GOLD SUPPLY AND DEMAND IN FIRST QUARTER 2005

World Gold Council briefing note

Key points:

- Gold demand was very strong in Q1. Compared to a year earlier, it absorbed additional supply placed on the market of nearly 200 tonnes (the largest share of which came from central banks) while supporting an average price, at $427 per ounce, that was 5% higher. End-user consumption was 26% higher in tonnage terms compared to a year earlier, and 32% in dollar terms.

- The Q1 increase resulted from a combination of strong underlying trends with price movements that many consumers perceived as temporarily favourable. Successful and increased promotion for jewellery, favourable economic trends in a number of gold-consuming countries, new investment products, acceptance by consumers of prices in excess of $400/oz, and an undercurrent of political and economic unease favouring gold investment have supported a robust upward trend in consumer demand in recent months. In these circumstances many purchasers saw the retreat in the price during Q1 from the peaks reached in Q4 as a strong buying opportunity.

- The trend in jewellery consumption over the last year has been very promising; market research findings confirm that additional and sustained promotion is having an impact. Nevertheless the value of jewellery demand has only just returned to its previous peak in 1997 so continued promotional efforts remain necessary.

- There were two trends in institutional investment demand. Investment by institutions in Exchange Traded Funds (ETFs) and similar products grew while that in other investment products appears to have fallen in the first few weeks of the quarter, as the gold price weakened with the strengthening of the dollar, and then recovered to be broadly neutral over the quarter as a whole. The difference is probably primarily due to the fact that the introduction of ETF style products has opened up gold to many investors who had not previously invested in it. In general many of these newer investors have a longer-term investment horizon.

- Demand in India in Q1 was exceptionally strong with jewellery 72% higher than a year earlier in tonnage terms and investment more than doubling. A number of factors combined to produce this result. The boom in Turkish demand also continued while a number of other countries showed double digit increases.

- Industrial demand was broadly similar to a year earlier with a small drop in electronics demand offset by an increase in other uses.

Early indications for Q2

The factors supporting the upward trend in demand remain largely in place. However, the performance in Q1 was so exceptional that Q2 is likely to see some fall-back. Any further weakening of the dollar will support investment buying of gold although any resultant price volatility may constrain jewellery purchases. A positive factor for the market is a likely reduction over the next two quarters in central bank selling due to the timing of Central Bank Gold Agreement sales.

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This briefing note has been written by the World Gold Council based on data provided by GFMS Ltd. For further details see page 10.

WORLD GOLD COUNCIL

gold

OVERALL TRENDS IN DEMAND

Table 1: End-use gold consumption (tonnes)[1]

Tonnes	2002	2003	2004	*% change 2004 vs 2003*	Q1'04	Q2'04	Q3'04	Q4'04	Q1'05[2]	*% change Q1'05 vs Q1'04*
Jewellery consumption	**2,667**	**2,481**	**2,610**	***5.2***	**576**	**637**	**609**	**788**	**688**	***19.5***
Industrial & dental	**358**	**381**	**411**	***7.9***	**101**	**109**	**102**	**100**	**100**	*-1.2*
Electronics	207	235	261	*11.4*	65	71	65	61	61	*-6.0*
Other industrial	83	80	83	*3.3*	19	22	20	22	22	*17.2*
Dental	69	67	68	*1.2*	17	17	17	17	16	*-3.2*
Identifiable investment	**343**	**331**	**475**	***43.5***	**100**	**91**	**75**	**209**	**189**	***89.8***
Bar hoarding	264	178	246	*38.3*	57	66	58	64	82	*43.5*
Official coin	96	105	112	*6.7*	34	29	25	24	39	*15.1*
Medals & imitation coin	26	25	29	*15.3*	6	7	8	8	10	*58.5*
Other retail investment[3]	-47	-17	-45	…	-14	-15	-14	-1	-31	…
ETFs & similar products[4]	3	39	133	*237.2*	16	5	-2	114	89	*439.9*
Total end-user consumption	**3,367**	**3,194**	**3,497**	***9.5***	**776**	**838**	**786**	**1,097**	**977**	***25.8***
London pm fix, $/oz	309.68	363.32	409.17	*12.6*	408.44	393.27	401.30	433.80	427.35	*4.6*

Source: GFMS Ltd. 1. Identifiable end-use consumption excluding central banks. This table is consistent with that published on page 8 of GFMS's *Gold Survey 2005* but includes some revised data. 2. Provisional. 3. "Other retail" excludes bar and primary coin offtake; it represents mainly activity in North America and Western Europe. Q1'05 figure excludes certain countries. 4. Exchange Traded Funds and similar products including: Gold Bullion Securities, streetTRACKS Gold shares, NewGold Gold Debentures, iShares Comex Gold Trust, Central Fund of Canada and Central Gold Trust.

The tables shown in this report have changed from the last issue to take advantage of the additional information presented in the new table of end-use consumption, introduced by GFMS in *Gold Survey 2005.* This enables more detail to be seen for both industrial and investment demand.

The first three months of 2005 were another strong quarter for gold demand, particularly for jewellery and some categories of investment. End-user consumption (which includes all statistically identifiable categories of demand) was 26% higher than a year earlier in tonnage terms and a substantial 32% in dollar terms. The strength of demand proved more than adequate to absorb the additional supply coming on to the market from central banks and other sources while still supporting an average price level of $427.35 per ounce, 5% higher than a year earlier.

The factors lying behind the strength of demand included still buoyant economies in most consuming markets, additional promotion for jewellery, which is having a measurable impact, new investment products, and an undercurrent of political and economic unease favouring gold investment. The combination of these would have supported a continuation of the buoyant trends seen for much of last year but price movements added additional impetus.

As reported in the last briefing note, by end-2004 consumers in most markets had become accustomed to gold prices over $400/oz. (Most major gold consuming markets have currencies which are linked, either tightly or loosely, to the dollar.) Further, there is a growing consensus that the price of gold could rise further. In these circumstances the small retreat in the gold price from the peaks seen in the fourth quarter of last year was viewed as a strong buying opportunity, adding further vigour to an already powerful market. For much of the first quarter the price fluctuated between $420-440/oz. Anecdotal reports suggest demand rose strongly when the price fell towards the lower end of this range, retreating when it moved towards the higher end.

Jewellery demand was 19% higher than a year earlier in tonnage terms and 25% in dollar terms continuing the upturns which started in Q1 2004 and mid-2002 respectively. Europe and Japan apart, all countries showed year-on-year increases in jewellery consumption, a number of which were very strong. However, the overall rise owed much to an

Table 2: End-use gold consumption ($ bn)[1]

	2002	2003	2004	% change 2004 vs 2003	Q1'04	Q2'04	Q3'04	Q4'04	Q1'05[2]	% change Q1'05 vs Q1'04
Jewellery consumption	26.55	28.99	34.34	*18.5*	7.56	8.06	7.86	10.99	9.45	*25.0*
Industrial & dental	3.56	4.45	5.41	*21.5*	1.32	1.38	1.31	1.39	1.37	*3.4*
Identifiable investment	3.41	3.87	6.25	*61.7*	1.31	1.15	0.97	2.92	2.60	*98.6*
of which: retail[3]	3.38	3.41	4.50	*32.2*	1.09	1.09	1.00	1.34	1.38	*26.4*
Total end-use consumption	33.52	37.31	46.00	*23.3*	10.19	10.59	10.14	15.30	13.42	*31.6*

Source: WGC calculations based on GFMS data. 1. See notes to Table 1. 2. Provisional. 3 Retail investment is defined as all categories of identifiable investment with the exception of Exchange Traded Funds and similar.

exceptional increase in India where consumption was 72% higher than a year earlier. Excluding India, the overall increase was 8% in tonnage terms and 13% in dollar terms.

Chart 1 shows trends in jewellery with a four-quarter moving average applied to iron out seasonal fluctuations. The value series has now regained the peak levels seen in early 1997. The tonnage series, which was on a sharp downward trend from early 2001 to late 2003, now appears to have reversed, a reversal achieved despite the continued rise in the price.

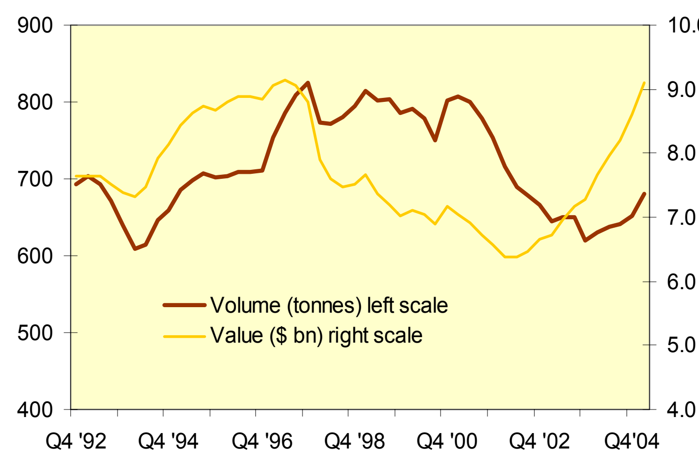
The trends in recent quarters have therefore been very promising. There is increasing evidence that the additional promotion of the last two years is bearing fruit with market research results in target markets showing more favourable attitudes and increasing propensity to buy. Further, this has occurred despite a large price rise. Nevertheless there is still work to do to regain levels of demand that past experience has indicated can be achieved. While offtake in tonnage terms will be constrained by the price rise of the last few years, the value of offtake in dollars should be higher than in the late 1990s, given the overall growth in the world economy. Promotion must be sustained to enable gold even to hold its own against competing goods and services, let along to increase its market share.

Industrial demand was slightly lower, in tonnage terms, than in Q1 2004 and slightly higher in value terms. The largest category, gold used in electronics components, was 6% below year-earlier levels due to slowing electronics demand from the boom conditions of last year allied to continual thrifting in use and, possibly, a reaction to a stocks build-up in intermediate components in the second half of 2004.

In contrast to electronics, other industrial uses continued to grow strongly. This category is dominated by decorative purposes. Over one quarter of this demand comes from India and was driven by the buoyant conditions in that country (see section on India below). In the Western world a fashion swing towards gold colour accessories will also have contributed. Dental use was 3% lower than a year earlier. The medium-term trend in dental demand is broadly stable.

The new presentation of data in table 1 gives more information on trends in investment, specifically all categories of retail investment (the first four sub-categories) and investment in Exchange Traded Funds (ETFs) and similar products. Much of institutional investment still defies formal statistical capture although more is known about general trends.

Chart 1: Jewellery demand by value and volume (4-qtr moving average)



Source: WGC calculations based on GFMS data.

The three coin and bar sub-categories all performed strongly with vibrant demand in the four major markets of India, Japan, Vietnam and Turkey as well as in a number of the smaller markets. The combination of the undercurrent of political and economic unease, specific factors for individual markets and the favourable price movements supported offtake. In contrast, other retail investment, which largely reflects net trading of existing products in Western markets, remained negative driven by ongoing dishoarding from European markets.

For institutional investment two trends were apparent: one in the Exchange Traded Funds and similar products (ETFs) and another in the rest of the market. (ETFs are classified as institutional investment although it should be noted that they are bought by individuals as well as institutions.) ETFs contributed 89 tonnes to overall demand (although the growth was entirely in the two latest funds to be launched).

Trends in the rest of the market appear to be closer to neutral over the quarter as a whole with a period of net disinvestment for the first half of the quarter followed by a period of net buying.

The difference in the trends for the two categories is largely due to a difference in investor horizon with the ETFs attracting investors new to gold who take a longer-term view. The longer-term tactical arguments for gold as an investment (in addition to its basic strategic diversification properties) remained intact during the quarter with on-going worries about the durability of economic upturn, continued political concerns, investor interest in commodities as a whole and fears over the medium-term outlook for the US dollar. In contrast the recovery in the dollar at the beginning of this year was negative for gold from the view of a shorter-term investor and speculation over possible IMF gold sales added to this. Later in the quarter, a weakening of the dollar appears to have prompted some swing back to gold.

SUPPLY

Table 3 shows the supply and demand balance; it also takes advantage of the new presentation for demand data. Note that jewellery is on a fabrication not a consumption basis. Supply was 17% higher than in the first quarter of last year. There was a small increase in mine production compared to year-earlier levels. Output from the major Grasberg mine in Indonesia returned to normal levels after the reduction in much of 2004 following the landslides at the end of 2003. However this was largely offset by lower grades being mined in a number of pits in North America and Australia.

Table 3: Gold supply and demand (new WGC presentation)

tonnes	2002	2003	2004	*% change 2004 vs 2003*	Q1'04	Q2'04	Q3'04	Q4'04	Q1'05[1]	*% change Q1'05 vs Q1'04*
Supply										
Mine production	2,589	2,593	2,464	*-4.9*	573	605	647	639	583	*1.7*
Net producer hedging	-412	-279	-442	…	-76	-111	-145	-109	-22	…
Total Mine supply	2,177	2,313	2,022	*-12.6*	497	493	502	530	561	*12.9*
Official sector sales[2]	545	617	478	*-22.6*	119	79	65	215	254	*113.5*
Old gold scrap	835	939	828	*-11.9*	235	206	183	204	229	*-2.6*
Total Supply	3,557	3,870	3,328	*-14.0*	850	779	750	950	1,043	*22.7*
Identifiable demand										
Jewellery fabrication	2,667	2,481	2,610	*5.2*	605	672	658	675	707	*17.0*
Industrial and dental	358	381	411	*7.9*	101	109	102	100	100	*-1.2*
Net retail investment[3]	339	292	342	*17.4*	83	86	77	96	101	*20.8*
Exchange traded funds & similar	3	39	133	*237.2*	16	5	-2	114	89	*439.9*
Total identifiable demand	3,367	3,194	3,497	*9.5*	805	873	835	984	996	*23.7*
Balancing figure[4]	190	676	-169	…	45	-94	-86	-34	47	…

Source: GFMS Ltd. Data in this table are consistent with those published by GFMS but adapted to the WGC's presentation and taking account of the additional demand data now available. 1. Provisional. 2. Excluding any delta hedging of central bank options. 3. Bar hoarding plus medal, official coin and imitation coin fabrication, and other identified retail investment. 4. This is the residual from combining all of the other data in the table. It includes institutional investment other than ETFs & similar, along with stock movements and other elements as well as any residual error.

De-hedging fell to 22 tonnes in the quarter, much less than the 76 tonnes in Q1 2004 and thus adding 54 tonnes to supply. However, the main contribution to additional supply came from central bank sales. These were more than double year-earlier levels. In general this reflected the timing of sales under the new Central Bank Gold Agreement (CBGA).

By April 1st, just over half-way through the first year of the current CBGA, the signatories had disposed of a combined 346 tonnes out of the 500 tonnes maximum. In particular, the first quarter saw the final tranche of selling from Switzerland which has now completed its 1,300 tonne sales programme. France, the Netherlands, Sweden and the European Central Bank also disposed of gold during the quarter. Outside the CBGA there was a 15 tonne reduction in holdings by the Philippines while the comparison with 2004 is also affected by the fact that there was no major purchase comparable to that by Argentina last year. With a maximum of only 154 tonnes remaining to be sold under the CBGA between April 1st and September 26th, net central bank selling should be considerably lower in Q2 and Q3.

CONSUMER DEMAND TRENDS IN INDIVIDUAL COUNTRIES

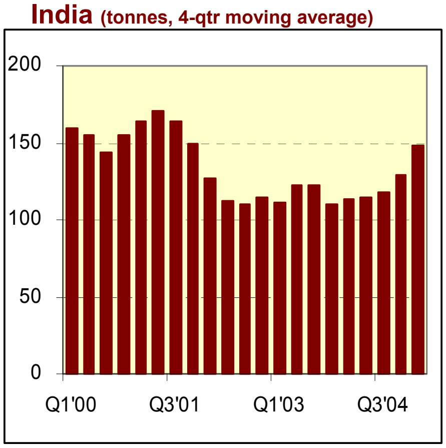
India

Gold demand in India was exceptionally strong in Q1. Jewellery demand was 72% above year-earlier levels in tonnage terms while net retail investment more than doubled. There is firm evidence, confirmed by additional information from independent sources, that imports into the country were in fact even higher but it appears that the favourable price movements in Q1, and the imminent imposition of a Value Added Tax regime from April, encouraged inventory building on the part of retailers so an adjustment has been made for this in calculating consumption.

A combination of factors caused this very high level of demand. First, there is strong evidence from market research that the much higher level of gold jewellery promotion and the WGC's *Speak Gold* campaign have made a distinct improvement to the propensity to buy gold among urban consumers. Second, the economy was strong. Third, agricultural prices for key crops were high which, together with a good winter harvest, offset the impact of last year's poorer summer harvest (following the patchy monsoon) on rural incomes. Fourth, the pattern of price movements gave an additional boost to demand in Q1.

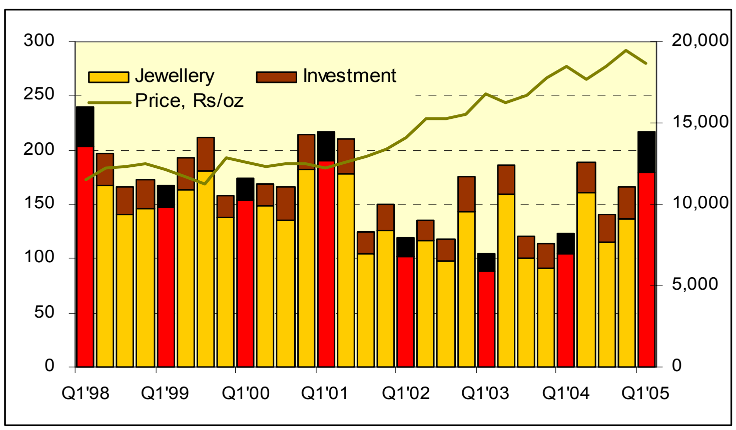
Chart 2, which is a 4-qtr moving average of total consumer demand to iron out seasonal movements, shows the upward trend in offtake over the past year despite the rise in the rupee price. Chart 3 shows the price and demand quarter by quarter. It shows that throughout the period of rising prices which started in 2001, demand has risen whenever the price stabilised or dipped. Thus the strong performance in Q1 2005 is the result of a combination of a temporary positive impetus driven by price movements on top of what was already a clear upward trend.

Chart 2: Gold demand in India (tonnes, 4-qtr moving average)



Source: WGC calculations based on GFMS data.

Chart 3: Gold demand (tonnes) and rupee price in India



Source: GFMS Ltd.

Table 4: Consumer demand in selected countries

	2004			Q1'04	Q1'05			% change over year earlier		
Tonnes	jewellery	net retail investment	total	total	jewellery	net retail investment	total	*jewellery*	*net retail investment*	*total*
India	517.5	100.2	617.7	122.7	179.8	36.5	216.3	*71.6*	*103.9*	*76.4*
Greater China	258.7	12.2	270.9	71.0	76.1	4.9	81.0	*13.1*	*32.0*	*14.1*
China	224.1	9.8	234.0	62.0	66.8	4.1	70.9	*13.2*	*35.8*	*14.3*
Hong Kong	13.8	1.2	15.0	3.8	3.7	0.3	4.0	*6.2*	*3.3*	*6.0*
Taiwan	20.7	1.2	21.9	5.2	5.6	0.5	6.1	*16.4*	*25.0*	*17.0*
Japan	34.6	67.0	101.6	24.0	8.8	17.0	25.8	*-0.8*	*12.2*	*7.4*
Indonesia	83.9	5.0	88.9	20.5	18.9	0.8	19.7	*0.9*	*-55.6*	*-4.0*
Vietnam	26.1	39.2	65.3	18.8	8.5	12.5	21.0	*16.1*	*8.7*	*11.6*
Saudi Arabia	136.2	5.2	141.3	33.8	35.4	1.9	37.3	*10.3*	*8.6*	*10.2*
Egypt	73.0	0.5	73.5	20.0	21.1	0.2	21.3	*6.5*	*0.0*	*6.5*
UAE	89.3	6.5	95.8	28.9	29.8	2.2	32.0	*10.8*	*10.0*	*10.7*
Other Gulf	44.6	4.9	49.6	13.1	12.2	1.3	13.5	*4.1*	*-9.9*	*2.6*
Turkey	189.6	48.6	238.1	59.2	54.7	21.7	76.4	*28.5*	*30.7*	*29.1*
USA	352.0	21.3	373.4	66.7	62.6	6.1	68.7	*2.8*	*4.7*	*3.0*
Italy[1]	76.9	…	76.9	12.1	11.5	…	11.5	*-5.5*	…	*-5.5*
UK[1]	70.2	…	70.2	10.5	8.9	…	8.9	*-15.2*	…	*-15.2*
Europe[2]	…	-22.7	-22.7	-8.1	…	-4.5	-4.5	…	…	…
Total inc. others[3]	2,610.3	342.4	2,952.7	658.9	687.9	100.5	788.4	*19.5*	*20.8*	*19.7*

Source GFMS Ltd

1. Jewellery only. 2. Net retail investment only. 3. Net retail investment for Q1'05 is for countries in table only.

Some additional factors also influenced demand in India in Q1. The number of bulk dealers and retail outlets appears to have increased. While demand was generally strong in the latter part of 2004, much of the South was an exception to this. But in Q1 the South too exhibited high levels of offtake in January and February albeit with some slowing in March. In Tamil Nadu there was, as already reported, a small boost to gold buying from those affected by the Tsunami who converted part of their relief payments into gold, considering that a secure way of holding the money until it could be used in reconstruction. Additionally it appears that the Tsunami also prompted some precautionary buying from those not affected.

Government plans for the uniform imposition of VAT from April 1 (which in practice have not been imposed in all states) led to some additional purchasing by retailers in March. Reports also suggest a slow-down in the purchase of diamonds indicating that consumer tastes were turning back to plainer gold jewellery.

2004 saw a stock market boom leading investors to look at alternative asset classes to invest their gains. With prices for property (along with gold a traditional alternative to equity investment) having also risen sharply, gold looked an attractive option.

The impact of stockbuilding by jewellery retailers and the exceptional purchases in Q1 are likely to lead to some compensatory fall-back in Q2. Indeed reports suggest that buying in April was slower. Nevertheless the underlying trend remains strong. Early reports suggest that gold jewellery buying was brisk in May and, in particular, that levels of buying in the key Akshaya Thrithya festival in southern India surpassed even previous records.

Greater China

Consumer demand in **China** was 14% higher than a year earlier, Jewellery demand was 13% higher with both the traditional 24-carat *chuk kam* and the more modern K-gold (18 carat) enjoying strong increases. *Chuk kam*, to which there is a strong investment element, benefited from the increased desirability of gold following the price rise of the last three years; again the slight dip in the price was therefore seen as a good buying opportunity. The gold gifting market also benefited from good demand around the Chinese New Year while strong economic growth in 2004 boosted incomes in rural areas as well as in the cities to the benefit of all jewellery products, not just gold.

Demand for 18-carat K-gold also remained strong with no sign of the usual winter dip in purchases in either Q4 or Q1.

K-gold promotions for Valentines Day, a relatively new occasion in China, provided a further incentive to buying while suppliers are producing additional stylish pieces to meet demand.

Net retail investment was 36% higher in tonnage terms than a year earlier (albeit from a low level). Deregulation of the retail investment market is starting to have some impact on demand, although the full effect is not expected to materialise until the second half of the year given the time needed for marketing campaigns to be developed. Offtake in Q1 benefited from the poor performance of the Shanghai stock market and a perception that the property market is becoming over heated. There was good offtake also from the gifting market around Chinese New Year and from the Year of the Rooster commemorative bar.

Hong Kong saw a satisfactory start to the year with jewellery demand 6% higher than a year earlier in tonnage terms. Strong retail sales generally and a good tourist season helped to sustain demand.

Taiwanese demand was vibrant with jewellery offtake 16% and investment offtake 25% higher than in Q1 2004. Jewellery demand benefited from a good wedding season with demand augmented at the start of the Year of the Rooster by the fact that the previous year was traditionally considered inauspicious for weddings (the number of weddings fell by 23% in 2004). Valentines Day promotions by local brands also boosted demand. As elsewhere, investment was boosted by price trends with demand strong whenever the price fell towards $420/oz.

Other East Asia

January saw strong investment buying in **Japan** when the yen price dipped but the weaker yen of February and March caused a rise in the local gold price and saw investors retreat to the sidelines. Nevertheless offtake in Q1, at 17.0 tonnes, was still 12% higher than year-earlier levels.

The economic climate remains generally favourable for gold investment in Japan. There is an undercurrent of concern over the level of public debt and its inflationary implications, while the pensions crisis makes individuals keen to invest in assets which will preserve their value. On top of this April 1 saw the imposition of a 10 million yen (approximately $90,000) limit to insurance guarantees for all bank accounts in the event of bank failure (previously this had only applied to deposit accounts).

56% of household assets are held in bank accounts in Japan so even though the limit is not small it does potentially affect a large number of people. Currently there is no immediate concern over bank failure (as was the case in 2002 when the limit was applied to deposit accounts and the first quarter saw gold investment soar to 47 tonnes) but it is adding to the reasons for buying gold bars. Thus, while there is no sense of immediate urgency in investors' minds, gold is bought whenever the price dips.

In contrast jewellery demand in Japan remained stable. While consumer spending was strong in the first quarter, buyers remain cautious. Gold is a fashionable colour currently but with limited promotion gold jewellery is struggling to compete with other fashion items.

The depreciation of the rupiah against the dollar caused the gold price in **Indonesia** to rise, approaching levels last seen during the Asian economic crisis of 1997 and 1998. Nevertheless with a strong economy and a good level of retail sales generally, jewellery buying was marginally higher than a year earlier. In contrast, the high prices promoted selling by investors so net retail investment was less than half year-earlier levels. (The aftermath of the Tsunami had no noticeable impact on gold-buying in Indonesia.)

Q1 was another strong quarter in **Vietnam**. The combination of the fall in the gold price and a high local inflation rate maintained the attractiveness of gold as an investment; on some days in early February and late March, when the gold price was low, over one tonne a day was imported into the country. A strong real estate market (much property being priced in gold tael bars) added to the demand. Jewellery demand was brisk as well, both due to its investment element and to strong promotional campaigns.

Middle East and Turkey

A strong economy, rising tourist numbers and sharply increased promotional spending combined to raise consumer gold offtake in **the UAE** by 11% in tonnage terms compared to Q1 2004 with increases in both jewellery and investment in double figures. Offtake during the Dubai Shopping Festival rose 30% helped by a doubling in promotional spending on gold (which amounted to one sixth of all promotional spending during the Festival) compared to 2004. There was good interest in gold investments, helped by the use of coins in Festival events. With a strong economy prospects for the rest of the year remain good.

Total consumer offtake also rose by 3% in **other Gulf countries**. Jewellery was the main beneficiary here, in part due to additional outlets opened by major UAE companies.

Saudi Arabia also experienced a 10% increase in consumer demand, with the beneficial impact of high oil prices on the economy; there was also good offtake during the pilgrimage season. In addition a number of measures announced by the government in March should help to boost jewellery demand in the future. These were: a reduction in customs duty on imported jewellery from 12% to 5%; a relaxation of the Saudi-isation rules for jewellery shops which now allow one foreign worker per outlet; and permission for jewellery exhibitions to be held.

The recovery in gold demand continued in **Egypt** with particularly good demand from tourists. Some appreciation of the Egyptian pound against the dollar enabled prices to fall by more than the international price, helping both domestic and tourist spending.

The boom in **Turkish** demand, which started at the beginning of 2003, continued in Q1. Jewellery offtake rose to 54.7 tonnes, 28% higher than in Q1 2004 which was itself a first quarter record at the time. 2005 has seen new companies start to promote gold jewellery, both in conjunction with World Gold Council programmes and independently. The increase in investment (mainly coin) sales was even stronger, rising by 31%, with an unprecedented 9 tonnes sold in the month of March alone. It seems likely that price movements could have encouraged buying. The gold price in Turkish lira, like the dollar price, retreated in Q1 from the peaks seen in the fourth quarter of 2004 and consumers may have seen this as a buying opportunity during a longer-term bull market.

It is possible that part of the increase in Turkish jewellery and investment demand could be due to increased smuggling into Iran. This is currently under investigation but in any event would only have accounted for a small part of the increase.

Turkey is not just enjoying a domestic boom in gold purchasing but also an export boom. Jewellery exports are thought to have been 26% higher (World Gold Council estimates) in Q1 than in Q1 2004. Indeed in January Turkish imports into the US exceeded those from Italy for the first time although Italian dominance was reasserted in February and March. The March jewellery fair in Istanbul saw around 5,000 buyers attending, up from around 3,500 in 2004. The "luggage trade" (jewellery bought legally from retailers in Turkey and smuggled into other countries) has also seen growth with new markets in North Africa and Iran.

United States and Europe

A 3% increase in tonnage terms in jewellery demand in the US, compared with the first quarter of 2004 can be considered a satisfactory result given the economic background. While retail sales and consumer spending remain in positive growth territory, consumer confidence has been slipping since the end of 2004 and much consumer spending remains supported by a reduction in saving and an increase in debt. The 3% increase was also achieved despite the fact that January saw price increases by a number of manufacturers and retailers reflecting the rise in the gold price. Increased promotion and the success of the *Speak Gold* campaign constituted a major reason for the increase in spite of the adverse economic background; market research findings suggest a small but clear shift in consumer preferences in favour of gold jewellery. The high price of platinum and a fashion shift towards yellow gold also contributed.

While there is some uncertainty over the outlook for the US economy, a continued rise in consumer spending generally and sustained promotion should give support to the market.

Net retail investment in the US was 5% higher than a year earlier.

In contrast to the rest of the world, trends in Europe remained dull. Offtake continued to fall in **Italy** with poor economic conditions resulting in consumer spending cutbacks even on basic staples; thus the climate for luxury goods remained heavily adverse. As a result gold jewellery demand fell by 6% compared to a year earlier. Meanwhile Italian manufacturers continue to battle for export markets against lower-cost manufacturing countries.

Nevertheless, against the gloomy overall picture, the more innovative and stylish pieces are continuing to sell well in both the domestic and export markets. There continues therefore to be a "two-trend" market with a distinction between those pieces with better and more fashionable design and the more basic pieces which are bearing the brunt of the downturn.

A feature of demand in Q2 is likely to be increased sales of pieces with a religious motif. The media coverage of the death of Pope John Paul II and the election of Pope Benedict XVI have provoked a wave of interest in spiritual matters in Italy.

There was a sharp fall in offtake in Q1 in the UK, where the WGC does no gold promotion, with gold jewellery demand 15% below year-earlier levels. Retail sales growth in the UK in the first months of 2005 has been slow, consumer confidence has been slipping and concern over debt levels rising.

Once again the fall was concentrated in 9 carat gold – the biggest category in the UK. Hallmarking of 9 carat gold was 20% lower in fine gold terms than a year earlier. In contrast, hallmarking of 18 carat pieces was 2½% higher than a year earlier on a fine weight basis indicating that even thought trends for gold consumption as a whole are negative the high quality, more stylish end of the market continued to be robust.

Table 5: Historical data for gold demand

	Tonnes			$bn		
	Jewellery	Net retail investment	Industrial & dental	Jewellery	Net retail investment	Industrial & dental
1997	3,300	453	419	35.15	4.82	4.47
1998	3,176	263	394	30.03	2.49	3.72
1999	3,143	360	413	28.15	3.22	3.70
2000	3,209	165	452	28.80	1.48	4.06
2001	3,016	356	363	26.28	3.10	3.16
2002	2,667	339	358	26.55	3.38	3.56
2003	2,481	292	381	28.99	3.41	4.45
2004	2,610	342	411	34.34	4.50	5.41
Q1'03	532	67	93	6.02	0.76	1.05
Q2'03	613	67	98	6.84	0.74	1.09
Q3'03	592	67	94	6.91	0.79	1.09
Q4'03	744	90	97	9.35	1.14	1.22
Q1'04	576	83	101	7.56	1.09	1.32
Q2'04	637	86	109	8.06	1.09	1.38
Q3'04	609	77	102	7.86	1.00	1.31
Q4'04	788	96	100	10.99	1.34	1.39
Q1'05	688	101	100	9.45	1.38	1.37

Source: Tonnage data are from GFMS Ltd Value data are WGC calculations based on GFMS data. Detailed tonnage figures will be available on Bloomberg from June 6th or contact GFMS Ltd.

Notes and definitions

All statistics (except where specified) are in weights of fine gold.
Tonne = 1,000 kg or 32,151 troy oz of find gold.
Na = 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.

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. 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.

Consumer demand. The sum of jewellery and retail investment purchases for a country – ie 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 June 6th; alternatively contact GFMS Ltd (+44 (0) 2074781777; gold@gfms.co.uk)..

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