year to year, other than in line with inflation differentials. The use of the US dollar is thus appropriate.

Not all investment flows can be measured and those that cannot be are proxied by the statistical residual from the supply and demand balance, known as "inferred investment"; this contains stock movements and other elements but it is usually dominated by those investment flows not susceptible to statistical capture. Investment figures can, at times, include inventory changes by the trade.

Demand

Table 1: Identifiable gold demand¹ (tonnes)

	2007	2008	2009	Q4'08	Q1'09	Q2'09	Q3'09	Q4'09 ²	% Ch Q4'09 vs Q4'08	% Ch Year on Year ³
Jewellery Consumption	2,404.8	2,186.7	1,747.3	546.7	336.3	422.2	488.4	500.4	-8	-20
Industrial & Dental	461.7	435.5	367.6	89.7	79.1	93.4	95.3	99.7	11	-16
Electronics	310.6	292.7	243.1	54.5	49.9	60.2	65.1	68.0	25	-17
Other Industrial	93.2	86.9	72.1	21.5	15.9	20.1	17.3	18.8	-13	-17
Dentistry	57.8	55.9	52.4	13.7	13.3	13.2	13.0	13.0	-5	-6
Identifiable Investment	685.9	1,183.4	1,270.9	440.6	610.2	225.9	215.3	219.5	-50	7
Net Retail Investment	432.5	862.5	676.2	345.9	145.2	169.2	173.9	187.9	-46	-22
Bar Hoarding	236.5	392.2	169.9	124.3	-21.9	57.7	78.3	55.8	-55	-57
Official Coins	137.0	187.3	234.4	61.6	71.6	56.0	50.0	56.8	-8	25
Medals/Imitation Coins	72.6	69.6	35.8	19.4	2.4	8.3	11.0	14.1	-27	-49
Other Identified Retail Invest. ⁴	-13.6	213.4	236.2	140.7	93.0	47.2	34.6	61.3	-56	11
ETFs & Similar Products⁵	253.3	320.9	594.7	94.7	465.1	56.7	41.4	31.6	-67	85
Total Identifiable Demand	3,551.9	3,805.7	3,385.8	1,077.1	1,025.7	741.5	799.1	819.7	-24	-11
London PM fix, \$US/oz	695.39	871.96	972.35	794.76	908.41	922.18	960.00	1,099.63	38	12

Source: GFMS. 1. Identifiable end-use consumption excluding central banks. 2. Provisional. 3. Percentage change, 12 months ended December 2009 vs 12 months ended December 2008. 4. "Other retail" excludes primary coin off-take; it represents mainly activity in North America and Western Europe. 5. Exchange Traded Funds and similar products including: Gold Bullion Securities (London), Gold Bullion Securities (Australia), SPDR® Gold Shares (formerly streetTRACKS Gold Shares), NewGold Gold Debentures, iShares Comex Gold Trust, ZKB Gold ETF, GOLDIST, ETF Securities Physical Gold, XETRA-GOLD, Julius Baer Physical Gold, Central Fund of Canada, and Central Gold Trust.

Table 2: Identifiable gold demand¹ (\$USmn)

	2007	2008	2009	Q4'08	Q1'09	Q2'09	Q3'09	Q4'09 ²	% Ch Q4'09 vs Q4'08	% Ch Year on Year ³
Jewellery Consumption	53,705	61,106	55,105	13,970	9,823	12,516	15,075	17,691	27	-10
Industrial & Dental	10,307	12,275	11,550	2,292	2,311	2,770	2,942	3,527	54	-6
Electronics	6,938	8,270	7,654	1,392	1,457	1,784	2,009	2,404	73	-7
Other Industrial	2,078	2,437	2,258	549	465	596	534	663	21	-7
Dentistry	1,291	1,567	1,638	351	388	390	400	460	31	5
Identifiable Investment	15,293	32,487	38,925	11,260	17,882	6,697	6,646	7,760	-31	20
Net Retail Investment	9,515	23,602	21,269	8,839	4,239	5,016	5,368	6,645	-25	-10
Bar Hoarding	5,176	10,842	5,460	3,175	-640	1,710	2,417	1,973	-38	-50
Official Coins	3,020	5,174	7,303	1,575	2,092	1,661	1,543	2,007	27	41
Medals/Imitation Coins	1,586	1,933	1,153	495	71	246	340	497	0	-40
Other Identified Retail Invest. ⁴	-267	5,652	7,353	3,594	2,717	1,400	1,068	2,168	-40	30
ETFs & Similar Products⁵	5,778	8,885	17,657	2,421	13,582	1,681	1,278	1,116	-54	99
Total Identifiable Demand	79,295	105,867	105,580	27,522	29,956	21,983	24,663	28,978	5	0

Source: WGC calculations based on data from GFMS. 1. Identifiable end-use consumption excluding central banks. 2. Provisional. 3. Percentage change, 12 months ended December 2009 vs 12 months ended December 2008. 4. "Other retail" excludes primary coin off-take; it represents mainly activity in North America and Western Europe. 5. Exchange Traded Funds and similar products including: Gold Bullion Securities (London), Gold Bullion Securities (Australia), SPDR® Gold Shares, NewGold Gold Debentures, iShares Comex Gold Trust, ZKB Gold ETF, GOLDIST, ETF Securities Physical Gold, XETRA-GOLD, Julius Baer Physical Gold, Central Fund of Canada, and Central Gold Trust.

Jewellery

Global jewellery demand picked up in the fourth quarter relative to the third quarter, despite the international gold price hitting record levels during the period. Q4 demand of 500.4 tonnes was 8% below year-earlier levels, the smallest decline since Q4 2008. The annual tonnage decline was considerably larger at 20% relative to 2008, influenced significantly by an extremely weak first quarter.

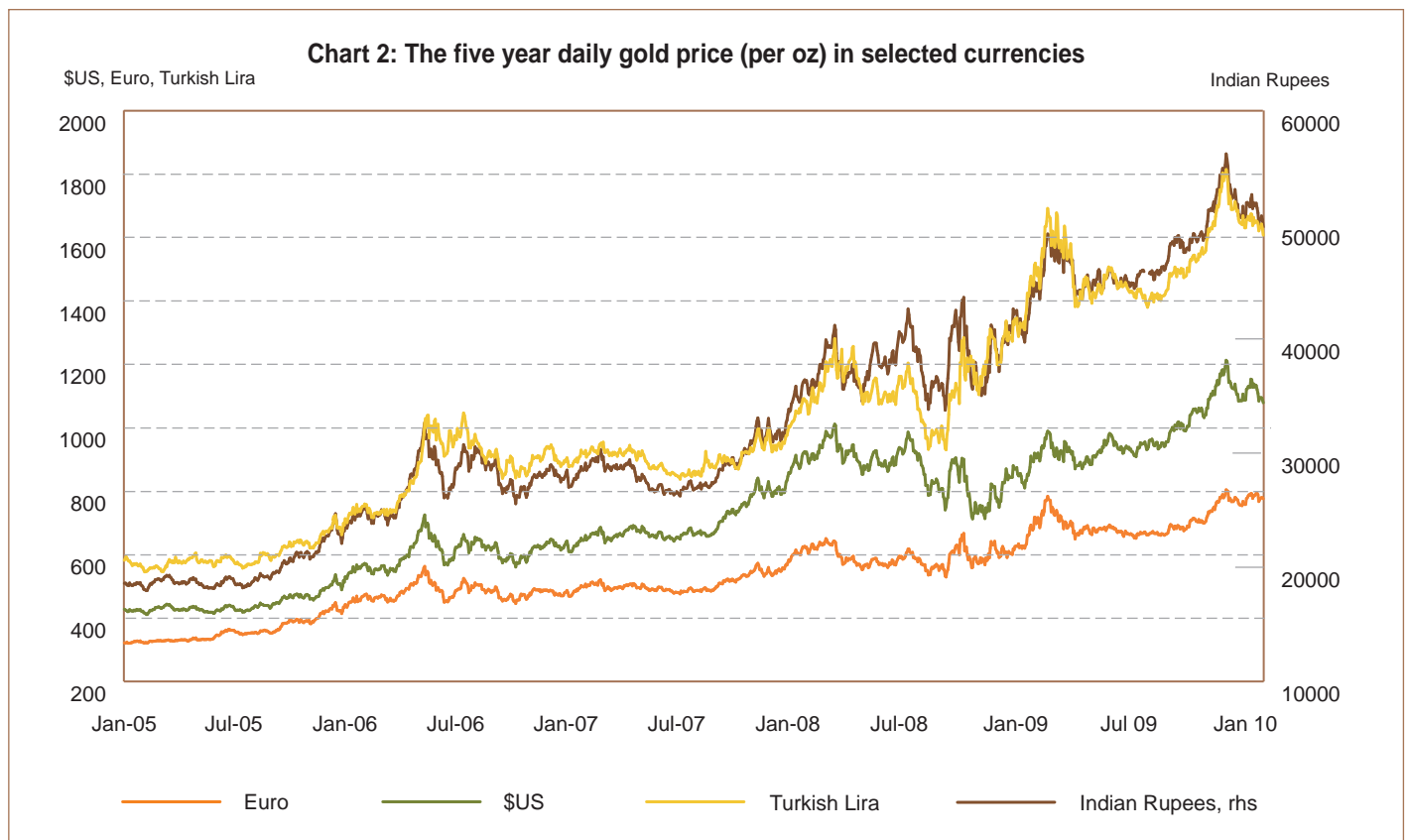
The \$US gold price averaged \$1099.63 in the fourth quarter, equating to a considerable 38% rise over the Q4 2008 average of \$794.76. However, jewellery demand declined by a much smaller 8%, implying that consumers are gradually becoming accustomed to higher prices. This is reflected in the value measure of demand, which recorded a 27% increase over Q4 2008 from \$US14bn to \$US18bn, the first increase for five quarters.

Global economic conditions continued to take their toll on jewellery demand as, although most major economies are now out of recession, the recovery has been a gradual one. Crucially, with its implications for earnings and disposable income, unemployment remains a concern in a number of key markets.

At the individual country level, India delivered the strongest performance in Q4, improving 27% on year-earlier levels from 108.6 tonnes to 137.8 tonnes. On an annual basis, India retained its position as the largest consuming country with total jewellery demand of 405.8 tonnes, although this represented a 19% decline on full year 2008. The value figures of demand show that, in local currency terms, Indian jewellery demand was slightly higher in 2009 than in the previous year at Rs613bn. The fourth quarter rise was an astonishing 67% from Rs136bn in Q4 2008 to Rs227bn in Q4 2009.

Mainland China was the only other country to record an increase in jewellery demand relative to Q4 2008. Off-take of 86.5 tonnes was 2% higher than Q4 2008, as the approach of the New Year season and wedding-related purchases boosted demand. On an annual basis however, mainland China was on its own in witnessing a growth in jewellery demand. Demand increased by 6% to 347.1 tonnes from 326.7 tonnes in 2008.

Jewellery demand across the rest of the Greater China region was considerably weaker in the fourth quarter, with both Hong Kong and Taiwan sustaining double-digit losses over the year-earlier period (-15% and -19% respectively).



Source: WGC based on Global Insight data

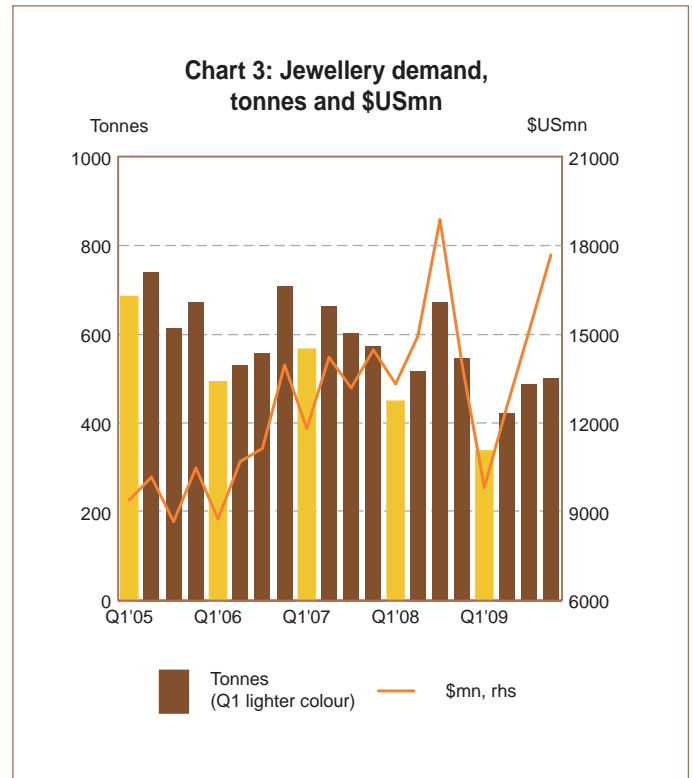
The soaring price of gold was the primary reason for the weak result, as consumers' disposable incomes did not keep pace with the rising cost of gold jewellery.

Jewellery demand in western markets continued to suffer from the economic downturn, while also responding negatively to the record \$US price. US demand was down 17% on Q4 2008, equivalent to a 15% rise in value terms. On an annual basis, demand of 150.3 tonnes was 20% down the already weak levels of 2008. Meanwhile, the pace of decline in UK jewellery demand started to slow; the annual decline was 15% while the fourth quarter decline relative to Q4 2008 was -7% (in local currency value terms, the changes were +12% and +23% respectively), giving the UK a more robust result than the global total. Against an unforgiving domestic economic background, Italy remained weak, with Q4 jewellery demand of 19.7 tonnes down 17% on year-earlier levels. Annual jewellery off-take of 39.5 tonnes was 19% below 2008. In value terms, fourth quarter demand measured €470mn, a 3% increase over year-earlier levels and the first rise in demand value since the second quarter of 2008.

Russia produced Europe's weakest Q4 result for fourth quarter jewellery demand; at 15.4 tonnes, the decline over Q4 2008 was 41%. Although Q4 2008 was the second highest quarter in our Russian data series, the result was nevertheless relatively weak. The annual total for 2009 came in at 58.7 tonnes, the lowest level in five years and 36% below the record 92.4 tonnes consumed in 2008.

Jewellery demand in the Middle East region in Q4 was 29% below the levels of Q4 2008, underperforming relative to the global decline of 8%. Egypt and the UAE suffered the most severe declines in jewellery demand in Q4 - down 35% and 32% respectively on year-earlier levels due to record gold prices and weak economic conditions. In \$US value terms, the declines were significantly smaller at 10% and 6% respectively. Notably, Saudi Arabia and the Other Gulf countries both experienced a 9% rise in dollar value terms on the levels of Q4 2008, although this still represented a decline in volume terms (22% and 21% respectively).

Turkey was the worst performing jewellery market during the fourth quarter, with demand halving in size relative to Q4 2008. The sharp rise in the local gold price during the first half of the year (due to a weakening of the Turkish lira) and extreme weakness in the local economy had a severe impact on jewellery off-take. This is confirmed by the value measure of demand, which fell by 35% relative to Q4 2008 to YTL421mn in Q4 2009.



Source: GFMS, WGC

Japan was the most resilient of the other Far Eastern markets (excluding Greater China) in the fourth quarter, but the 5% decline from Q4 2008 is being measured against a very low base. In value terms, jewellery demand was up by a sizeable 22% from ¥16bn in Q4 2008 to ¥20bn. Conversely, Thailand was the worst performing market in the region by some margin. Annual 2009 demand posted a hefty 55% decline over 2008, while fourth quarter off-take was down 36% on the levels of an already weak Q4 2008.

Overall, although jewellery demand continued on its weakening trend in the fourth quarter, there are signs that the pace of decline is losing momentum and that consumers are becoming accustomed to gold prices at higher levels. Nevertheless, the outlook for jewellery off-take remains largely dependent on the price level; any dips would likely draw out surges of buying interest, while new record highs would keep jewellery consumers sidelined until such time as they stabilise.

Industrial and dental

In the fourth quarter, gold demand for industrial and dental applications recorded its third consecutive quarter-on-quarter improvement and its first annual gain in more than two years. Demand totalled 99.7 tonnes, 11% higher than

the fourth quarter of 2008. Nevertheless, demand in 2009 was down 16% on 2008 levels.

Electronics demand, which for most of the last 18 months had been a severe casualty of the global economic crisis, rebounded strongly in Q4, jumping 25% relative to year-earlier levels in a very positive indication that restocking of inventory is taking place on the back of a more optimistic economic outlook. Elsewhere, the other industrial and decorative sector fell by 13%, reflecting declines in most markets, although India was once again the main driver. Gold used in dental applications continued to decline, slipping a further 5% relative to Q4 2008.

As outlined above, the modest gain in industrial demand in Q4 2009 was chiefly the result of a recovery in the electronics sector, which typically accounts for almost 70% of total industrial off-take. The 25% gain relative to Q4 2008 was a consequence of increased production and inventory replenishment across the supply-chain as expectations of an economic recovery gathered strength. Semiconductor suppliers have maintained tighter control over inventories after suffering from an oversupply for almost 24 months that resulted in a sharp fall in prices last year. This has cleared the way for a more direct correlation between end user demand and immediate production off-take. According to the Semiconductor Industry Association (SIA), worldwide sales of semiconductors rose to \$US22.6bn in November (the latest data available), a 3.7% increase from October when sales were \$US21.8bn. Moreover, sales were 8.5% higher than November 2008. Sales for the first 11 months of 2009 totalled \$202.1bn, a decline of 13.2 % from the same period in 2008 when sales totalled \$232.7bn.

The last quarter of 2009 saw sales of many electronic and consumer products faring better than earlier projections. Sales of personal computers continued to strengthen, signalling the beginning of a recovery in demand from the business sector. The release of the Windows 7 operating system in October was also a positive factor. Unit sales of mobile phone handsets should reach similar volumes to 2008 levels, though importantly, there has been strong growth in smart phones and new media devices such as the e-book. In the consumer space, there have been a few positive outcomes including LCD TVs, which experienced a 25-30% increase in units during 2009.

Looking briefly at individual markets, almost all of the major fabricating countries returned to positive growth in Q4, with the United States being the best performer, increasing around 50% relative to Q4 2008 according

to GFMS. Elsewhere, Japan recorded a rise of 35% for the period, while the other East Asian countries of South Korea, China and Taiwan all recorded robust double-digit growth from the low fabrication levels of Q4 2008.

Demand from the other industrial and decorative segment was again a casualty of the elevated gold price, with demand dropping by 13% in Q4 relative to Q4 2008. As was the case in the previous quarter, much of the precipitous decline was driven by considerable falls in both India and Switzerland, with the former declining by almost 40%. While the decline in India was driven primarily by a reduction in off-take for gold thread (used in traditional clothing) and gold pastes for use in the decoration of home wares, the fall in Switzerland was largely the result of a reduction in output of plating salts (gold potassium cyanide) used widely for costume jewellery and luxury accessories. Given the high gold price environment and the substitution away from carat jewellery, it may be somewhat surprising that demand was weaker for this product. Technology developments enabling thinner gold electroforming were partly responsible for this marked fall.

Lastly, gold used in dental applications is estimated to have slipped a further 5% in Q4, chiefly as a result of losses to rival products (mainly ceramic and base metals such as cobalt-chrome). The sharp rise in the gold price in 2009, and particularly late in the fourth quarter, accelerated the pace of decline as consumers looked to both a more cosmetically pleasing and more affordable option. Modest falls in off-take were recorded in most countries, with Japan and the United States, easily the largest global markets, declining by 6% and 5% respectively. This left full year demand for gold used in dentistry down 6%, continuing its secular decline to a 26-year low.

With the outlook for the global economy having improved, industrial demand should continue to recover in 2010. However, if the gold price strengthens further, this positive outlook could be dampened by an acceleration of the shift into other, cheaper alternatives, particularly within the electronics industry. Trade body SEMI, which represents this industry, recently conducted a survey on behalf of WGC to gain insight into this issue. The survey found that although a majority of global semiconductor companies are considering a switch from gold to copper bonding wire for some new chips, almost all the companies that participated in the survey identified important advantages of gold over copper and identified concerns with a switch to the base metal. The main concerns were in-service

Table 3: Investment demand (tonnes except where specified)

	2007	2008	2009	Q4'08	Q1'09	Q2'09	Q3'09	Q4'09 ¹	% Ch Q4'09 vs Q4'08	% Ch Year on Year ²
Identifiable Investment	685.9	1,183.4	1,270.9	440.6	610.2	225.9	215.3	219.5	-50	7
Net Retail Investment	432.5	862.5	676.2	345.9	145.2	169.2	173.9	187.9	-46	-22
Bar Hoarding	236.5	392.2	169.9	124.3	-21.9	57.7	78.3	55.8	-55	-57
Official Coin	137.0	187.3	234.4	61.6	71.6	56.0	50.0	56.8	-8	25
Medals/Imitation Coin	72.6	69.6	35.8	19.4	2.4	8.3	11.0	14.1	-27	-49
Other Identified Retail Invest. ³	-13.6	213.4	236.2	140.7	93.0	47.2	34.6	61.3	-56	11
ETFs & Similar Products⁴	253.3	320.9	594.7	94.7	465.1	56.7	41.4	31.6	-67	85
"Inferred Investment"⁵	-81.2	-292.6	503.8	-40.3	189.4	188.9	5.6	119.7	...	...
"Total" Investment	604.6	890.8	1,774.7	400.3	799.6	414.8	221.0	339.3	-15	99
"Total" Investment, \$USmn	14,278	24,550	54,467	10,230	23,355	12,299	6,820	11,994	17	122

Source: GFMS. Data in this table are consistent with those published by GFMS but adapted to WGC's presentation and take account of the additional demand data now available. The "inferred investment" figure differs from the "implied net (dis)investment" figure in GFMS' supply and demand table as it excludes "ETFs and similar" and "other retail investment". 1. Provisional. 2. Percentage change, 12 months ended December 2009 vs 12 months ended December 2008. 3. "Other retail" excludes primary coin off-take; it represents mainly activity in North America and Western Europe. 4. Exchange Traded Funds and similar products including: Gold Bullion Securities, (London), Gold Bullion Securities (Australia), SPDR® Gold Shares (formerly streetTRACKS Gold Shares), NewGold Gold Debentures, iShares Comex Gold Trust, ZKB Gold ETF, GOLDIST, ETF Securities Physical Gold, XETRA-GOLD, Julius Baer Physical Gold, Central Fund of Canada, and Central Gold Trust. 5. 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. In previous editions of GDT it was referred to as the "balance".

reliability, closely followed by process yield and unproven performance (of copper).

Investment

Total identifiable investment in gold (excluding 'inferred investment') during Q4 2009 totalled 219.5 tonnes, up 2% on Q3 but down 50% on an exceptional Q4 2008. During late 2008/early 2009, safe haven buying was at its peak and the immediate negative effects of the credit crisis had abated, in particular selling by institutions needing to raise cash and the index-related selling that followed the sharp fall in commodity prices. Identifiable investment during 2009 as a whole was 7% higher than in 2008.

Fourth quarter net retail investment, which measures retail bar and coin demand, was up 8% on the levels of the previous quarter. The biggest contributors to this improvement were India and the US. India continued its recovery from a very poor Q1 result, its net inflow increasing by 15.6 tonnes from 27.3 in Q3 to 42.9 tonnes in Q4. The Reserve Bank of India's purchase of 200 tonnes from the IMF was fundamental in restoring sentiment towards gold, providing reassurance that gold

is a "safe investment", as well as underpinning gold price expectations. Recent quarters have seen a change in the mix of investors in India as new players with a shorter time horizon come onto the market.

In the US, the net retail inflow increased by 104% from 19.0 tonnes in Q3 to 37.3 tonnes in Q4. European flows also enjoyed a solid gain from 49.7 to 56.9 tonnes, with Germany, Switzerland and the other European countries all contributing. France was the exception - after three consecutive quarters of net buying between Q4 2008 and Q2 2009, France once again became a net seller in the second half of 2009. Nevertheless, a small net inflow was recorded for 2009 as a whole, the first in the 18 year history of our series.

The largest quarter-on-quarter declines were experienced by mainland China and Indonesia. Net retail investment in mainland China eased to 20.3 tonnes from the record level of 26.8 tonnes seen in Q3, which was boosted by gifting and sales of commemorative coins relating to the 60th anniversary of the People's Republic of China and the National Day holiday. Indonesia went from net purchases of 1.0 tonne in Q3 2008 to net sales of 5.5 tonnes in Q4.

Over the year as a whole, net retail investment declined 22%, reflecting a slowing in net demand in non-western countries (with the exception of China), offset only partly by a strengthening in western demand. The biggest contributor to the annual decline was India (down 136.8 tonnes). Germany was the single largest retail bar and coin market during 2009, with the US in second position.

The bar hoarding category, which largely represents demand in non-western markets, totalled 169.9 tonnes in 2009, down 57% from 392.2 tonnes in 2008. Demand in Q4 totalled 55.8 tonnes, down 29% on Q3.

The other identified retail investment category, which largely captures the western markets, reached record highs during the fourth quarter. Improving economic conditions, rather than encouraging a move back to risky assets, reinforced inflation concerns and the demand for gold.

Official coin demand was resilient to the emerging signs of economic recovery. Demand in Q4 totalled 56.8 tonnes, up 14% on Q3 2009 although well below the Q1 peak of 71.6 tonnes.

Flows into gold Exchange Traded Funds (ETFs), at 31.6 tonnes in Q4, were down 24% on 41.4 tonnes the previous

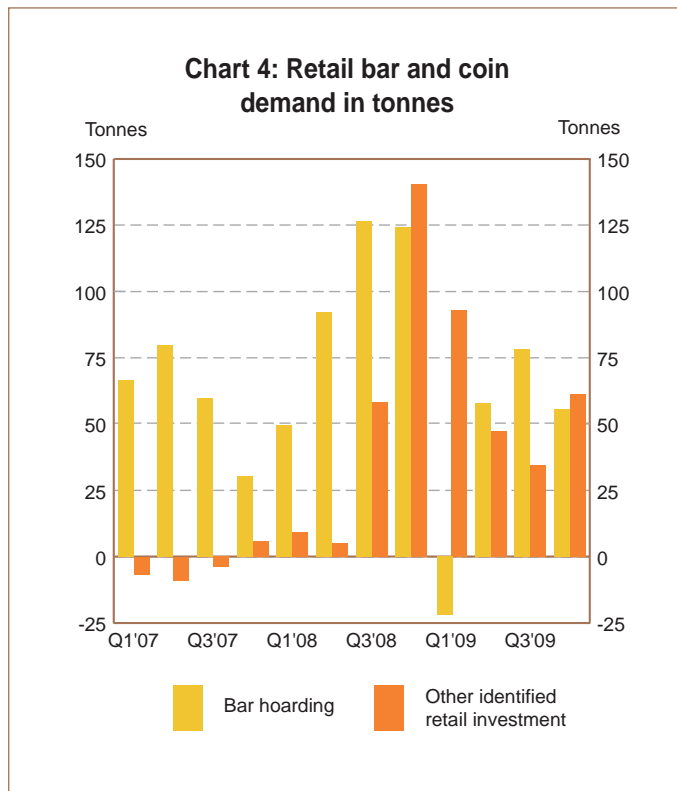
quarter. Reflecting the massive flows experienced in Q1, an 85% increase was recorded in 2009 relative to 2008 - from 320.9 tonnes to 594.7 tonnes. The US listed SPDR® Gold Shares (ticker symbol GLD), the world's largest gold ETF, experienced modest levels of buying during each of the three months in Q4. The level of holdings as at the end of December, at 1,133.6 tonnes, was just shy of the record of 1,134.0 tonnes that was set in early June. In comparison, several of the other ETFs experienced modest redemptions during the quarter, including ZKB, which is listed on the Swiss exchange, and ETF Securities products' ETFs Physical Gold and GBS, both listed on the LSE.

The "inferred investment" category, the balancing item in the supply and demand table, experienced another quarter of solid net inflows. At 119.7 tonnes, this was significantly higher than in Q3 (5.6 tonnes), but lower than that in Q1 and Q2 (189.4 and 188.9 tonnes respectively).

While this category is partly an error term, its more important role is to capture the less visible part of investment demand. Historically, it has been dominated by speculative flows; however the role of allocated bullion accounts increased significantly in 2009. Substantial long positions were established in bullion during Q4 by new players, in particular hedge funds and other non-traditional institutions. While these institutions have, in the past, typically had a tactical time horizon, one could argue that the current motivations for buying gold are likely to persist for some time, namely the uncertainty surrounding the US dollar and inflation.

Total investment, which includes both identifiable and inferred investment, rose from 221.0 tonnes in Q3 2009 to 339.3 tonnes in Q4 (up 54%). The 2009 year represented a near 100% rise relative to 2008, equivalent to a \$US29bn (122%) rise from \$US25bn to \$US54bn. While this very strong result was heavily influenced by an exceptionally high Q1 figure, the Q2-Q4 outcomes were nevertheless well above historical norms.

The outlook for other identified retail investment, official coins and the OTC market is positive. Demand should remain supported by economic, inflation and currency uncertainty and the search for improved diversification and this should provide a strong underpinning to total investment. However, the outlook in non-western countries (bar hoarding) remains uncertain. While price expectations have strengthened, budget constraints are having a negative effect.



Source: GFMS

Supply

Table 4: Gold supply and demand (WGC presentation)

Note: Jewellery data in this table refer to fabrication not consumption and quarterly data differ from the data in Tables 1 and 2.

	2007	2008	2009	Q4'08	Q1'09	Q2'09	Q3'09	Q4'09 ¹	% Ch Q4'09 vs Q4'08	% Ch Year on Year ²
Supply										
Mine Production	2,476	2,409	2,554	646	583	633	680	657	2	6
Net Producer Hedging	-444	-349	-257	-45	-1	-32	-99	-125	...	...
Total Mine Supply	2,031	2,060	2,296	602	582	601	581	532	-12	11
Official Sector Sales ³	484	236	44	13	62	-5	-9	-4	...	-81
Recycled Gold	956	1,217	1,549	360	584	338	258	370	3	27
Total Supply	3,471	3,513	3,890	975	1,228	934	829	898	-8	11
Demand										
Fabrication										
Jewellery	2,405	2,187	1,747	485	349	426	513	459	-5	-20
Industrial & Dental	462	436	368	90	79	93	95	100	11	-16
Sub-Total Above Fabrication	2,866	2,622	2,115	574	429	519	608	559	-3	-19
Bar & Coin Retail Investment ⁴	446	649	440	205	52	122	139	127	-38	-32
Other Retail Investment	-14	213	236	141	93	47	35	61	-56	11
ETFs & Similar	253	321	595	95	465	57	41	32	-67	85
Total Demand	3,552	3,806	3,386	1,015	1,039	745	824	778	-23	-11
"Inferred Investment"⁵	-81	-293	504	-40	189	189	6	120	...	...
London PM Fix (\$US/oz)	695.39	871.96	972.35	794.76	908.41	922.18	960.00	1099.63	38	12

Source: GFMS. Data in this table are consistent with those published by GFMS but adapted to the WGC's presentation and take account of the additional demand data now available. The "inferred investment" figure differs from the "implied net (dis)investment" figure in GFMS' supply and demand table as it excludes "ETFs and similar" and "other retail investment". 1. Provisional. 2. Percentage change, 12 months ended December 2009 vs 12 months ended December 2008. 3. Excluding any delta hedging of central bank options. 4. Equal to net retail investment from Table 1 less the 'other identified retail investment' category. 5. 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. In previous editions of GDT it was referred to as the "balance".

At 898 tonnes, the supply of gold was 8% up on the previous quarter, but 8% below Q4 2008 levels. Full year supply gained 11% compared with 2008. The elements that made the greatest contribution to the decline in supply relative to Q4 2008 were de-hedging (producer de-hedging accelerated considerably during the quarter) and the official sector, which registered its third consecutive quarter of net purchases.

In contrast, the annual supply data reveal that a sharp increase in recycling activity in Q1 was the primary reason behind the increase in 2009 supply, while mine production and de-hedging also made a sizeable positive contribution. These positive influences were partly offset by a significant reduction in net official sector sales, which

totalled just 44 tonnes in 2009 compared with an average of 444 tonnes over the five years to 2008.

A 6% increase in annual mine production over 2008 (2,554 tonnes against 2,409 tonnes) reflected a number of new projects coming on stream during the year, notably Barrick's Buzwagi mine in Tanzania, and Mineral Deposits' Sabodala mine in Senegal. Improvements in production at existing mines such as Grasberg (where 2008 production had been particularly weak) further reinforced the year-on-year rise.

Q4 2009 mine production grew by 2% relative to Q4 2008, from 646 tonnes to 657 tonnes. Modest growth in Indonesia (notably at the Grasberg mine), Australia

(Newmont's Boddington project announced commercial production in November), Tanzania (Buzwagi) and China were tempered by an ongoing decline in South Africa and a fall in US production (with Barrick's Goldstrike operation undertaking stripping activity during the quarter).

Producer de-hedging, which had slowed to negligible levels in the first half of the year, picked up strongly in H2. The impact in the fourth quarter was a 125-tonne reduction in supply, equating to a 257-tonne reduction over the course of the year. Barrick was again the main contributor in Q4, following the announcement in September of its intention to eliminate its entire hedge position. By 1st December, the company had announced that the buy back of its fixed price contracts was complete, a process that contributed around 90 tonnes to the Q4 total. A further 9 tonnes of de-hedging came from Polymetal. The global hedge book as at the end of 2009 stood at around half the level of one year earlier, with numerous gold producers completely removing hedge positions to leave them fully exposed to spot prices.

Recycled gold, the key element of year-on-year growth in 2009 annual supply, spiked to a record level of 584 tonnes in the first quarter as the gold price in many countries hit record highs. Despite falling back quite sharply in Q2, recycling supply remained high on a historical basis, before returning to more 'normal' levels in the second half of the year. The strong rise in the gold price during the fourth quarter encouraged another quarter-on-quarter surge in recycling, but a comparison with Q4 2008 reveals a very modest 3% increase, despite a 38% rise in the average gold price over the same period.

The Middle East was the biggest contributor to the Q4 increase in recycling activity, with consumers preferring to sell their existing holdings of gold at the prevailing higher prices. There was also some selling back of gold jewellery by retailers seeking to raise cash. The supply of recycled gold in western markets was also considerably higher, although it continued to account for only a modest proportion of the total global supply of recycled gold. Awareness continues to grow of the increasing opportunities for selling back existing gold holdings.

In many markets however, the supply of recycled gold has been relatively subdued. Price expectations appear to have adjusted higher and holders of gold are anticipating a further bout of price strength and were therefore reluctant to sell their existing holdings at the average price levels seen during the fourth quarter. This is consistent with our previous commentary that much of

the near-market supply of old gold was cleared out in the Q1 wave of recycling and a significantly higher price would be required in order to tempt holders to sell back their remaining holdings.

The supply of gold from the official sector all but dried up during 2009. Net sales of 44 tonnes compared with sales of 236 tonnes the previous year and an annual average of 444 tonnes over the five years to 2008. The net sales were wholly concentrated in the first quarter of 2009, which was followed by three subsequent quarters of net purchasing, albeit at very modest levels.

Sales of gold under the auspices of the Central Bank Gold Agreement (CBGA) were virtually non-existent during the fourth quarter, amounting to less than 2 tonnes. Outside of the CBGA, modest sales from, among others, Mexico and the Philippines were more than outweighed by purchases from Russia's central bank. Over the course of 2009, sales that took place outside of the remit of the CBGA largely took the form of undeclared activity.

Q4 also saw a very positive reception to the IMF's sale of over half of its planned sale of 403.3 tonnes of gold to other members of the official sector community. In November the Reserve Bank of India stated that it had purchased 200 tonnes of gold from the IMF in an off-market transaction. This was followed swiftly by news that Sri Lanka's central bank had purchased 10 tonnes from the IMF, trebling its gold holdings, which now stand at 15.3 tonnes and account for over 22% of total reserves. Finally, the Bank of Mauritius announced that it had purchased a further 2 tonnes, doubling the bank's holdings to 3.9 tonnes. This leaves the IMF with a remaining balance of 191.3 tonnes of gold to be sold within its strict guidelines. The Fund has undertaken to ensure that its sales have no disruptive impact on the gold market.

Although these off-market transactions had no impact on the net supply of or demand for gold in the market, they signalled a clear desire among central banks to maintain an allocation to gold. The announcements from Mauritius and Sri Lanka made clear that the purchases were designed to re-dress the balance of gold in their reserve asset portfolios, which had declined over time as gold reserves failed to keep pace with increasing foreign exchange reserves. The transactions, together with the ongoing programmes of gold purchases by the central banks of Russia and China, confirm a growing recognition of gold's unique properties as an investment and protector of wealth and reaffirm its role as a key element of global monetary reserves.

Consumer Demand¹ Trends In Individual Countries

Table 5: Consumer demand in selected countries: Q4 2009 (tonnes)

	Q4 2008			Q4 2009 ¹			% Ch Q4 2009 vs Q4 2008		
	Jewellery	Net Retail invest.	Total	Jewellery	Net Retail invest.	Total	Jewellery	Net Retail invest.	Total
India	108.6	51.0	159.6	137.8	42.9	180.7	27	-16	13
Greater China	93.3	19.6	112.9	93.3	23.0	116.3	0	17	3
China	85.1	16.9	102.0	86.5	20.3	106.8	2	20	5
Hong Kong	4.6	0.2	4.8	4.0	0.2	4.2	-15	-5	-14
Taiwan	3.5	2.5	6.0	2.8	2.5	5.3	-19	0	-11
Japan	6.5	20.0	26.5	6.2	-5.0	1.2	-5	...	-96
Indonesia	9.9	0.3	10.2	9.0	-5.5	3.5	-10	...	-66
South Korea	7.5	0.3	7.8	6.4	0.1	6.5	-15	-60	-17
Thailand	2.0	17.5	19.6	1.3	9.2	10.5	-36	-47	-46
Vietnam	4.8	16.5	21.3	3.7	12.8	16.5	-22	-22	-22
Middle East	65.7	10.1	75.7	46.8	4.4	51.1	-29	-57	-32
Saudi Arabia	17.9	6.8	24.7	14.1	3.0	17.1	-22	-56	-31
Egypt	18.7	0.4	19.1	12.2	0.3	12.5	-35	-29	-35
UAE	21.7	2.3	24.0	14.7	1.3	16.0	-32	-46	-34
Other Gulf	7.4	0.7	8.0	5.8	-0.2	5.7	-21	...	-29
Turkey	16.5	1.0	17.5	8.0	5.7	13.7	-52	470	-22
Russia ²	26.1	...	26.1	15.4	...	15.4	-41	...	-41
USA	67.5	36.6	104.2	56.0	37.3	93.2	-17	2	-11
Italy ²	23.6	...	23.6	19.7	...	19.7	-17	...	-17
UK ²	18.3	...	18.3	17.1	...	17.1	-7	...	-7
Europe ex CIS³	...	152.3	152.3	...	56.9	56.9	...	-63	-63
France	...	3.9	3.9	...	-0.4	-0.4	...	...	...
Germany	...	71.0	71.0	...	25.0	25.0	...	-65	-65
Switzerland	...	49.0	49.0	...	19.3	19.3	...	-61	-61
Other Europe	...	28.4	28.4	...	13.0	13.0	...	-54	-54
Total Above	450.2	325.2	775.4	420.4	181.7	602.2	-7	-44	-22
Other	96.6	20.7	117.3	80.0	6.2	86.2	-17	-70	-27
World Total	546.7	345.9	892.7	500.4	187.9	688.3	-8	-36	-23

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

India

Following on from an extremely weak first quarter, the Indian market enjoyed a solid recovery over the remainder of 2009. Tonnage off-take in Q4 totalled 180.7 tonnes, up 17% from 154.4 tonnes the previous quarter and up 13% from 159.6 tonnes in Q4 2008. Seasonal factors assisted the quarter-on-quarter improvement, as Q4 marked the start of the wedding and festive seasons, including Diwali. Nevertheless, in light of the rally in the gold price during that quarter, it is still an encouraging result.

Over the year as a whole, tonnage off-take totalled 480.0 tonnes, down 33% from 712.6 tonnes in 2008. Nevertheless, India held onto its position as the world's largest gold consuming nation. India's annual total also includes an upward revision to the Q2 and Q3 results due to the incorporation of new data; however the Q4 result alone (without the effect of the revisions) was sufficient to enable it to retain its number one position.

Jewellery demand in Q4 totalled 137.8 tonnes, up 8% from Q3 and up 27% from a very low Q4 2008 result. On

¹ Consumer demand is gold bought by individuals i.e. as 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.

Table 6: Indian Supply Estimates

Figures in Tonnes	Q4'08	Q1'09	Q2'09	Q3'09	Q4'09	2009
Supply						
Net Imports, Available for Domestic Consumption	147	12	122	149	176	459
Domestic Supply from Recycled Gold	20	64	23	18	17	122
Domestic Supply from Other Sources ¹	3	-39	-2	3	3	-35
Equals Total Supply Available for Fabrication	170	37	143	169	196	545
Net Imports of Finished Jewellery and Inventory Change	-5	1	-10	-12	-11	-32
Supply Available For End Use Consumption ²	165	38	134	157	184	513

Source: GFMS. 1. Domestic supply from local mine production, recovery from imported copper concentrates and disinvestment. 2. This supply can be consumed across the three sectors - jewellery, investment and industrial. Consequently, the total supply figure in the table will not add to jewellery plus net retail investment demand for India.

an annual basis, jewellery demand in 2009 totalled 405.8 tonnes, down 19% on 501.6 tonnes in 2008. While this is the weakest result since 1995, it is worth stressing yet again the impact of the very weak Q1 result.

Several factors came into play during the quarter. Firstly, the announcement of a 200 tonne purchase by the Reserve Bank of India played a key role in underpinning sentiment and gold price expectations, reinforcing the perception that gold is reliable and safe. Secondly, the wedding related purchases that had been put on hold finally started to come through. As we have mentioned in earlier reports, Indian consumers sold back significant amounts of jewellery in Q1, expecting the opportunity to buy it back at a lower price. As the year progressed, "compulsory" wedding related purchases were delayed as the waiting game continued and many consumers satiated their demand through exchange i.e. exchanging old jewellery for new.

Following the Reserve Bank of India's announcement, earlier hopes for a price correction to around \$US800-850/oz started to fade, exchange activity abated considerably and the wedding related purchases that had previously been delayed started to come through. Of course, this was partly because the wedding season had arrived and consumers were no longer able to delay those purchases. Furthermore, the rural community started to spend some of the savings that have recently been held in cash deposits, while some parts of the country experienced healthy demand from non-resident Indians coming home for their winter vacation. In turn, the increase in activity saw retailers start to rebuild their inventories, reversing some of the run-down that occurred earlier in the year. This pent-up demand contributed to a relatively strong recovery in jewellery demand in Q4, making it the highest Q4 figure in three years.

Despite this resurgence in jewellery buying, budgetary pressures continue to act as a significant constraint. Budgets have been squeezed by the higher gold price and rising inflation, resulting in lower average jewellery weights. In particular, the rise in food prices, which form a core part of expenditure, has been severe - annual food price inflation hit 17% in January. Given this environment, one could say that the improvement in demand has been encouraging.

Investment demand in Q4, at 42.9 tonnes, was 57% higher than the previous quarter but 16% lower than the levels of Q4 2008. Notably, investment demand over 2009 as a whole performed worse than jewellery - the 74.2 tonnes of investment demand recorded in 2009 represented a 65% decline on 211.0 tonnes the previous year. As with jewellery, a very poor Q1 result made a significant contribution to this annual result.

Bar hoarding recovered strongly in the fourth quarter; however it appears that the "regular" investors who have previously been active in the market were reasonably quiet, with the resurgence in activity coming from a new class of investors with a more speculative motivation. For the more regular buyers, who took their profits in Q1 when the gold price rose sharply, current price levels still appear expensive.

Coin demand also recovered strongly. Despite the more positive tone, budget constraints have continued to put a lid on this market. Gold coins are a common investment vehicle for ordinary consumers; however incomes have not kept pace with rising food prices and the higher gold price. At the low income end of the spectrum, the higher gold price and sharply higher food prices have forced some buyers out, while others can no longer afford to spend the same amount.

Table 7: Consumer demand in selected countries: Q4 2009 (value, \$USmn)

	Q4 2008			Q4 2009 ¹			% Ch Q4 2009 vs Q4 2008		
	Jewellery	Net Retail invest.	Total	Jewellery	Net Retail invest.	Total	Jewellery	Net Retail invest.	Total
India	2,775	1,303	4,078	4,873	1,517	6,390	76	16	57
Greater China	2,383	501	2,884	3,298	813	4,111	38	62	43
China	2,175	432	2,606	3,058	717	3,775	41	66	45
Hong Kong	118	5	123	140	7	147	18	32	19
Taiwan	90	64	154	101	88	189	12	38	23
Japan	166	511	677	217	-177	41	31	...	-94
Indonesia	253	8	261	316	-194	122	25	...	-53
South Korea	192	6	198	224	4	228	17	-45	15
Thailand	52	448	500	46	327	372	-11	-27	-25
Vietnam	121	422	543	131	453	583	8	7	7
Middle East	1,678	257	1,935	1,654	154	1,808	-1	-40	-7
Saudi Arabia	457	173	630	497	106	603	9	-39	-4
Egypt	478	9	487	431	9	440	-10	-1	-10
UAE	554	59	613	520	44	564	-6	-25	-8
Other Gulf	188	17	205	206	-5	201	9	...	-2
Turkey	422	26	447	283	202	484	-33	689	8
Russia ²	667	...	667	544	...	544	-18	...	-18
USA	1,725	936	2,661	1,978	1,317	3,295	15	41	24
Italy ²	602	...	602	695	...	695	15	...	15
UK ²	468	...	468	603	...	603	29	...	29
Europe ex CIS³	...	3,892	3,892	...	2,012	2,012	...	-48	-48
France	...	100	100	...	-14	-14	...	...	...
Germany	...	1,814	1,814	...	884	884	...	-51	-51
Switzerland	...	1,252	1,252	...	682	682	...	-46	-46
Other Europe	...	726	726	...	460	460	...	-37	-37
Total Above	11,503	8,310	19,812	14,864	6,425	21,289	29	-23	7
Other	2,468	530	2,997	2,827	220	3,047	15	-58	2
World Total	13,970	8,839	22,810	17,691	6,645	24,336	27	-25	7

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

There is room for further inventory build-up by the retail sector if the recent strength in demand is sustained, which would be reflected in jewellery fabrication. However, we continue to remain cautious regarding the outlook. While the purchases by the Reserve Bank of India had an important impact on sentiment in Q4, it is unclear how long this optimism will persist in this price environment. Budget constraints will remain an issue and the jewellery market continues to be vulnerable to bouts of significant price strength and increased price volatility. While jewellery demand softened in December on the back of the higher gold price, January's dip brought buyers back to the market. Any move below \$US1000/oz is likely to attract heavy buying – anecdotal evidence suggests that this has effectively become the new price 'floor'.

Greater China

Gold demand in the fourth quarter followed the pattern that had been established across the Greater China region throughout 2009 – namely, solid gains from mainland China partially offset by weaker demand in both Hong Kong and Taiwan. Total Q4 demand of 116.3 tonnes, although below the previous quarter's strong result, was 3% above Q4 2008 levels. Retail investment demand added 17% to year-earlier levels, while jewellery demand was flat over the same time period.

At 461.9 tonnes, total annual consumer demand for gold in the Greater China region in 2009 was 7% above 2008 levels (an increase of 30.3 tonnes). The main driver of this increase was the investment component of demand,

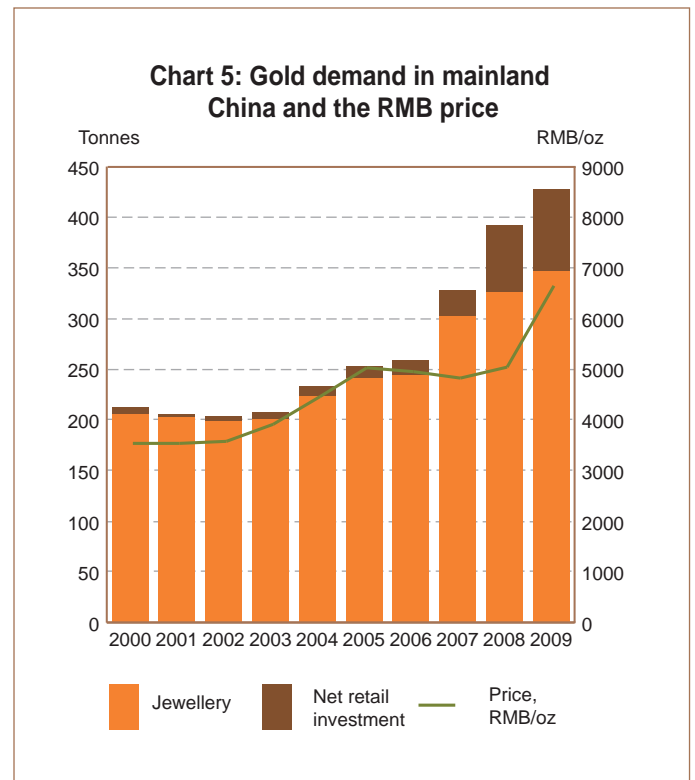
which recorded a rise of 18%. A 5% rise in jewellery demand over the same period was nevertheless very impressive compared with a global decline of 20%.

In **mainland China**, a 20% rise in investment demand was the driving force behind a 5% increase in total fourth quarter demand relative to Q4 2008, while gains in jewellery demand were more muted at 2%. Mainland China's full-year record was equally impressive, with a 6% rise in jewellery demand (the only country to experience an improvement in annual jewellery off-take) and 22% growth in net retail investment translating to an increase in total consumer demand of 9% over 2008.

Gold jewellery off-take stagnated during the opening weeks of the fourth quarter. Consumers were faced with record high prices and retailers were cautious in replenishing their stocks following the strong sales in the lead up to the 1st October National Day holiday. However, demand rebounded strongly in December as the gold price corrected from record highs. This price dip was timely, coinciding with the approach of the peak New Year gifting season. Further support for jewellery demand came from wedding-related purchases. There is a traditional belief that the forthcoming 'Year of the Tiger' is a 'Widow Year' and anecdotal evidence suggests that there was a trend for people to marry in December or January, rather than in February once the New Year has begun. The end result was that Q4 jewellery demand reached 86.5 tonnes, a 2% gain over Q4 2008 with a local currency value equivalent of RMB20.9bn.

Net retail investment responded positively to the environment of high gold prices and concerns over inflationary pressures. Demand for physical gold investment products enjoyed robust momentum through the quarter, with both commercial banks and bullion houses reporting solid demand. Although fourth quarter demand was unable to match the record levels of Q3, the comparison with year-earlier levels shows a substantial 20% gain. This translates into an increase in annual investment demand of 22% to 80.5 tonnes, with the result that China was the largest non-western investment market for gold in 2009 and the only non-western country to witness an improvement in retail investment demand.

In the absence of sharp fluctuations in the gold price, demand is likely to remain firm as we head into 2010, particularly in the run-up to Chinese New Year and Valentine's Day, both of which represent key buying occasions.



Source: GFMS, WGC

In **Hong Kong**, fourth quarter demand declined in volume terms as record gold prices hampered jewellery demand. Total off-take of 4.2 tonnes was 14% below year-earlier levels. However, the value comparison is more favourable, with fourth quarter demand of US\$147mn being 19% higher than Q4 2008. This indicates that while the gold market remained robust in the fourth quarter, demand in volume terms was squeezed by the soaring price level.

On an annual basis, consumer demand of 17.1 tonnes was 5% below 2008 levels, equivalent to a 6% increase in \$US value terms. This performance was relatively robust when taken in a broader context; the volume and value measures of global demand fell by 21% and 10% respectively.

An 11% decline in the volume of Q4 demand in **Taiwan** was driven exclusively by weakness in jewellery demand, while net retail investment demand was flat compared with Q4 2008. However, the volume and value numbers for Taiwan tell a rather different story, as demand in \$US terms increased by 23% to \$US189mm. This suggests that consumers continued to purchase gold, despite the record price level.

Jewellery demand in Taiwan in Q4 was undermined by the surging international gold price and still fragile domestic

Table 8: Consumer demand in selected countries: four quarter totals (tonnes)

	Year Ended Q4 2008			Year Ended Q4 2009 ¹			% Ch Y/E Q4 2009 vs Y/E Q4 2008		
	Jewellery	Net Retail Invest.	Total	Jewellery	Net Retail invest.	Total	Jewellery	Net Retail invest.	Total
India	501.6	211.0	712.6	405.8	74.2	480.0	-19	-65	-33
Greater China	355.9	75.7	431.6	372.8	89.1	461.9	5	18	7
China	326.7	65.9	392.7	347.1	80.5	427.5	6	22	9
Hong Kong	17.0	1.0	18.0	16.1	0.9	17.1	-5	-8	-5
Taiwan	12.2	8.7	20.9	9.6	7.7	17.3	-21	-12	-17
Japan	28.2	-39.4	-11.2	23.9	-9.8	14.1	-15	...	...
Indonesia	55.9	2.9	58.7	42.0	-6.0	36.0	-25	...	-39
South Korea	24.8	1.2	26.0	20.0	-0.2	19.9	-19	...	-24
Thailand	16.3	42.7	59.0	7.3	-8.2	-0.9	-55	...	...
Vietnam	19.6	96.2	115.8	15.1	58.2	73.3	-23	-40	-37
Middle East	317.9	28.4	346.4	231.7	18.9	250.6	-27	-34	-28
Saudi Arabia	108.9	13.5	122.4	82.3	10.9	93.2	-24	-19	-24
Egypt	74.3	2.5	76.8	56.7	1.0	57.7	-24	-58	-25
UAE	100.0	9.5	109.5	67.6	6.3	73.9	-32	-34	-33
Other Gulf	34.8	2.9	37.7	25.1	0.7	25.8	-28	-77	-31
Turkey	153.2	57.1	210.3	75.2	31.8	107.0	-51	-44	-49
Russia ²	92.4	...	92.4	58.7	...	58.7	-36	...	-36
USA	188.1	78.9	267.0	150.3	112.8	263.0	-20	43	-1
Italy ²	49.1	...	49.1	39.5	...	39.5	-19	...	-19
UK ²	37.2	...	37.2	31.8	...	31.8	-15	...	-15
Europe ex CIS³	...	242.7	242.7	...	292.9	292.9	...	21	21
France	...	-3.1	-3.1	...	1.2	1.2	...	...	...
Germany	...	114.8	114.8	...	133.9	133.9	...	17	17
Switzerland	...	89.0	89.0	...	97.3	97.3	...	9	9
Other Europe	...	42.0	42.0	...	60.5	60.5	...	44	44
Total Above	1,840.2	797.3	2,637.5	1,474.0	653.6	2,127.7	-20	-18	-19
Other	346.6	65.2	411.8	273.2	22.6	295.8	-21	-65	-28
World Total	2,186.7	862.5	3,049.3	1,747.3	676.2	2,423.5	-20	-22	-21

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

economic environment. Tonnage demand fell by 19% to 2.8 tonnes, from 3.5 tonnes in Q4 2008. In value terms, jewellery demand was up 12% at \$US101mn. Looking at the annual comparison, jewellery demand of 9.6 tonnes was 21% down on 2008 levels (an 11% fall in value terms).

In the retail investment market, there were two factors at play in determining demand during the fourth quarter. On the one hand, retail investment demand was encouraged by the rise in the gold price towards record levels. A surge of new investors opened Gold Passbook accounts during the quarter and demand for physical investment products was relatively buoyant – 6,000 units of Holobars weighing 1 Taiwan Tael (equivalent to around 37.5g) sold out within around 2 months of their launch

in late September. On the other hand, a number of large investors were encouraged to sell their holdings in the last few weeks of 2009 as Taiwan's Tax Bureau has reportedly become more vigilant in ensuring that earnings from gold products (bars, jewellery and passbook accounts) are declared for the purpose of income tax. The effects of these two opposing forces cancelled each other out with the net result that retail investment demand in Q4 was unchanged at 2.5 tonnes. Consequently, demand in value terms matched the 38% rise in the gold price, reaching \$US88mn.

Looking ahead, the peak wedding season should help to lift gold jewellery demand during Q1 (in the Taiwanese

calendar, 2010 is an auspicious year for weddings), as will any improvement in the economic environment.

Other East Asia

Total fourth quarter consumer demand in **Japan** of 1.2 tonnes was a fraction of the 26.5 tonnes seen in Q4 2008. Full year demand of 14.1 tonnes more than reversed the 11.2 tonne outflow of 2008.

The reason for the 96% decline in Q4 consumer demand relative to year-earlier levels was the exceptional level of positive net retail investment seen in Q4 2008, when price, currency and stock market factors combined to provide the ideal environment for investing in gold. Retail investment turned negative again in Q1 2009, but levels of dishoarding have since remained subdued on a historical basis. Consequently, 2009 full year dishoarding of 9.8 tonnes represents a considerably lower level of selling back than the 39.4 tonnes recorded in 2008. Fourth quarter dishoarding amounted to 5.0 tonnes as retail investors reportedly shifted to alternative metals such as platinum, partly in response to the gold price rise.

The jewellery element of consumer demand fared slightly better in Q4, recording a decline of 5% against year-earlier levels, from 6.5 to 6.2 tonnes. This was a somewhat better performance than the 8% decline in the global total, although the comparison is with a very low base. In value terms, jewellery demand staged an impressive 22% recovery from ¥16bn to ¥20bn. Demand increased relative to the third quarter, mainly on the back of gift-giving associated with the Christmas season, with yellow and rose gold experiencing a slight revival of popularity in a market where white gold accounts for the lion's share of demand.

Consumer demand in **Vietnam** in the fourth quarter, at 16.5 tonnes, was 22% below year-earlier levels, broadly in line with the global result. The full year decline was more severe; 37% down on 2008 from 115.8 tonnes to 73.3 tonnes.

Q4 gold jewellery demand was broadly stable relative to the third quarter at 3.7 tonnes. Relative to Q4 2008 however, demand fell by 22% as domestic prices breached the record level of VND 29 millions/tael in November. Despite this price rise, jewellery demand was supported by the traditional demand for gold bridal collections at year end, where consumers aim to purchase a certain weight of gold. This is backed up by the value measure of demand,

which shows a rise of 8% from \$US121mn in Q4 2008 to \$US131mn in Q4 2009. The increase in prices over and above the international gold price led to an increase in unofficial imports of gold jewellery during the quarter.

Retail investment off-take fell by 40% on an annual basis, from 96.2 to 58.2 tonnes, due to the exceptionally strong levels of demand recorded in H1 2008, when investment rallied on concerns over inflation and the local currency. Inflation pressures abated during 2009, thereby removing a key incentive for investors to purchase gold as a means of hedging against inflation. On a fourth quarter comparison, demand was 22% below year-earlier levels at 12.8 tonnes.

Investment demand was quite strong in early November, pushing the local bars' retail price up to nearly \$US1,300/oz. In response, the State Bank of Vietnam lifted the 18-month import ban on gold and granted quotas for the import of 10 tonnes of gold. The imported gold was stamped into local Golden Dragon Tael bars, but demand was curtailed by the record price level reached in early December.

Looking forward, the government's recent decision to close all gold trading floors will undoubtedly have a negative impact on retail investment demand, but investors are likely to respond positively to prices under \$US1,100/oz. Jewellery demand will also remain price-sensitive and buying interest should emerge on dips towards the \$US1,000/oz level.

In **Indonesia**, gold off-take in Q4 totalled 3.5 tonnes, representing a very sharp 76% decline on the previous quarter and a 66% decline relative to Q4 2008. Annual demand was down 39% on 2008 levels.

Jewellery demand in Q4, at 9.0 tonnes, was down 34% on the previous quarter, representing a 10% decline on the levels of a very weak Q4 2008. Local manufacturers have experienced continued weakness in exports, but domestic sales have recently shown some improvement, with sporadic bouts of buying emerging, mainly on dips in the gold price. Local sales have also been assisted by a lesser rise in the local gold price than that experienced in \$US terms, reflecting a rise in the rupiah. As at December 31 2009, the rupiah gold price was 8% higher than its close a year earlier. This compares with a 25% rise over the same period in \$US terms. The move towards lower carat jewellery has continued, with 8, 9 and 10 carat product dominating sales.

Table 9: Consumer demand in selected countries: four quarter totals (value, \$USmn)

	Year Ended Q4 2008			Year Ended Q4 2009 ¹			% Ch Y/E Q4 2009 vs Y/E Q4 2008		
	Jewellery	Net Retail Invest.	Total	Jewellery	Net Retail invest.	Total	Jewellery	Net Retail invest.	Total
India	14,014	5,883	19,896	12,957	2,485	15,442	-8	-58	-22
Greater China	9,964	2,115	12,079	11,662	2,799	14,461	17	32	20
China	9,148	1,844	10,992	10,855	2,527	13,382	19	37	22
Hong Kong	476	29	504	504	29	533	6	2	6
Taiwan	340	242	582	303	243	546	-11	0	-6
Japan	792	-1,230	-438	748	-323	425	-6	...	...
Indonesia	1,575	80	1,656	1,309	-207	1,102	-17	...	-33
South Korea	691	34	724	634	-3	631	-8	...	-13
Thailand	464	1,156	1,620	226	-174	52	-51	...	-97
Vietnam	551	2,747	3,298	471	1,813	2,284	-15	-34	-31
Middle East	8,926	786	9,712	7,198	591	7,789	-19	-25	-20
Saudi Arabia	3,068	367	3,435	2,544	345	2,889	-17	-6	-16
Egypt	2,078	71	2,149	1,764	32	1,796	-15	-55	-16
UAE	2,804	267	3,071	2,105	195	2,299	-25	-27	-25
Other Gulf	976	81	1,057	785	20	805	-20	-76	-24
Turkey	4,333	1,623	5,957	2,304	979	3,283	-47	-40	-45
Russia ²	2,574	...	2,574	1,836	...	1,836	-29	...	-29
USA	5,198	2,144	7,343	4,810	3,564	8,374	-7	66	14
Italy ²	1,338	...	1,338	1,288	...	1,288	-4	...	-4
UK ²	1,011	...	1,011	1,043	...	1,043	3	...	3
Europe ex CIS³	...	6,462	6,462	...	9,016	9,016	...	40	40
France	...	-106	-106	...	34	34	...	...	...
Germany	...	3,067	3,067	...	4,113	4,113	...	34	34
Switzerland	...	2,390	2,390	...	2,998	2,998	...	25	25
Other Europe	...	1,111	1,111	...	1,871	1,871	...	68	68
Total Above	51,433	21,800	73,233	46,485	20,541	67,026	-10	-6	-8
Other	9,673	1,802	11,475	8,620	728	9,348	-11	-60	-19
World Total	61,106	23,602	84,707	55,105	21,269	76,374	-10	-10	-10

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

In the investment sector, Q4 saw net disinvestment of 5.5 tonnes, which was significantly worse than the net investment of 1.0 tonnes experienced in Q3.

Tonnage demand in **Thailand** in Q4 2009 totalled 10.5 tonnes, up 14% on the previous quarter. This equated to a hefty 46% decline on the very strong levels of Q4 2008. Over the year as a whole, Thailand experienced a net outflow of 0.9 tonnes compared with a net inflow of 59.0 tonnes in 2008, representing the worst result in the Asian region.

Jewellery demand in Q4 2009 was down 36% on the levels of a very weak Q4 2008. In comparison, investment demand was down 47% on a very strong Q4 2008.

Quarter-on-quarter, net retail investment enjoyed a 23% rise.

The biggest decline occurred in the 0.965 (23 carat) market, which is widely regarded as an investment proxy. Jewellery buyers in this part of the market have turned either to the bar and coin market, or to paper-based gold trading. New trading floors and electronic platforms have opened up, encouraging the move into paper-based exposure to gold. This speculative activity has dampened physical investment demand.

The outlook for gold demand in East Asia is similar to that in many other parts of the non-western world. While improving economic conditions should lead to signs of

recovery in some countries, much depends on the gold price. Buying is expected to emerge on dips.

Middle East and Turkey

Middle East

Tonnage off-take in the Middle East during 2009 totalled 250.6 tonnes, down 28% on 2008 levels. The UAE and Other Gulf countries recorded the largest declines of 33% and 31% respectively, with Egypt and Saudi Arabia being somewhat lower but still slightly worse than the global average at 25% and 24% respectively.

Relative to Q4 2008, Middle Eastern demand in the latest quarter declined 32%. Jewellery demand, which fell 29%, suffered to a lesser extent than net retail investment, which fell 57%, although the jewellery result was nevertheless worse than the global average of 8%. The quarter-on-quarter figures failed to show any signs of a turnaround, although some signs of improvement emerged in January in response to the lower gold price.

Egypt and the UAE suffered the most severe declines in jewellery demand in Q4 - down 35% and 32% respectively on the levels of Q4 2008. In \$US value terms, the declines were significantly smaller at 10% and 6% respectively. Notably, Saudi Arabia and the Other Gulf countries both experienced a 9% rise in dollar value terms on the levels of Q4 2008, although this still represented a decline in volume terms (22% and 21% respectively).

Jewellery sales in the **UAE**, and Dubai in particular, are continuing to suffer under the pressure of fewer expatriates (in particular Indian workers), the economic downturn and problems in the property sector. Lower than normal tourist numbers have also continued to impact, although these showed signs of improvement in the latest quarter. Demand in Q4 was down 22% on the levels of the previous quarter and down 32% on the levels of the previous year. Sales in Abu Dhabi have held up somewhat better, suffering a smaller decline. Diwali sales were disappointing, affected by the high price level and price volatility. In previous years, jewellers have experienced high levels of advance bookings, but in 2009, consumers waited until the last minute to purchase, which is reflective of the uncertain environment. Heavy fixed price diamond promotions also affected gold jewellery sales.

Sales of recycled jewellery increased in the latest quarter, some of this coming from retailers and some from consumers. Some jewellers had tied up their surplus cash

by investing in property and because the cashflow from jewellery sales has been well below expectations, they have been forced to sell stock to raise cash. Jewellery demand showed signs of improvement in January with the dip in the gold price.

Investment flows have been sensitive to changes in the gold price. In Q4, net retail investment was on par with the previous quarter at 1.3 tonnes, and down 46% on the levels of the previous year.

Jewellery demand in **Saudi Arabia** during Q4 was dampened by the high and volatile gold price, the flow-on effects of the global economic downturn and low spending on advertising and promotion. Consequently, the Hajj period was very weak. Nevertheless, the jewellery sector was among the more resilient in the region, enjoying a rise of 9% relative to Q4 2008 in \$US value terms. While there has been some flow-on effect onto consumer confidence from the problems in Dubai, the Saudi economy has nevertheless been much more resilient than its neighbour.

While retail investment demand suffered a larger tonnage decline than jewellery relative to Q4 2008 (-56%), this followed a very strong third quarter. During 2009 as a whole, retail investment recorded a smaller decline. The Hajj season was one of the weakest in some years. Dampening effects included the high and volatile gold price, which prompted a move away from the gifting of bars and coins.

Consumers in **Egypt** were also deterred by the high gold price and weaker economic conditions during 2009. At the beginning of the year, it was announced that 140,000 Egyptians were made redundant from their jobs in the Gulf. Tourist flows were weak during the year, as were remittances from citizens working abroad in oil rich countries, which Egypt depends heavily upon.

The high gold price negatively affected demand in Q4. At 12.2 tonnes, jewellery off-take was 35% below year-earlier levels. While gold price expectations appeared to be generally positive, which is reflected in relatively low recycling activity, the price volatility has been a deterrent along with budget constraints. Reflecting these budget constraints and the gold price environment, exchange activity (the exchange of old jewellery for new jewellery rather than exchange for cash) has been strong. While this has provided cashflow for retailers, it is not included in our demand figures. Nevertheless, retailers have been hesitant to buy new stock in these conditions. The affinity

towards gold appears to be unshaken with no apparent trend towards lower carat jewellery.

Net retail investment in Egypt in Q4 was down 29% on the levels of Q4 2008, although this makes up a very small percentage of the Egyptian market. Over the year as a whole, net retail investment declined 58%, although the comparison is against a very strong 2008.

Turkey

Tonnage off-take in Turkey in 2009 was down 49% on the levels of 2008. Q4 demand remained very weak, down 61% on the previous quarter. Relative to Q4 2008, the decline was less severe at 22%, although this comparison is distorted by an exceptionally weak Q4 2008. It is difficult to describe Turkish demand as anything but disappointing.

Jewellery demand in 2009 was down 51% on the levels of 2008. Early in the year, demand suffered from the combination of a very sharp rise in the local gold price (due to a depreciation in the Turkish lira) and severe weakness in the local economy. Although the TL recovered some ground in Q2 and Q3 and demand rebounded somewhat, this recovery in demand has failed to gain traction. Over the year as a whole, the average TL gold price was 4% higher than in 2008 compared to a 12% rise in the \$US price.

In the current economic environment, the prospects of a sustained recovery in gold demand in the Middle East and Turkey in the next few quarters appear limited, although an improved global economic environment should start to flow into higher sales to tourists.

USA

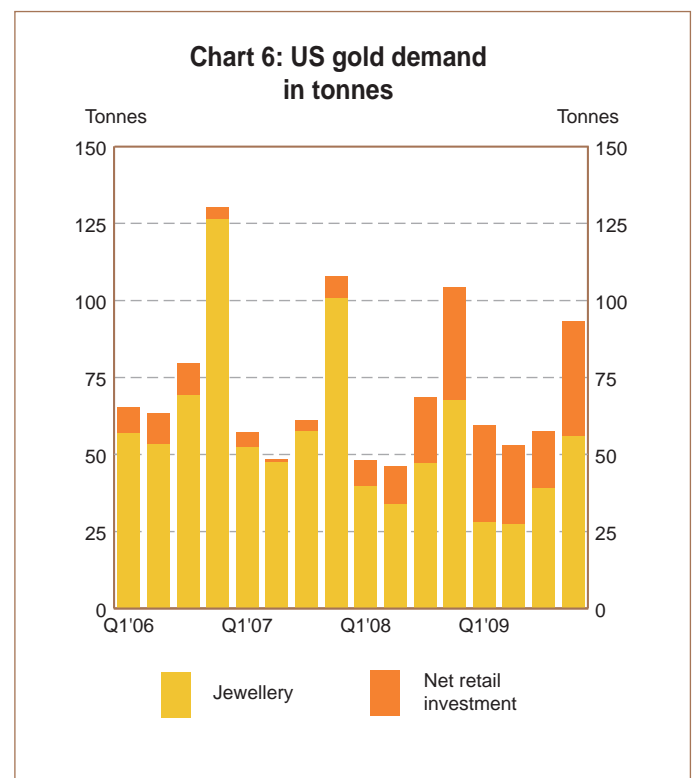
Total gold off-take in the US in Q4 2009, at 93.2 tonnes, was 11% below the levels of Q4 2008, representing a solid 24% rise in \$US value terms. Over the year as a whole, tonnage off-take, at 263.0 tonnes, was down just 1% on 2008 levels. A 43% rise in retail investment demand largely offset a 20% decline in the jewellery sector. In \$US value terms, total off-take rose 14% between 2008 and 2009.

Jewellery demand during Q4 totalled 56.0 tonnes, down 17% from 67.5 tonnes in Q4 2008 and equivalent to a 15% rise in \$US value terms. While the 17% decline failed to improve on last quarter's 17% contraction and reflected

an extremely weak Q4 2008, there were nevertheless tentative signs of an improvement in confidence.

Christmas sales were somewhat stronger than retailers were expecting. The general trend during the year had been one of inventory reduction, and retailers had entered the Christmas period with lean stocks. Some retailers ended up chasing stock over the festive period, but most remained cautious and chose not to invest significantly in new inventory. Discounting, which is commonplace over Christmas, was just as heavy over the 2009 Christmas sales season as it had been the previous year. In 2009, retailers had to compete with heavily discounted product being offered as a result of store closures and bankruptcies. Consumers have been cautious, looking for value for money and preferring timeless classic product. Some preference towards stone and diamond accent jewellery has also been evident. At the lower end of the market, silver jewellery has been heavily promoted by retailers targeting key price points.

Nevertheless, there appears to be a renewed, albeit very cautious optimism present in the US jewellery trade, reflecting the better than expected Christmas sales and signs of a turnaround in the economy. The number of jewellers attending January's Vicenza jewellery fair in Italy, the first major international jewellery fair of the year, was greater than last year.



Source: GFMS

Investment demand in Q4 2009, at 37.3 tonnes, was more than double the levels of the previous quarter and up 2% on the same period of the previous year. Over the year as a whole, investment recorded a significant 43% rise.

A marked improvement was evident in Q4. A weakening trend had been in place since the peak levels of Q4 2008 when concerns surrounding the credit crisis were at their most extreme, but the most recent quarter experienced a sharp rebound to set a new record.

The outlook for the US market remains mixed. While the improved economic outlook should have a positive effect on jewellery demand, the pace of any recovery is likely to struggle until such time as unemployment starts to improve. However, that economic recovery is likely to underpin inflation concerns, which should enable retail investment flows to remain buoyant.

Europe

In Italy, fourth quarter gold jewellery demand of 19.7 tonnes was 17% down on year-earlier levels. For the year as a whole, jewellery off-take amounted to 39.5 tonnes, which represented a 19% decline over the previous year.

The domestic economic recovery has been hesitant. Conditions in the labour market deteriorated in the latest quarter and bank lending was constrained. Against this unforgiving backdrop, the gold jewellery market remained under pressure and the seasonal Q4 impact was not strong enough to offset the negative effects. Nevertheless, the value measure of fourth quarter demand in local currency terms shows an interesting development. Fourth quarter demand measured €470mn, a 3% increase over the €457mn figure from Q4 2008 and the first rise in demand value since the second quarter of 2008.

Reports of a good turnout at January's Vicenza fair provides some modest encouragement for the outlook for Q1, although the inhospitable economic environment and high gold price are likely to continue to keep a firm lid on demand.

The impact of the Christmas season in the UK generated a strong quarter-on-quarter comparison, lifting demand to 17.1 tonnes from 5.1 tonnes in Q3, a rise of 234%. In contrast, the comparison with year-earlier levels shows a fall of 7% as low levels of consumer confidence and record high gold prices curbed demand. The decline

in full-year 2009 demand (31.8 tonnes vs 37.2 tonnes in 2008) was 15%.

Data from the Assay Offices of Great Britain show the total number of articles hallmarked in the UK in 2009 dropping significantly for the sixth consecutive year. The numbers have declined by more than 50% from the peak of more than 35 million in 2003 to 16,091,183 in 2009. The hardest hit category was 9ct gold, which fell by 38% compared to 2008. However, the number of 22ct gold items was 2.5% higher, with the resilience of higher-carat jewellery being underpinned by its role as a store of value.

Looking at the value measure of demand in local currency terms reveals that demand was 23% higher than in Q4 2008, jumping to £369mn from £300mn in Q4 2008. On a four-quarter rolling basis, the rise in demand was 13%.

Russia was the worst performing of the European jewellery markets in Q4. Demand fell 41% to 15.4 tonnes, although it should be noted that the comparison is being made with a strong quarter (Q4 2008 was the second highest quarter in our quarterly data series for Russian jewellery demand). The annual total for 2009 came in at 58.7 tonnes, the lowest level in five years and 36% below the record 92.4 tonnes consumed in 2008.

Despite tentative signs of recovery, the economic environment in Russia remains weak. Domestic demand has yet to show a sustained improvement, real wages are under pressure and rising unemployment is an issue. On this basis, jewellery demand is unlikely to rebound strongly as we head into 2010.

Fourth quarter retail investment across Europe declined sharply from the exceptional levels of Q4 2008, but remained very strong on a historical basis at 56.9 tonnes. Furthermore, the annual total reveals a sustained improvement since the initial surge of Q3 2008, as 2009 total tonnage demand of 292.9 tonnes was up 21% on 2008. Comparing the 2009 full-year total to the average of the four year period 2005-2008 (73.0 tonnes) shows a 301% increase.

Results were similar for Switzerland, Germany and the Other Europe region (which mostly covers German-speaking countries). Fourth quarter demand for each country was below year-earlier levels, but compares very favourably with last quarter. Annual comparisons also show a solid improvement over 2008. The upturn in investment off-take seems to be partly for diversification purposes and partly price-related with the record

Historical Data for Identifiable Gold Demand

Table 10: Historical data for identifiable gold demand¹

	Tonnes					US\$bn				
	Jewellery	Net Retail Invest	ETFs & Similar	Industrial & Dental	Total	Jewellery	Net Retail Invest.	ETFs & Similar	Industrial & Dental	Total
2000	3,204	166	-	451	3,822	28.75	1.49	-	4.05	34.29
2001	3,008	357	-	363	3,728	26.22	3.11	-	3.16	32.49
2002	2,660	340	3	358	3,362	26.49	3.39	0.03	3.56	33.47
2003	2,483	301	39	382	3,206	29.00	3.52	0.46	4.46	37.45
2004	2,617	349	133	414	3,512	34.43	4.59	1.75	5.44	46.20
2005	2,712	393	208	432	3,745	38.73	5.56	2.97	6.17	53.51
2006	2,288	416	260	460	3,424	44.42	8.07	5.05	8.92	66.46
2007	2,405	433	253	462	3,552	53.76	9.67	5.66	10.32	79.42
2008	2,187	863	321	436	3,806	61.30	24.18	9.00	12.21	106.69
2009 ²	1,747	676	595	368	3,386	54.62	21.14	18.59	11.49	105.85
Q1'06	492	93	113	112	810	8.76	1.65	2.01	2.00	14.42
Q2'06	530	97	49	115	792	10.70	1.96	0.99	2.33	15.98
Q3'06	558	112	19	116	804	11.15	2.23	0.38	2.32	16.08
Q4'06	708	114	79	116	1,018	13.96	2.25	1.56	2.29	20.06
Q1'07	566	118	36	116	836	11.82	2.47	0.76	2.43	17.47
Q2'07	663	135	-3	118	914	14.22	2.89	-0.05	2.54	19.60
Q3'07	603	112	139	117	972	13.19	2.46	3.05	2.55	21.25
Q4'07	573	67	80	110	830	14.48	1.70	2.02	2.79	20.97
Q1'08	448	98	73	116	735	13.33	2.92	2.16	3.45	21.86
Q2'08	518	148	4	118	788	14.93	4.26	0.12	3.39	22.70
Q3'08	674	271	149	112	1,206	18.88	7.58	4.19	3.14	33.79
Q4'08	547	346	95	90	1,077	13.97	8.84	2.42	2.29	27.52
Q1'09	336	145	465	79	1,026	9.82	4.24	13.58	2.31	29.96
Q2'09	422	169	57	93	741	12.52	5.02	1.68	2.77	21.98
Q3'09	488	174	41	95	799	15.07	5.37	1.28	2.94	24.66
Q4'09 ²	500	188	32	100	820	17.69	6.64	1.12	3.53	28.98

Source: Tonnage data are GFMS; Value data are WGC calculations based on GFMS data.

1. See footnotes to Table 1 for definitions and notes. 2. Provisional.

international price generating a renewed wave of interest among retail investors.

Retail investment in France returned to small levels of net dishoarding in the second half of 2009, but this was insufficient to cancel out the modest net buying that was witnessed in the first half of the year and the full year 1.2

tonne total was the first year of positive investment in our 18 year data series. During the fourth quarter, pressure from the buy side of the market dissipated and this was reflected in the disappearance of local premiums above the international gold price, which had been in place for much of the year.

2009 IN REVIEW AND OUTLOOK FOR 2010

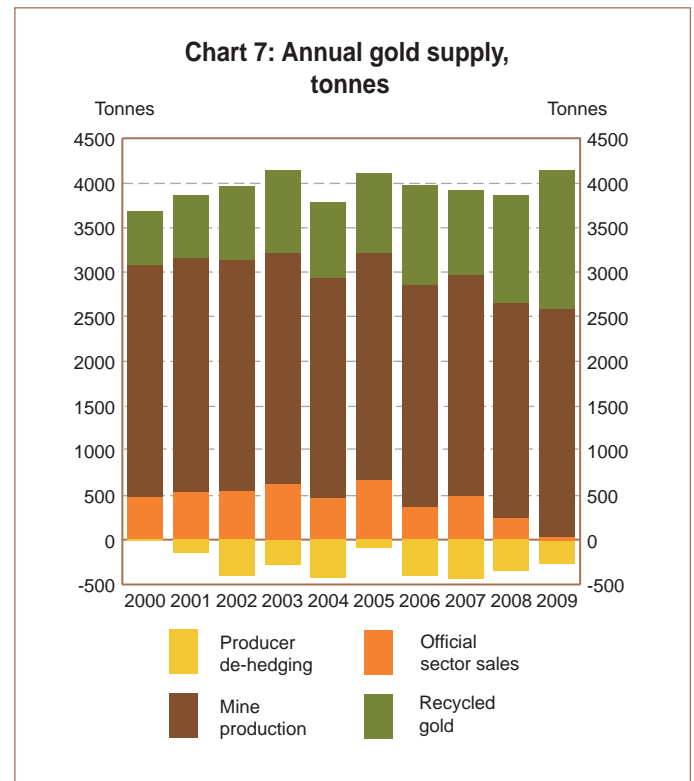
The gold price finished 2009 25% higher than where it started. After recovering from a first quarter correction, the middle part of the year was broadly characterised by a period of range trading in a \$US900-\$1,000/oz band. Finally, the sustained break above the key \$1,000/oz level came in early September, with record highs being repeatedly tested during the remainder of the year.

Total gold supply during the year was up 11% on 2008 levels. As shown in the graph opposite, a significant rise in the supply of recycled gold and a modest rise in mine supply were partly offset by lower levels of producer de-hedging and significantly lower official sector sales. It therefore appears that supply had a negative impact on the gold price during 2009. However, this annual analysis misses one crucial point - supply spiked higher in the first quarter, but dropped very sharply over the following two quarters. Despite a modest rise in the final quarter, total supply in Q4 was 27% below the levels of Q1.

The single biggest driver of the supply shifts in the first half of the year was recycled gold, spiking to a record 584 tonnes in Q1 but falling back to 338 tonnes in Q2. A further decline occurred in Q3 but the rally in the gold price resulted in a modest rise in the final quarter. Over the year as a whole, the supply of recycled gold exceeded historical norms.

The downward impact on gold supply from de-hedging activity was concentrated in the second half of the year - a 1 tonne negative contribution in Q1 and 32 tonnes in Q2 grew to negative contributions of 99 and 125 tonnes in Q3 and Q4 respectively. It is therefore clear that de-hedging had a significant tonnage impact on the gold market in the second half of the year; however, this is unlikely to be sustained into 2010 as the scope for further sizeable bouts of de-hedging activity is limited. The total size of the hedge book was just 249 tonnes at the end of 2009, a 49% reduction relative to year-earlier levels.

And finally on the supply side, central banks became net buyers of gold during the course of 2009. From a media perspective, the highlight of the year was the announcement by the Reserve Bank of India that it had bought 200 tonnes of gold from the IMF. In fact, this transaction had no net effect on gold demand, although it undeniably had an important impact on market sentiment. Focussing on the data, the more important news was the underlying trend - 62 tonnes of net selling in Q1 was followed by three consecutive quarters of, albeit modest,



Source: GFMS

net buying. The significance of the change in the trend only becomes apparent when put into a longer term context - total net selling of 44 tonnes in 2009 pales into insignificance compared to average sales of 444 tonnes per annum over the five years to 2008.

On the demand side, identifiable demand in 2009 was down 11% on 2008 levels, but if we add inferred investment (which represents the less visible investment flows as well as some residual error), there was a rise in total demand of 11%. Weaker jewellery and industrial demand were offset by significantly higher levels of investment. However, as with the supply side, the annual figures disguise several significant changes that occurred within the sectors during the course of the year.

While jewellery demand over the year as a whole was down considerably on 2008 levels, much of this was attributable to a very weak Q1 - a solid recovery occurred over the remainder of the year. The biggest jump occurred between Q1 and Q2 - an 85.8 tonne rise from 336.3 to 422.2 tonnes. By Q4, demand had recovered further to 500.4 tonnes, 188 tonnes higher than in Q1. Consequently, it seems clear that a recovery in jewellery demand helped the gold price reverse its first quarter correction, although

the absolute level of jewellery demand during the year was below its long run average.

One can therefore see that these four categories combined - jewellery, de-hedging, recycled gold and the official sector - had a significant positive impact on the supply-demand balance from Q2 onwards. A recovery in industrial demand also had a small positive effect.

This brings us to the final component of the supply-demand balance. Investment flows have received the most attention from the media and have often been credited with being the primary driver of the gold price rally in 2009. If we add together ETF-related demand, net retail demand and the less visible flows as captured by the inferred investment category, we find that significant changes occurred over the course of the year. Q1 was incredibly strong, and in the context of very weak jewellery and industrial demand and significantly higher levels of recycling activity, it is clear that investor flows provided significant levels of support for the gold price in that quarter.

However, the opposite occurred in Q2. Investment flows reduced sharply, with ETF demand, in particular, being unable to sustain the extremely high levels seen in Q1. It is the reduction in the supply of recycled gold that provided

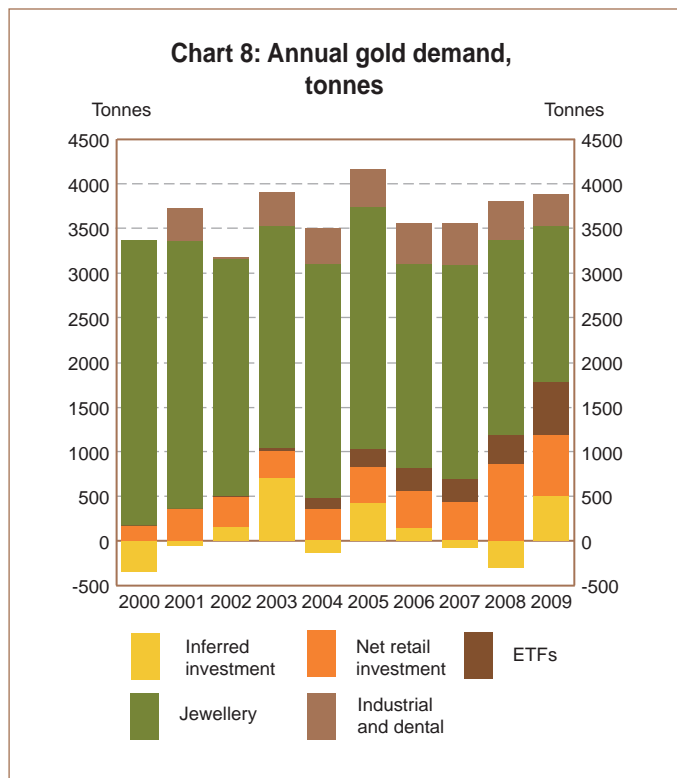
the strongest support for the gold price in that quarter, assisted by the recovery in jewellery and industrial demand and the move to net buying within the official sector. Investors once again played a role in the gold price rally in Q4, although other factors also contributed as we have already shown.

In fact, it is clear from this analysis that the sources of support for the gold price were broadly based during 2009. Furthermore, an important balancing effect came into play between the various sectors at different stages during the year. Nowhere was this balancing effect stronger than in the US. In 2009, exceptional growth in retail investment demand largely offset a 20% decline in jewellery demand to leave total tonnage virtually unchanged on 2008 levels.

There were also compensating effects occurring within sectors, most specifically within the investment sector, where western investors (both retail and institutional) compensated for weak non-western investor flows. The move by western retail investors into gold started in earnest in the third quarter of 2008, triggered by escalating concerns surrounding the financial sector. Notably, these flows reached record levels in Q4 2008 even though several major western economies were by then showing signs of recovery. In Q4 2009, other identifiable retail investment (which largely captures the secondary demand for official coins and other western retail demand) totalled 61.3 tonnes. Several years ago, this category was running at negligible levels.

On the institutional side, the increase in demand is captured partly by ETF demand and partly by the inferred investment category, which captures the less visible flows, in particular the over-the-counter market. The net inflow into ETFs was unprecedented in Q1, hitting 465.1 tonnes, although the remainder of the year was relatively subdued. In contrast, the inferred investor category experienced sizeable inflows in the first half of the year, and again in Q4. Q3 was flat. While there appeared to be sizeable purchases at key times which fuelled the rally in the gold price, there were also bouts of profit-taking. Nevertheless, the flows were more consistent than they have been over previous years.

Historically, this inferred investment category has captured the more speculative side of investor flows. This is clear from the chart opposite, which shows large positive demand in some years and outflows in others. However the nature of the demand in this category changed in 2009. Allocated bullion accounts gained



Source: GFMS

prominence (partly at the expense of unallocated accounts) and increased activity by hedge funds and other non-traditional institutions was also evident. These two trends appear somewhat contradictory, as the move towards allocated bullion accounts suggests medium to long term holdings while the increased prominence of hedge funds and other non-traditional institutions suggests a more tactical motivation. The build-up of long positions in the futures market was also indicative of a more tactical element in the investor market.

However, one could argue that even the more tactical buyers have been motivated by strong fundamentals that are likely to persist over the medium term (hence our use of the word tactical rather than speculative). These fundamentals include economic, currency and inflation uncertainty and the shift in sentiment in the central bank sector.

The weakness in the US dollar has been an ongoing theme. While the focus of the media and many analysts has been on the dollar, one shouldn't forget that several other major economies face similar problems to the US (namely economic uncertainty and very high debt levels), including Japan and the UK, resulting in a very uncertain currency environment that extends beyond just the dollar. Gold's appeal to both investors and central banks has hinged on its role as an alternative monetary asset - effectively a currency that cannot be debased by printing presses.

On the inflation front, while inflation is currently still benign and most major economies face a significant output gap (i.e. their economies have excess capacity), there is little doubt that the risks for the future lie in one direction - upward. The excessive monetary and fiscal stimulus that has been injected will inevitably feed through into higher prices, whether it comes in 2010, 2011 or not until 2012.

On the supply side, the shift in the central bank sector marks a fundamental change in sentiment. In recent

years, investors were focusing on the future supply that may come on to the market from the official sector. However, the emergence of a number of purchases among the central bank community, as well as the clear reduction in supply from signatories to the Central Bank Gold Agreement, has greatly reduced such speculation.

One factor that is apparent from this supply-demand analysis is the multi-dimensional aspect of the gold market and how fundamental this is to gold's performance. The broad base of support from both the supply and the demand side provides an important cushion against shocks and is therefore a key source of stability to the gold price.

The last decade has shown that while gold is, in many ways, a simple asset (it has no default risk or counterparty risk and no complicated structures underpinning it) the drivers behind demand and the gold price are not so simple. Gold has shown that it can perform strongly when economic growth is buoyant, as it did during the 2003-2007 period, but it can also outperform when the global economy is in recession. Gold can outperform when inflation is benign (as it did through much of the last decade), it can outperform in a deflationary environment (as it did in 2008 and early 2009), and it can outperform during an environment of above trend inflation or expected inflation (as it has done more recently). While this doesn't imply that gold is immune from cycles, it does show resilience across the economic cycle.

We expect investor support for gold in 2010 to remain solid. The search by investors and asset managers for portfolio diversification is expected to continue and on a more tactical note, the high levels of economic, inflation and exchange rate uncertainty are unlikely to disappear anytime soon. Furthermore, as global economic conditions improve, jewellery and industrial demand are likely to continue to recover.

Notes and definitions

All statistics (except where specified) are in weights of fine gold.

Tonne = 1,000 kg or 32,151 troy oz of fine gold.

N/A = not available

... = not applicable

Mine production. Formal and informal output.

Net producer hedging. The change in the physical market impact of mining companies' gold loans, forwards and options positions.

Official sector sales. Gross sales less gross purchases by central banks and other official institutions. Swaps and the effect of delta hedging are excluded.

Recycled gold (previously old gold scrap). Gold sourced from old fabricated products which has been recovered and refined back into bars.

Jewellery. All newly-made carat jewellery and gold watches, whether plain gold or combined with other materials. It excludes second-hand jewellery, other metals plated with gold, coins and bars used as jewellery and purchases funded by the trading in of existing jewellery.

Retail investment. For the three bar, coin and medallions categories this comprises individuals' purchases of coins and bars defined according to the standard adopted by the European Union for investment gold. Medallions of at least 99% purity, wires and lumps sold in small quantities are also included. In practice this includes the initial sale of many coins destined ultimately to be considered as numismatic rather than bullion. It excludes second hand coins and is measured as net purchases.

"Other" identified retail investment refers to Western Europe and North America. It includes net investment in physical bullion as defined by the EU (other than new coins which are included in the two coin categories), individuals' paper transactions with a direct physical counterpart plus Over-The-Counter activity and changes in metal account holdings where measurable and retail targeted.

Consumer demand. The sum of jewellery and retail investment purchases for a country i.e. the amount of gold acquired directly by individuals.

Industrial demand. The first transformation of raw gold into intermediate or final

products destined for industrial use such as gold potassium cyanide, gold bonding wire, sputtering targets. This includes gold destined for plating jewellery.

Dental. The first transformation of raw gold into intermediate or final products destined for dental applications such as dental alloys.

Tourist purchases and "luggage trade". Purchases by foreign visitors which are normally for their own use or for gifts are included in demand in the country of purchase. Bulk purchases by foreign visitors ("luggage trade") which appear to be intended for resale in the visitors' country of origin or a third country are attributed to the country in which they are resold.

Revisions to data. All data may be subject to revision in the light of new information.

Historical data

Data covering a longer time period will be available on Bloomberg from February 18th; alternatively contact GFMS Ltd (+44 (0)20 7478 1777; gold@gfms.co.uk).

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Issued by:

World Gold Council
55 Old Broad Street
London
EC2M 1RX
United Kingdom

www.gold.org

Tel +44 (0)20 7826 4700

Fax +44 (0)20 7826 4799

For further information, contact:

Matt Graydon, Director, Corporate Communications, World Gold Council

Tel +44 (0) 20 7826 4716

Email: matt.graydon@gold.org

Rozanna Wozniak, Investment Research Manager, World Gold Council

Tel +44 (0) 20 7826 4758

Email: rozanna.wozniak@gold.org