WORLD GOLD COUNCIL

GOLD DEMAND TRENDS

Issue No. 27 May 1999

First quarter highlights

Recovery in gold demand continues
Total just below all-time record

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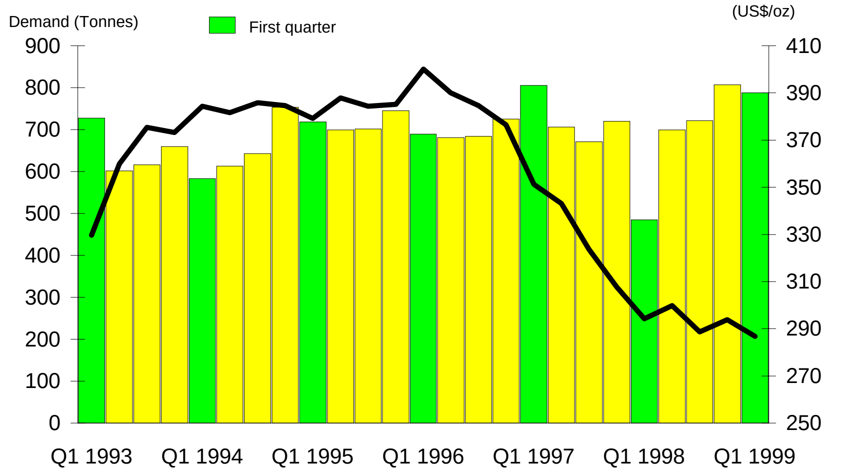
Gold demand in Q1'99 continued to recover from the massive dishoarding that marred the start of 1998. The total for the 27 markets covered was 787.6 tonnes, a gain of 62% from Q1'98. Demand in Q1'99 was only a fraction lower than the first-quarter record of 805.7 tonnes set in Q1'97, and just 2% below the all-time record for any three month period set during Q4'98.

Jewellery demand in Q1'99 totalled 652.6 tonnes, a 75% increase over Q1'98. Investment demand rose 20% to 135 tonnes.

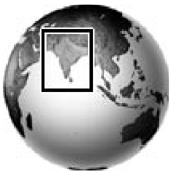
Overall demand in the USA gained 28% to a record for the first quarter, helped by continued strength in both jewellery and investment. The start of the Year of the Rabbit helped demand in China to grow 5%. In India, demand was 24% below the exceptionally high level of Q1'98. A recovery in the Gulf States lifted demand to a first-quarter record, while elsewhere in the Middle East, lower oil prices brought a decline of 10% in Saudi Arabia. A sharp increase in investment brought a gain of 50% in overall demand in Japan.

Total WGC markets: quarterly demand



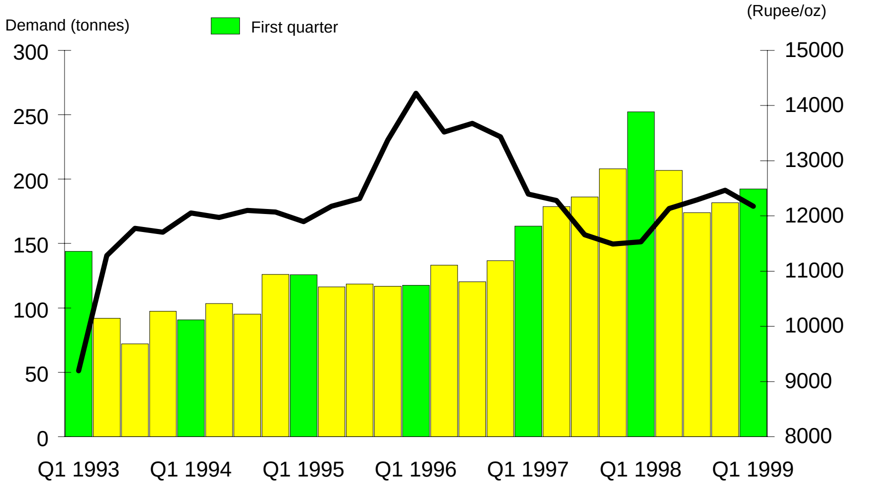
*Average quarterly gold price

Indian subcontinent



Covers jewellery, bar and coin demand in India and Pakistan

India: demand and local currency gold price



* Average quarterly gold price

India: decline relative to exceptionally strong prior period

Q1 demand in **India** was 192.4 tonnes, 24% lower than the exceptionally high level recorded for Q1'98. As in the second half of 1998, a number of factors depresssed demand for gold. These included slower economic growth, sharp increases in the price of basic consumer commodities draining purchasing power from households and, to some extent, the continuing effect of the rise in the domestic gold price following the depreciation of the rupee in early 1998.

The extent of the fall was, nevertheless, exaggerated by the surge in demand for imported gold at the beginning of 1998 following the removal of import restrictions at the end of 1997. This made demand at the beginning of last year higher than it would otherwise have been and worsened the comparison with the first quarter of this year.

Demand in the rest of 1999 should benefit from the effect of a good winter harvest in early 1999 boosting rural incomes. The rise in import duty in January from Rs250 per 10 grams to Rs400 per 10 grams raised the premium over international prices from 6.8% in December to around 10% by March. This is likely to bring continued recovery in informal imports through Dubai, and a consequent further decline in official imports direct into India.

Official imports in Q1'99 were 127 tonnes, compared with 201 tonnes in Q1'98.

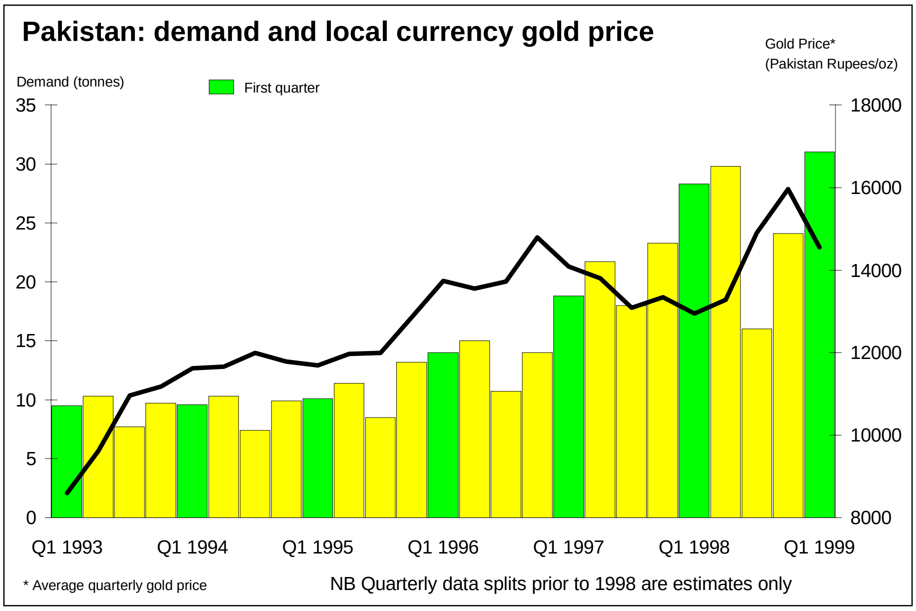
India:
Demand year to date 1999 vs 1998

Q1 1999	192.4 tonnes
Q1 1998	252.4 tonnes
% change	*-24%*

Official gold imports into India

	1997	1998					1999				
	Year	Q1	Q2	Q3	Q4	**Year**	Q1	Q2	Q3	Q4	**YTD**
Tonnes	**526.5**	200.8	156.8	124.2	131.9	**613.7**	127.3				**127.3**

The difference between official imports and overall demand is met by other imports and recycled scrap gold.

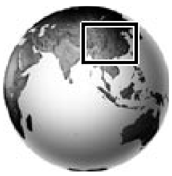


Pakistan: demand rises by 10%

Pakistan:
Demand year to date 1999 vs 1998

Q1 1999	31.0 tonnes
Q1 1998	28.3 tonnes
% change	*+ 10%*

Demand in Pakistan reached 31.0 tonnes in Q1, 10% higher than a year earlier. The increase was largely attributable to the decline in the local currency gold price. The government of Pakistan continued to press for greater transparency in the gold market, in line with the example of India.



North Asia

Covers jewellery, bar and coin demand in China, Hong Kong and Taiwan

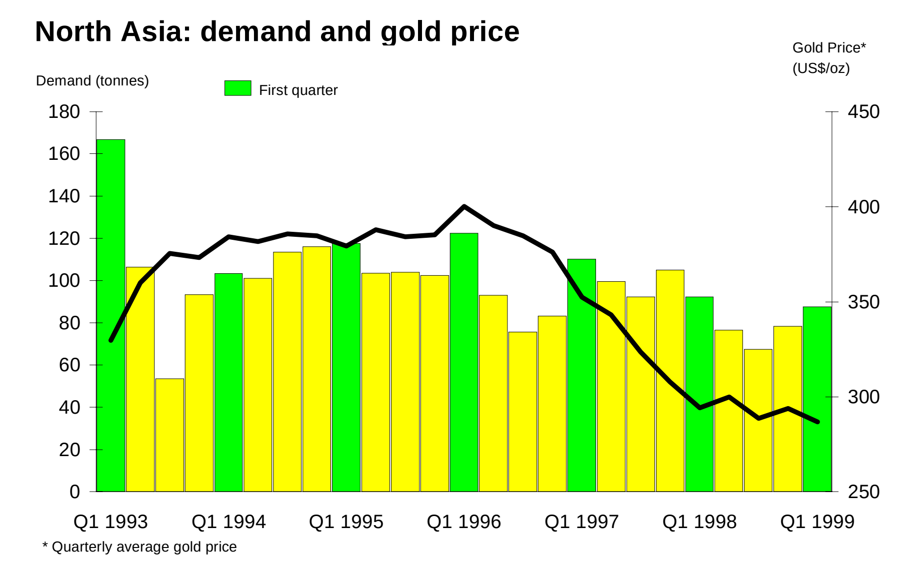
Recovery in China as Year of the Rabbit starts

In spite of an increase in China, aggregate demand in **China, Hong Kong and Taiwan** was 87.6 tonnes in Q1, a 5% fall from the already subdued level of Q1'98.

Demand in mainland **China** was the most buoyant of the three countries at 55 tonnes, 5% higher than in Q1'98. All the growth in China came in jewellery demand. Relatively strong growth in consumer spending in the quarter, albeit against a background of a slowing economy, supported sales as did the start of the Year of the Rabbit in February. This is considered much more auspicious for weddings and similar celebratory occasions traditionally marked by gold gifts than the previous Year of the Tiger. In addition, the year 99 symbolises eternity further encouraging weddings during the Chinese New Year period. Sales were also boosted during this time by Rabbit motif collectibles and attractive jewellery designs.

Sales were strong throughout most of the country. Southern cities were, however, an exception to the general trend as they were affected by the depressed situation in Hong Kong.

In **Hong Kong** itself, gold offtake was 7.3 tonnes in Q1. This was a 39% fall



Demand remains subdued in Hong Kong and Taiwan

from the 12.0 tonnes recorded for Q1'98 although it was slightly higher than the level achieved in Q4'98. Demand improved for a while from the middle of January but fell back again in March after the end of the New Year festive season. The economic situation remains gloomy; however, while some small further deterioration in the economy is expected in 1999, this seems unlikely to be as severe as the decline in output that occurred in 1998. It is therefore possible that the fall in gold demand may have run its course.

The economic situation also remains subdued in **Taiwan**, although it is not as depressed as Hong Kong. Gold demand in Q1, at 25.3 tonnes, was 10% lower than in Q1'98. The close proximity of the Chinese New Year and Valentine's Day, just two days apart, also limited sales with retailers forced to concentrate their promotions on just one of the two events. With economic confidence weak, most Taiwanese consumers are limiting spending for the moment.

Imports into Hong Kong for the first two months of the year were just 29.2 tonnes, a 78% decline from the corresponding period of 1998. In Taiwan, Q1 imports totalled 17.8 tonnes, 26% lower than in Q1'98.

Demand year to date 1999 vs 1998

China

Q1 1999	55.0 tonnes
Q1 1998	52.3 tonnes
% change	*+ 5%*

Hong Kong

Q1 1999	7.3 tonnes
Q1 1998	12.0 tonnes
% change	*- 39%*

Taiwan

Q1 1999	25.3 tonnes
Q1 1998	28.0 tonnes
% change	*- 10%*

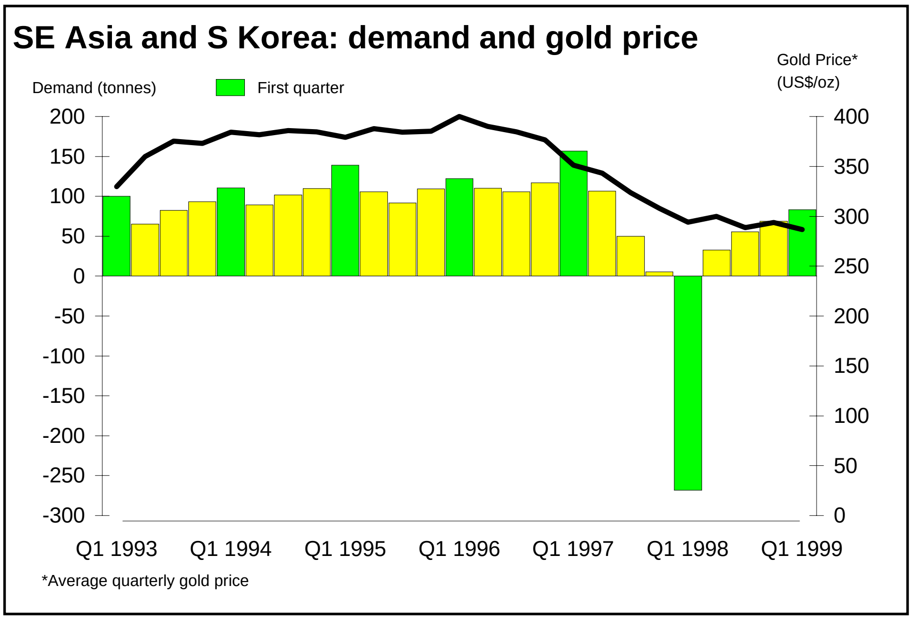
Gold imports into Hong Kong & Taiwan

	1997	1998					1999				
Tonnes	**Year**	Q1	Q2	Q3	Q4	**Year**	Q1	Q2	Q3	Q4	**YTD**
Hong Kong	**434.9**	151.6	38.3	24.1	18.7	**232.7**	29.2*				**29.2***
Taiwan	**109.1**	24.0	12.3	10.5	19.1	**65.9**	17.8				**17.8**

*Jan/Feb only

SE Asia and S Korea

Covers jewellery, bar and coin demand in S Korea, Indonesia,Thailand, Vietnam, Malaysia and Singapore



Strong recovery in South Korea and Indonesia

Recovery continued in most countries in this region. Q1 offtake was 83.2 tonnes - a sharp contrast to the net dishoarding of 268.1 tonnes that characterised Q1'98, while remaining below "normal" Q1 levels. Since the exceptional dishoarding one year ago demand has consistently risen each quarter. Q1 continued the process although the pace of recovery varied from country to country. Jewellery demand remained lower than in pre-crisis times at 60.6 tonnes, but investment demand returned to normal at 22.6 tonnes.

Both jewellery and investment demand were robust in **South Korea** in Q1, each having almost returned to pre-crisis levels. Jewellery offtake in the quarter was slow initially but the onset of the Lunar New Year in February and the Wedding season in March, coupled with improved economic expectations, encouraged consumers to flock back to gold.

Recovery also continued strongly in **Indonesia** during the quarter. Total gold offtake reached 23.0 tonnes, substantially higher than in Q4'98. Following the annual record set in 1998, investment demand remained particularly strong in Q1 at 6.0 tonnes, 20% higher than Q1'98. Jewellery demand was boosted by the double festival season with the Muslim New Year in January and the Chinese New Year in February. A further factor was restocking by retailers who had earlier sold gold when the local price reached a record high level at the peak of the economic crisis.

Demand year to date 1999 vs 1998

S Korea	
Q1 1999	29.5 tonnes
Q1 1998	- 228.0 tonnes
Indonesia	
Q1 1999	23.0 tonnes
Q1 1998	- 64.0 tonnes

Good growth in Vietnam, mixed fortunes elsewhere

Gold demand also improved in **Thailand** but at a slower pace, consistent with what appears to be so far a more gradual economic recovery than in countries such as South Korea. Demand in Q1 totalled 9.5 tonnes, 1.0 tonnes higher than in Q4'98 and over six times as high as in Q1'98. With baht prices in Q1 comparatively stable compared to the turbulence of earlier months, dishoarding in the quarter was just 0.5 tonnes. Jewellery sales, totalling 7.5 tonnes gross (7.0 tonnes net) were brisk during the New Year, Lunar New Year and Water Festival seasons but this more rapid pace was not sustained afterwards. Investment demand, at 2.5 tonnes, was solid and comparable to pre-crisis levels.

Gold consumption in **Vietnam** rose to 15.0 tonnes in Q1, 15% higher than in Q1'98. Both jewellery and investment performed strongly rising by 20% to 6.0 tonnes and 13% to 9.0 tonnes, respectively compared to a year earlier. Fears of inflation prompted investors to convert their savings into local tael bars, triggering an 80% increase in sales compared with Q4'98. With domestic interest rates remaining below inflation, investors were attracted to both gold and the dollar. The 1.1% cut in the official gold price in March to its lowest level for nine months, combined with a rise in the dollar exchange rate, increased the relative attractiveness of gold as an investment, and prompted switching out of the dollar and into gold.

In **Malaysia,** aggressive sales promotions by major retailers during the traditional festive seasons of Chinese New Year, Hari Raya and Valentine's Day brought a 15% gain in jewellery demand. However, profit margins throughout the jewellery industry remained low in spite of the increase in volume, hampering production quality, design and craftsmanship. In contrast investment demand, at 1.3 tonnes, was higher than normal. Overall Q1 offtake was 3.4 tonnes, 13% higher than in Q1'98.

Gold demand in **Singapore** was just 2.8 tonnes, slightly better than in Q4'98 but 56% lower than in Q1'98 and well below pre-crisis levels. The close proximity of the Muslim and Chinese New Years limited seasonal sales. Economic uncertainty continued to spread gloom through the retail sector, and jewellery demand was mainly restricted to weddings and other traditional gift-giving occasions. Some jewellery companies made an effort to target younger people, who have been less affected by the crisis.

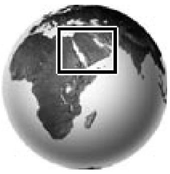
Imports into Singapore were 52.2 tonnes in Q1, a 10% fall from Q1'98.

Demand year to date 1999 vs 1998

Thailand	
Q1 1999	9.5 tonnes
Q1 1998	1.5 tonnes
% change	*+ 533%*
Vietnam	
Q1 1999	15.0 tonnes
Q1 1998	13.0 tonnes
% change	*+ 15%*
Malaysia	
Q1 1999	3.4 tonnes
Q1 1998	3.0 tonnes
% change	*+ 13%*
Singapore	
Q1 1999	2.8 tonnes
Q1 1998	6.4 tonnes
% change	*- 56%*

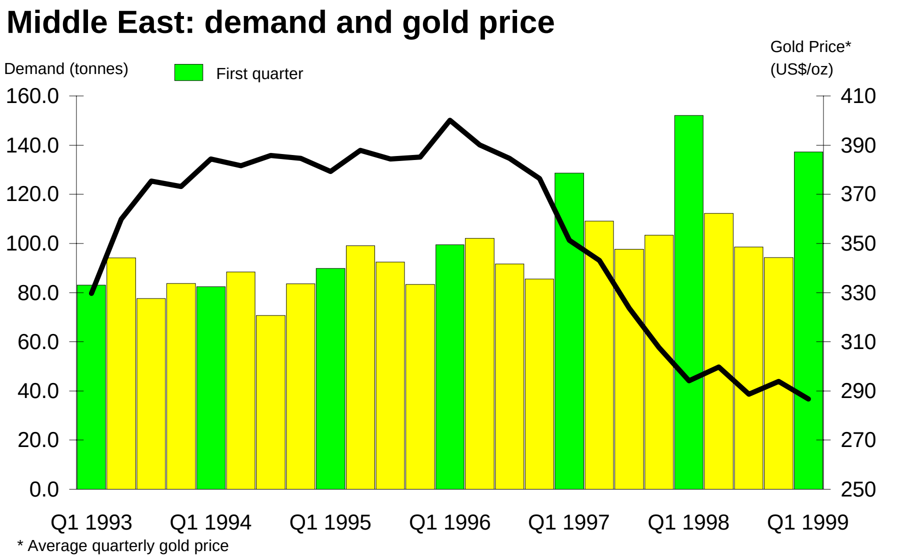
Gold imports into Singapore

	1997	1998					1999				
	Year	Q1	Q2	Q3	Q4	**Year**	Q1	Q2	Q3	Q4	**YTD**
Tonnes	**403.9**	58.1	36.2	29.8	42.8	166.9	52.2				52.2



Middle East

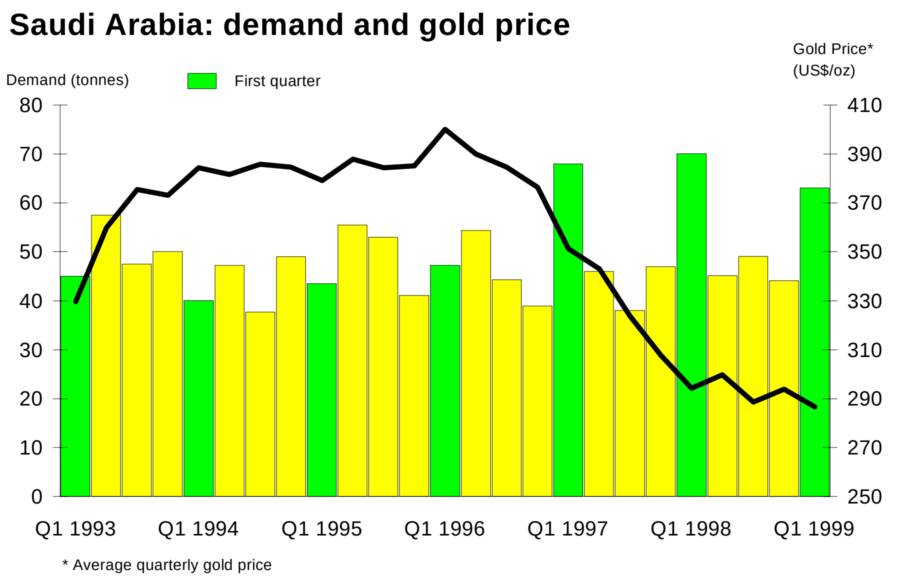
Covers jewellery, bar and coin demand in Saudi Arabia, UAE, Bahrain, Kuwait, Oman, Qatar and Egypt



Oil price fall hits gold demand

Gold demand in Q1 in the Middle East region was 137.2 tonnes. This was 10% lower than in Q1'98, but an encouraging recovery after three quarters of declining demand. The fall in oil prices in the latter part of 1998 hit incomes in the region, and brought lower gold purchases.

Q1 gold demand in **Saudi Arabia** was 63.1 tonnes, 10% below Q1'98. Offtake was limited by the decline in economic activity resulting from the fall in oil prices over the last year. In addition the number of pilgrims coming to the country to perform Haj

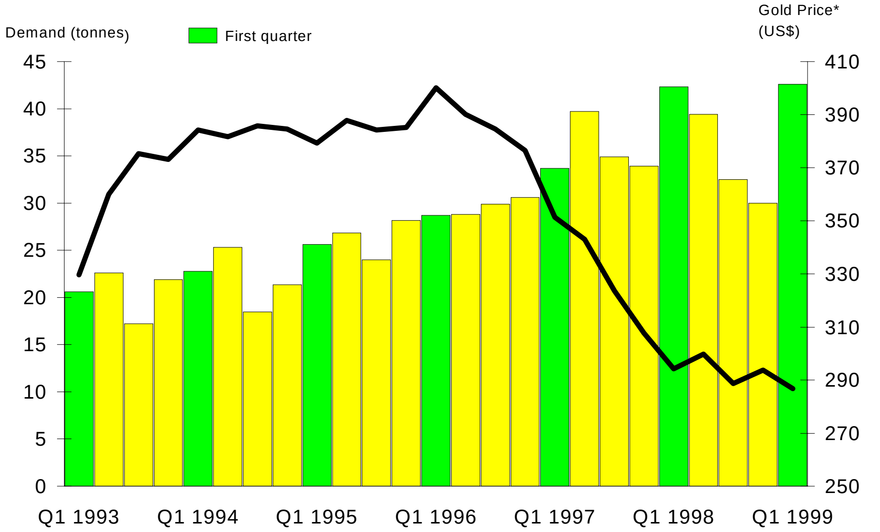


Demand year to date 1999 vs 1998

Saudi Arabia	
Q1 1999	63.1 tonnes
Q1 1998	70.1 tonnes
% change	*- 10%*
Gulf States	
Q1 1999	42.6 tonnes
Q1 1998	42.3 tonnes
% change	*+ 1%*

Recovery in Gulf States after three quarters of decline

Gulf States: demand and gold price



*Average quarterly gold price

Demand year to date 1999 vs 1998

UAE	
Q1 1999	26.6 tonnes
Q1 1998	25.3 tonnes
% change	*+ 5%*
Kuwait	
Q1 1999	7.4 tonnes
Q1 1998	7.6 tonnes
% change	*- 3%*
Oman	
Q1 1999	4.6 tonnes
Q1 1998	4.5 tonnes
% change	*+ 2%*
Bahrain	
Q1 1999	2.7 tonnes
Q1 1998	2.8 tonnes
% change	*- 4%*
Qatar	
Q1 1999	1.3 tonnes
Q1 1998	2.1 tonnes
% change	*- 38%*

was 120,000 fewer than in 1998 reducing purchases from this source.

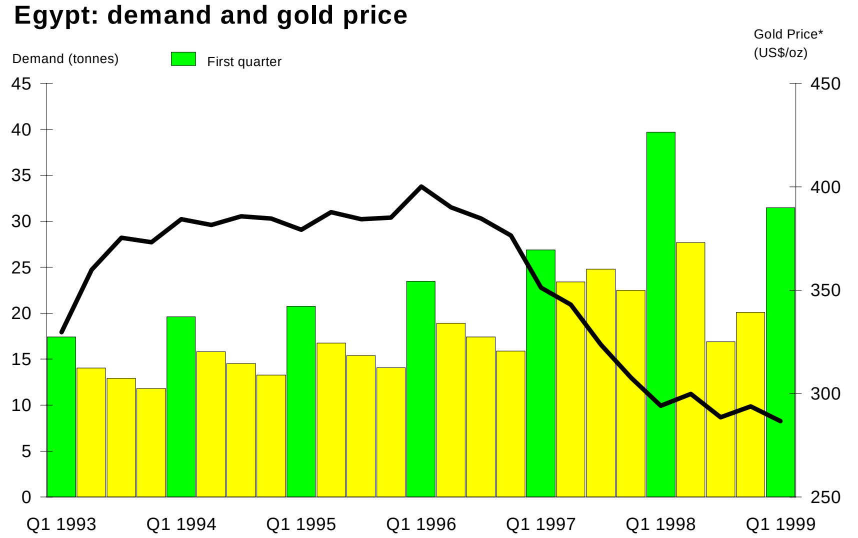
After several years of uninterrupted growth, gold demand in the **Gulf States** faltered in the second half of 1998, but Q1'99 brought an encouraging recovery. At 42.6 tonnes, demand edged up by 1% from a year ago, reaching a record for the first quarter and for any three-month period. Nevertheless, the decline in oil incomes restricted spending, as in Saudi Arabia. The effect was aggravated by a rise in the cost of living limiting disposable income available for luxury goods.

The strongest country in the region was **UAE** where Q1 demand rose by 5% compared to a year earlier to 26.6 tonnes. The start of the fourth Dubai shopping festival in mid-March boosted demand at the end of the quarter as did the promotional project of constructing the world's longest gold chain.

Demand in **Kuwait, Bahrain and Oman** remained stable in Q1, falling by 3% and 4% respectively in the first two cases compared to a year earlier and rising 2% in Oman. In **Qatar** there was a fall of 38% to just 1.3 tonnes - however this was in line with levels recorded throughout the last three quarters of 1998.

Offtake in **Egypt** was 31.5 tonnes in Q1, a 21% fall compared to Q1'98. The decline was principally due to a temporary closure of the gold bullion supply routes and hence an absence of bullion for around 15 days. 90% of the gold sold in Egypt comes through parallel routes from Dubai and via

Egypt: demand and gold price



* Average quarterly gold price

NB Quarterly data splits prior to 1997 are estimates

Egypt affected by interruption to gold supply

Jordan, Saudi Arabia and Lebanon. Tough security measures were imposed in Jordan during the final illness and death of the late King Hussein, which made gold smuggling through the country temporarily impossible. Egyptian manufacturers had to use recycled scrap for the period and the gold price premium increased substantially. The situation was aggravated by a shortage of US dollars during the quarter and a consequent fall in the exchange rate of the Egyptian pound, thus increasing the domestic price of gold. The gold market returned to normal by the end of the quarter.

Imports to **Dubai** in Q1 amounted to 69.7 tonnes, less than half the 153.0 tonnes recorded a year earlier. The decline was due to the liberalisation of the Indian market which means that gold no longer has to transit via Dubai and enter India by parallel channels.

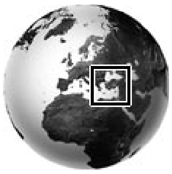
Demand year to date 1999 vs 1998

Egypt

Q1 1999	31.5 tonnes
Q1 1998	39.7 tonnes
% change	*- 21%*

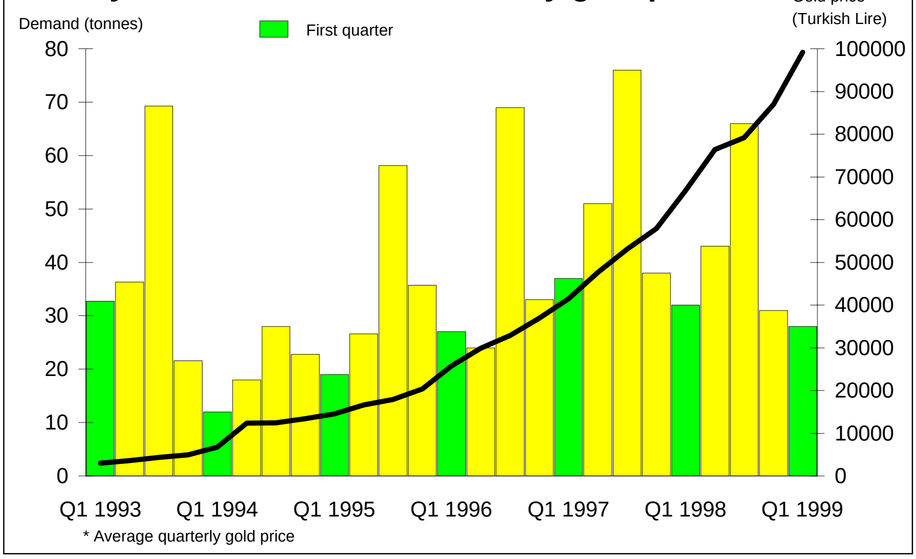
Gold imports into Dubai

	1997			1998					1999		
Tonnes	**Year**	Q1	Q2	Q3	Q4	**Year**	Q1	Q2	Q3	Q4	**YTD**
Dubai	**660.3**	153.0	90.9	73.3	60.2	**377.4**	69.7				**69.7**



Turkey

Covers jewellery, bar and coin demand

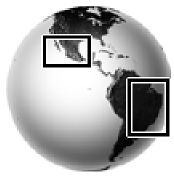


Turkey: demand and local currency gold price

Demand remains subdued

Turkey: **Demand year to date 1999 vs 1998**	
Q1 1999	28.0 tonnes
Q1 1998	32.0 tonnes
% change	*- 13%*

Gold demand remained subdued in **Turkey**. Q1 offtake of 28.0 tonnes was 13% lower than Q1'98. Political uncertainties associated with the April elections and the civil unrest following the capture of the Kurdish PKK leader Abdullah Ocelan reduced consumer confidence. The unrest had a severely adverse impact on the tourist industry, which is also an important source of gold demand. Economic growth has slowed and the country is suffering from the knock-on effects of the Russian crisis last year. The decline in gold demand was more than reflected in a fall in official imports, with scrap recycling rising to an estimated 18 tonnes.



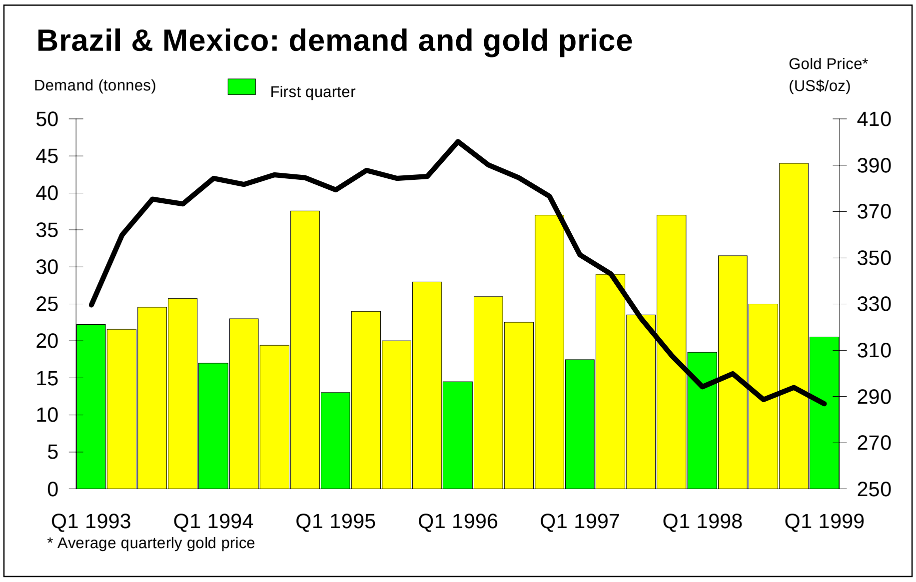
Brazil and Mexico

Covers jewellery, bar and coin demand

Economic crisis boosts gold investment in Brazil; Mexico demand stable

Demand in **Brazil and Mexico** together rose to 20.5 tonnes, 11% higher than in Q1'98 on the back of a strong increase in investment in Brazil. Jewellery demand, at 14.5 tonnes, was 15% below year-ago levels but investment demand surged, reaching 6.0 tonnes, four times as high as in Q1'98.

The economic crisis in **Brazil**, which after months of uncertainty saw the floating of the real in January, and its subsequent rapid depreciation, had a profound effect on gold demand. Jewellery consumption shrank sharply, falling to 5.5 tonnes, 31% lower than a year earlier, as consumer spending suffered as a result of the crisis. Imported jewellery was particularly severely hit as a result of the fall in the real, which made imports more expensive.



Demand year to date 1999 vs 1998

Brazil	
Q1 1999	10.5 tonnes
Q1 1998	8.5 tonnes
% change	*+ 24%*
Mexico	
Q1 1999	10.0 tonnes
Q1 1998	10.0 tonnes
% change	*0%*

Meanwhile investment spending, which had risen sharply in Q4'98, remained high. The fall of the real meant that the domestic gold price rose and investors saw the metal as an inflation hedge. Spot business tripled at the commodities exchange. While this was led by institutional investors (not covered in this survey) personal investment also rose. Demand fell in March as the real strengthened against the dollar but offtake for the quarter was 5.0 tonnes, ten times the level of Q1'98.

In contrast to the turbulence in Brazil, gold demand in **Mexico** remained stable in the quarter. Both jewellery and investment demand, at 9.0 tonnes and 1.0 tonnes respectively, were unchanged from a year earlier making total offtake of 10.0 tonnes. Unlike Brazil the dollar was seen by investors as the prime hedge against uncertainty and there was no significant move into gold.

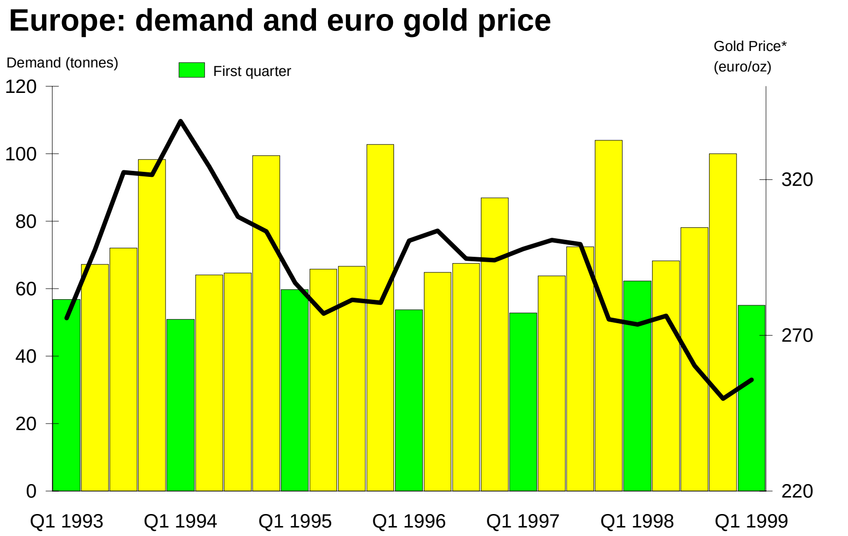
Europe

Covers jewellery demand in Italy, France, Germany and UK, and bullion coin demand in Europe

Sluggish economic growth hits gold demand

With slowing economic growth in a number of key countries, **European** demand fell to 55.0 tonnes in Q1, 12% below year-earlier levels. While jewellery purchases fell by just 7% compared to Q1'98, there was a sharper fall in investment (coin purchases mainly in Germany and Austria) which totalled just 1.7 tonnes, 65% below the 4.9 tonnes recorded for Q1'98.

In **Italy**, sluggish economic growth and an atmosphere of uncertainty reduced Q1 jewellery demand to 16.7 tonnes, 13% below year earlier levels. Sales were particularly slow in the first two months but picked up in March. Underlying the immediate economic problems, longer-term social trends caused discretionary spending to be increasingly diverted to travel and other consumer goods while



*Average quarterly gold price. Until 1998, DM converted to euro at Dec 31, 1998 exchange rate, euro thereafter.

France the exception to the decline in Europe

Demand year to date 1999 vs 1998

Italy	
Q1 1999	16.7 tonnes
Q1 1998	19.2 tonnes
% change	*- 13%*
France	
Q1 1999	14.1 tonnes
Q1 1998	13.7 tonnes
% change	*+ 3%*
Germany	
Q1 1999	12.3 tonnes
Q1 1998	15.7 tonnes
% change	*- 22%*
UK	
Q1 1999	11.9 tonnes
Q1 1998	13.6 tonnes
% change	*- 13%*

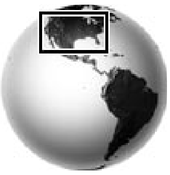
jewellery that was purchased tended to be much lighter than in the past. White gold remained fashionable in the northern and central parts of the country but was less appreciated in the south.

Export demand for Italian-manufactured jewellery remained strong almost compensating for poor domestic demand so that overall fabrication fell back just 1% compared to a year earlier to 124 tonnes.

The **French** economy and consumer spending remained stronger than some of its neighbours so that Q1 jewellery demand rose to 14.1 tonnes, 3% higher than the already strong performance in Q1'98.

Q1 jewellery demand was weak in **Germany**, dropping by 2% to 10.6 tonnes. General uncertainty due to a troubled economic and political environment continued to dent consumer confidence while the contraction of the German economy in the last few months of 1998 subdued general sentiment further. Coin sales (data include sales to some other European countries) were particularly low in the quarter at 1.7 tonnes, 65% lower than a year earlier, due not only to economic problems but also to the rise in the local currency price of gold.

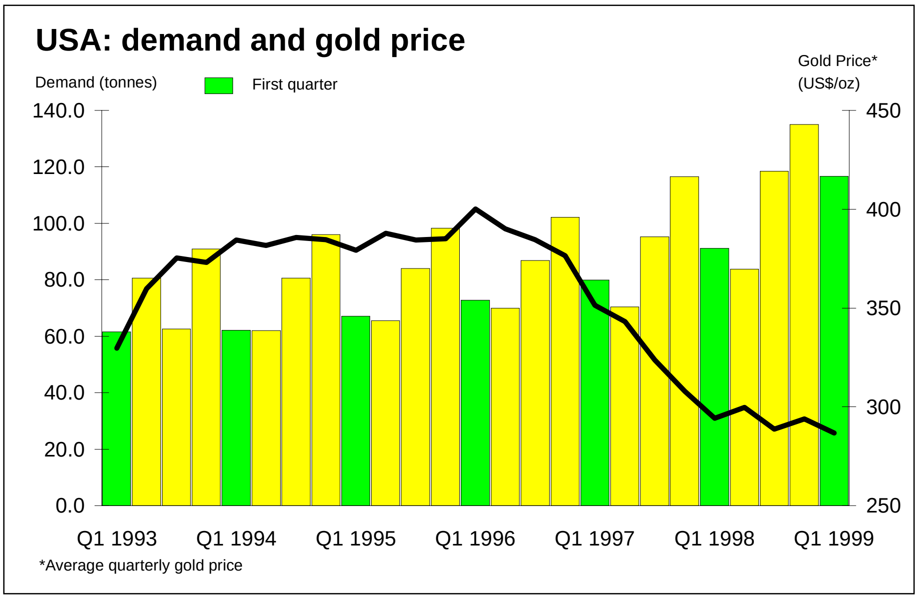
Following a general slowdown in consumer spending in the **UK**, jewellery demand fell to 11.9 tonnes, 12% below the very strong Q1'98. A contributory factor was an inventory overhang of imported goods built up during 1998 as a result of the low gold price and a strong pound. 22 carat jewellery, purchased mainly by the Indian community, fell back 23% year-on-year, while the mainstream 9 carat jewellery was less affected, declining by 10%.



USA

Covers jewellery and coin demand

Jewellery sales rise and investment boom continues

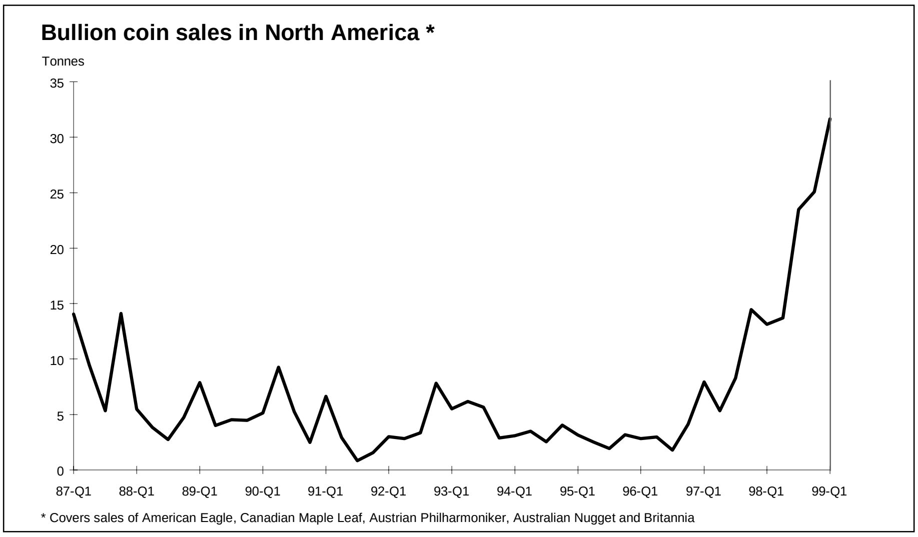


Demand in the **USA** rose 28% to 116.7 tonnes, a record for the period. The continued strength of the economy, coupled with low inflation and low unemployment, brought higher consumer confidence and purchasing power. This was reflected in increased jewellery demand of 85.0 tonnes, up 9% from a year earlier. Discount chains, department stores and electronic retailers all reported double-digit growth rates.

Gold investment demand continued to break all records. As measured by sales of bullion coins from the issuing mints, investment demand rose 141% to 31.7 tonnes. Purchasers cited three main reasons for the growth in investment: concern over a possible reversal in the stock market; fears that the Y2K "millennium bug" could cause widespread disruption to the financial system; and a growing appreciation of the benefits gold can bring to a balanced investment portfolio.

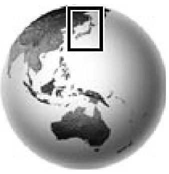
USA:
Demand year to date 1999 vs 1998

Q1 1999	116.7 tonnes
Q1 1998	91.1 tonnes
% change	*+ 28%*

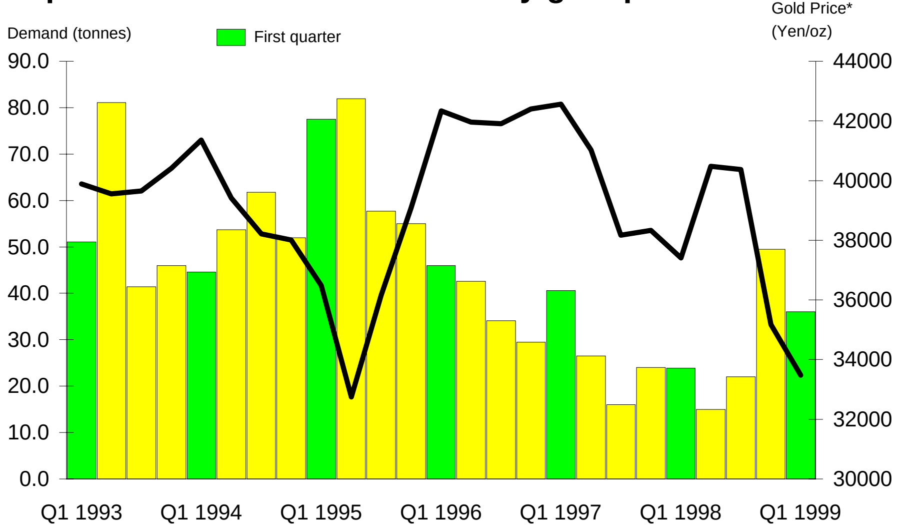


Japan

Covers jewellery, coin and bar demand



Japan: demand and local currency gold price



*Average quarterly gold price

Jewellery remains depressed but investment rises

Demand in Japan rose to 36.0 tonnes, 50% above Q1'98 although still below the levels of several years ago. Jewellery demand was 9.0 tonnes, up 13% from a year earlier. Consumers remained cautious, and doubts persisted over the prospect of any real economic upturn, in spite of the government's latest substantial fiscal stimulus package. One encouraging sign was that the rate of bankruptcies among jewellery companies subsided. The industry appeared to be approaching the end of its protracted period of restructuring.

Gold investment was more buoyant reaching 27.0 tonnes (of which an estimated 26.0 tonnes was in bar form) spurred by lingering investor worries over the collapse of Nippon Credit Bank and the strength of the yen at the beginning of the year. The buying momentum stalled in February but picked up again in the second half of March.

Japan:
Demand year to date 1999 vs 1998

Q1 1999	36.0 tonnes
Q1 1998	24.0 tonnes
% change	*+ 50%*

Investment demand in Japan

	1997			1998					1999		
Tonnes	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	YTD
Bar	51.0	15.0	6.0	12.0	33.8	66.8	26.0				26.0
Coin	3.6	0.9	1.0	1.0	0.7	3.6	1.0				1.0
Total	54.6	15.9	7.0	13.0	34.5	70.4	27.0				27.0

The gold price and interest rates

Gold prices developed a steadier tone right from the beginning of the year, with price volatility continuing to decline and trading volumes easing back considerably. The range between the highest and lowest PM London fixes during the first quarter was $14.55, about $1 less than in the previous quarter and $12 less than in the first quarter of 1998. The average net daily volume of trades cleared through the London market was 872 tonnes, a reduction of more than 10% on the previous quarter and 25% down from the same quarter in 1998. Price movements over the period were characterised by sharp one-day moves of several dollars, followed by extended periods of narrow range trading. The average gold price of $286.77 during the first quarter was $7.05 below the average for the preceding quarter, and $7.41 below the average for the opening quarter of 1998.

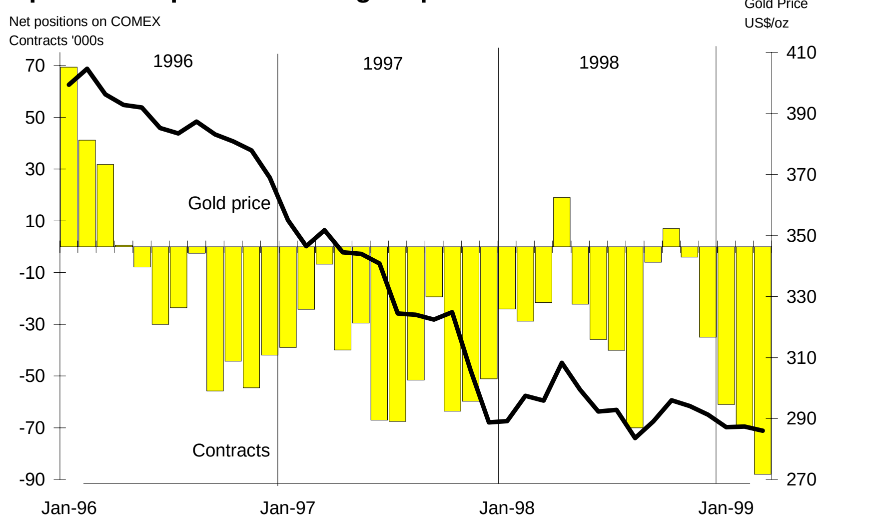
Firming premiums in south-east Asia lent support to reports of a shortage of physical metal in the region

The price opened the year slightly higher, largely ignoring the launch of the euro on foreign exchanges and focussing more on the strength of the yen against the US dollar. Statistics released by the Commodity Futures Trading Commission (CFTC) showed that speculative short selling at the end of 1998 had pushed the net short position of the large speculators on the Commodity Exchange in New York (Comex) up to 34,586 contracts (107.6 tonnes). However, with liquidity freely available, gold lease rates were trending lower, the one-month rate falling to 0.48% and the 12-month rate to 1.31%. The first fix of the year was $288.25, and gold traded close to this level over the first week, gaining support from rumours of producer buy-backs of hedging positions associated with the strength of the Australian dollar. On January 11, gold rallied briefly up to the $293 level as the US dollar fell to a 21-month low against the yen; Bank of Japan intervention in the currency markets checked the move, however, and the release of two bearish analyst reports on the outlook for gold quickly pushed prices below $290 again.

As concern over the financial crisis in Brazil mounted, prices of virtually all commodities fell on heavy speculative selling. By January 14, some support for gold was emerging, however, and the market settled within a $285-289 trading range. Over the next two weeks market activity was very subdued; firming premiums in south-east Asia lent support to reports of a shortage of physical metal in this region, but speculation that Brazil might be forced to sell gold in order to prop up the Real effectively prevented prices from improving. Thereafter, steady speculative short-selling pushed the net short position of the large speculators on Comex up to 60,992 contracts (189.7 tonnes) by January 26. The over the counter (OTC) options expiry at the end of the month saw gold break below this range, slipping back to $282.00 on

Underlying physical demand quickly strengthened and gold bounced back to the $290 level

Speculative positions and gold price



Source: WGC/CFTC

January 28 as options-related price constraints were relaxed. Underlying physical demand quickly strengthened, however, and gold bounced back to the $290 level by February 2.

Over the previous weekend, the World Economic Forum in Davos had sent mixed signals for the gold market. ECB board member Sirkka Hamalainen effectively discounted for a number of years the likelihood of any significant gold sales by states involved in European Economic and Monetary Union, but this was offset to some extent by US vice-president Al Gore's expression of support for IMF gold sales in order to fund relief for highly-indebted poor countries. As a result, profit-taking quickly set in after the test of $290. With traders' attention switching towards silver, which had soared to six-month highs on speculative buying, gold drifted back to $287. Over the rest of February prices remained within a tight range; the Chinese Lunar New Year caused activity to fall away in the middle of the month and the thin trading conditions continued. Gold lease rates held steady, while CFTC figures showed that by February 23, the net short position of the large speculators on Comex had grown to 70,065 contracts (218 tonnes).

At the beginning of March, the emerging consensus that the market was massively short gave rise to some concentrated buying in an attempt to trigger a short-covering rally, a strategy that paid off when prices ran up to $294 on March 9. CFTC statistics subsequently released showed that by this date the large speculators' net short position on Comex had fallen dramatically to only 2,205 contracts (7 tonnes). The price rally triggered producer selling, and prices dropped below $292 on the next day, only to rebound to $294 again on March 11 as the dollar fell sharply against the euro following the resignation of German finance minister Oskar Lafontaine.

Sirkka Hämäläinen discounted for a number of years the likelihood of significant sales by EMU members

With the short-covering activity out of the market, prices then began to slip again, a trend that accelerated after March 15 as the IMF debate suddenly came to the fore once more (see next section). After falling sharply to $282 on March 16, gold consolidated, with Far Eastern and Indian buying providing support at this point. The launch of the NATO air offensive on Serbia served to boost the dollar, but no parallel buying in gold emerged and the strength of the US currency also began to weigh upon gold prices. At the same time, extremely heavy borrowing demand for gold became evident, pushing the one-month gold lease rate up from 0.35% to 1.04% in just three days and giving rise to talk of a possible central bank sale. In the event it appears that a large central bank deposit matured and was returned, sparking a short-term scramble for liquidity from dealers.

Gold broke below the $282 support level on March 26 under pressure from producer forward sales. The one-month gold lease rate retreated to 0.55% after its brief spike upward, and the approach of the Easter holiday brought more subdued trading conditions. Gold closed the quarter at $279.45.

Official sector activity

Developments in the official sector continued to capture the market's attention during the first quarter, although there were no announcements of any significant sales and the fear of disposals by member countries of European Economic and Monetary Union (EMU) countries faded. However, the debate over the possible sale of a portion of the gold holdings of the International Monetary Fund to help fund the Highly Indebted Poor Countries initiative was revived, while Switzerland took further steps toward bringing about the constitutional changes necessary for possible future gold sales.

The IMF came under increasing pressure to fund its share of debt relief for poor countries through the sale of some of its gold. Statements by a variety of politicians, including President Clinton, lent support and encouragement to the proposals, while it was suggested that the opposition of some member countries such as Germany and France might be softening. When the idea was first

The IMF came under increasing pressure to fund its share of debt relief through the sale of some of its gold

proposed several years ago, it was suggested that the IMF should sell 5 million out of its total holding of 103 million ounces, but more recently there has been discussion of 10 million ounces or perhaps even more. It is still by no means certain that any sales will take place. There is still opposition among some IMF members, and the proposal requires the support of 85% of the votes on the Fund's executive board. The US holds almost 18% of the weighted voting power on the board, giving the country an effective veto over the proposal. Although the US administration has expressed support for gold sales, the US vote cannot be cast without prior authorisation from Congress, where tough scrutiny is promised.

The US vote cannot be cast without prior authorisation from Congress, where tough scrutiny is promised

After much discussion and speculation during the quarter, Swiss voters recently approved by referendum a new constitution. This paved the way for legislation to remove the constitutional link between the Swiss franc and gold, although the link ceased to be a practical reality many years ago. Agreement on other legislative and constitutional factors must still be sought before Switzerland will be in a position to sell any gold, as proposed. Further information on this process can be found in the publication "Switzerland's Gold", available via the WGC website (www.gold.org).

Figures released by the Swiss National Bank show that at the end of 1998 it had 187 tonnes of gold out on deposit with the market, almost 90% up on the 99 tonnes lent at the end of 1997. The SNB is understood to be prepared to lend up to 10% (260 tonnes) of its holdings. The SNB also reported that gold lending had produced a yield of 1.9% during 1998, and that the average period to maturity was around 4.5 months.

The Finance Ministry of Canada announced that it sold 160,000 ounces (5 tonnes) of gold during March, reducing the level of its gold reserves to 2.3 million ounces. Canada has a long-standing policy of gradually disposing of its gold holdings; in 1998 a total of 600,000 ounces (18.7 tonnes) was sold.

Gold reserve statistics as published by the IMF showed considerable changes over the turn of the year, as a result of the establishment of EMU. Before EMU came into formal existence on January 1, the 15 member countries of the European Union had 20% of their gold holdings swapped with the European Monetary Institute in exchange for ecu. The EMI was wound up at the end of December and the gold, totalling 87.3 million ounces, was returned to the member states. In January the 11 participants in EMU transferred euro 39.47 billion to the European Central Bank in proportion to their shareholdings in the new European central Bank; 15% of this was in the form of gold, amounting to 24 million ounces.

The Swiss National Bank reported that gold lending had produced a yield of 1.9% during 1998

Official holdings of gold - IMF statistics

Fine gold, oz million *End of period*	1995 year	1996 year	1997 year	1998 November	 December	1999 January
All countries	909.8	907.6	890.6	881.1	965.3	941.6
of which Industrialised countries	*755.0*	*748.2*	*732.5*	*724.6*	*809.0*	788.0
International Financial Institutions	204.4	202.0	199.1	197.1	109.8	133.8e
Total	**1114.2**	**1109.6**	**1089.7**	**1078.2**	**1075.1**	**1075.4e**

e = World Gold Council estimate

Note: The table covers all countries reported on in "International Financial Statistics" (IFS), published by the IMF. The item "International Financial Institutions" includes the IMF, the European Monetary Institute and the Bank for International Settlements. The statistics exclude: (1) a few member countries, (2) non-members of the IMF and (3) investment and monetary agencies of various national governments

Sources and reliability of data

Category / Country			Source	Reliability *
India, Pakistan, China, Taiwan, Hong Kong, SE Asia / S Korea, Saudi Arabia, Gulf States, Egypt, Turkey		-	Import statistics / trade sample	Measured / Indicated
Brazil, Mexico, Vietnam		-	Trade sample	Inferred
Europe				
Jewellery	UK and France	-	Hallmarking	Measured
	Germany	-	Trade data and trade sample	Indicated
	Italy	-	Trade data and trade sample	Indicated
Bullion Coins		-	Issuing Mints' sales data	Measured
USA				
Jewellery		-	Trade panel (representative)	Indicated
Bullion Coins		-	Issuing Mints' sales data	Measured
Japan				
Jewellery		-	Import statistics/trade sample	Measured / Indicated
Bars & Coins		-	Import statistics/trade sample	Measured / Indicated

*** Measured** : Data fully based on statistics believed to be reliable, such as government import and hallmarking statistics
*** Indicated** : Information projected from a representative sample of data or comparable information
*** Inferred** : Information derived from a small sample of data and/or informed contacts in the local marketplace.

Definitions

Tonnes (mt): Metric ton = 1,000 kg or 32,151 ounces of fine gold.

Import Data: Volume of gold imported into key bullion trading centres which serve as an important supply source for gold in the region.

Fabrication: Total volume of gold, either newly-mined or scrap, converted into the end-use products being reported on.

Trade Purchases: Total volume of gold contained in products purchased by the trade, either retail or wholesale, for ultimate sale to consumers.

Consumer Purchases: Volume or value of gold purchased by consumers in a given market. Usually measured by WGC's representative panel of retail shops or by WGC surveys of consumer buying

The aim of *Gold Demand Trends* is to review the latest state of demand for gold in the leading gold-consuming countries of the world. The areas covered are those where the World Gold Council is currently best positioned to provide a perspective on demand trends through a field staff located in the key demand centres and in contact with the major entities in the gold business.

The primary focus of the data is on the state of retail purchases of gold for the onward sale to the consumer, this being the common measurement parameter of demand in all World Gold Council markets and a proxy for consumer demand. At a subsidiary level, other data are provided, as available, which can help shed light on market trends e.g. gold imports, jewellery fabrication, consumer purchases.

No attempt is made to arrive at a global demand figure. This is because the Council cannot track between 15% and 20% of global demand where it is not represented (Africa, parts of Latin America, the former Communist bloc and parts of the Middle East) or where demand is difficult to measure (investment demand in Western markets).

The statistics in *Gold Demand Trends* were revised to include demand data for Pakistan and Egypt with effect from issue 26. The Council stopped monitoring dental demand in Europe, USA and Japan at the beginning of 1998, and these data are no longer included for previous years.

Gold demand in key markets worldwide (tonnes) 1993-1999

	1993	1994	1995	1996	1997	1998	96-2	96-3	96-4	97-1	97-2	97-3	97-4	98-1	98-2	98-3	98-4	99-1
Gold Price ($)	*359.2*	*384.1*	*384.1*	*387.9*	*331.3*	*294.1*	*390.1*	*384.6*	*376.5*	*351.3*	*343.1*	*323.7*	*307.7*	*294.2*	*299.8*	*288.6*	*293.8*	*286.7*
India	**405.4**	**415.0**	**477.2**	**507.8**	**736.7**	**815.0**	**133.3**	**120.4**	**136.6**	**163.6**	**178.8**	**186.2**	**208.1**	**252.4**	**206.8**	**174.1**	**181.7**	**192.4**
Pakistan	**37.2**	**37.2**	**43.2**	**53.7**	**81.8**	**98.2**	**15.0**	**10.7**	**14.0**	**18.8**	**21.7**	**18.0**	**23.3**	**28.3**	**29.8**	**16.0**	**24.1**	**31.0**
North Asia	**420.0**	**433.8**	**427.3**	**374.4**	**406.9**	**314.6**	**93.1**	**75.6**	**83.2**	**110.1**	**99.5**	**92.3**	**105.0**	**92.3**	**76.5**	**67.5**	**78.3**	**87.6**
- China	223.0	224.3	223.9	210.7	213.8	191.6	58.1	48.9	44.4	55.3	54.3	49.0	55.2	52.3	49.2	43.1	47.0	55.0
- Taiwan	160.6	162.0	160.2	123.3	142.1	91.2	26.4	17.5	27.4	41.3	33.6	33.7	33.5	28.0	20.2	17.8	25.2	25.3
- Hong Kong	36.4	47.5	43.2	40.4	51.0	31.8	8.6	9.2	11.4	13.5	11.6	9.6	16.3	12.0	7.1	6.6	6.1	7.3
SE Asia & S.Korea	**340.8**	**410.7**	**445.7**	**455.1**	**318.4**	**-111.0**	**110.2**	**105.7**	**117.1**	**156.8**	**106.4**	**49.9**	**5.3**	**-268.1**	**32.8**	**55.6**	**68.7**	**83.2**
- Thailand	96.0	124.0	116.0	106.0	14.0	19.0	24.5	22.5	24.5	41.5	18.5	-15.0	-31.0	1.5	3.0	6.0	8.5	9.5
- Singapore	21.4	23.9	24.1	20.0	22.4	14.1	4.3	3.8	4.8	8.9	4.5	5.2	3.8	6.4	2.5	2.6	2.6	2.8
- S Korea	90.0	106.0	121.0	125.5	114.4	-162.5	31.5	30.5	33.5	31.5	30.5	32.5	19.9	-228.0	14.5	22.5	28.5	29.5
- Malaysia	22.4	24.8	29.6	33.6	30.1	14.4	5.9	6.9	9.3	14.9	5.9	4.7	4.6	3.0	2.8	3.5	5.1	3.4
- Indonesia	80.0	97.0	119.0	129.0	92.5	-40.0	35.0	32.0	33.0	42.0	37.0	15.5	-2.0	-64.0	-1.0	11.0	14.0	23.0
- Vietnam	31.0	35.0	36.0	41.0	45.0	44.0	9.0	10.0	12.0	18.0	10.0	7.0	10.0	13.0	11.0	10.0	10.0	15.0
Saudi Arabia	**200.0**	**174.0**	**193.1**	**184.9**	**199.0**	**208.4**	**54.3**	**44.3**	**39.0**	**68.0**	**46.0**	**38.0**	**47.0**	**70.1**	**45.1**	**49.1**	**44.1**	**63.1**
Egypt	**56.2**	**63.2**	**67.0**	**75.7**	**97.6**	**104.4**	**18.9**	**17.4**	**15.9**	**26.9**	**23.4**	**24.8**	**22.5**	**39.7**	**27.7**	**16.9**	**20.1**	**31.5**
Gulf States	**82.3**	**87.9**	**104.6**	**118.0**	**142.2**	**144.2**	**28.8**	**29.9**	**30.6**	**33.7**	**39.7**	**34.9**	**33.9**	**42.3**	**39.4**	**32.5**	**30.0**	**42.6**
- UAE	32.7	33.2	39.2	52.6	71.6	79.4	12.0	13.9	13.4	16.9	22.3	17.3	15.1	25.3	22.0	17.4	14.7	26.6
- Kuwait	20.0	24.9	35.1	34.7	35.4	33.0	9.4	8.4	8.8	7.2	9.2	9.0	10.0	7.6	10.2	7.5	7.7	7.4
- Bahrain	7.2	7.4	7.8	8.0	10.6	10.5	1.8	2.1	2.3	2.6	2.2	2.9	2.9	2.8	2.5	2.7	2.5	2.7
- Oman	16.5	16.5	16.5	16.5	17.8	15.3	4.1	4.0	4.3	4.8	4.4	4.4	4.2	4.5	3.5	3.6	3.7	4.6
- Qatar	6.0	5.9	6.0	6.2	6.8	6.0	1.5	1.5	1.8	2.2	1.6	1.3	1.7	2.1	1.2	1.3	1.4	1.3
Turkey	**159.9**	**80.8**	**139.4**	**153.0**	**202.0**	**172.0**	**24.0**	**69.0**	**33.0**	**37.0**	**51.0**	**76.0**	**38.0**	**32.0**	**43.0**	**66.0**	**31.0**	**28.0**
Latin America	**94.0**	**97.0**	**85.0**	**100.0**	**107.0**	**119.0**	**26.0**	**22.5**	**37.0**	**17.5**	**29.0**	**23.5**	**37.0**	**18.5**	**31.5**	**25.0**	**44.0**	**20.5**
Brazil	52.0	50.0	54.0	59.0	58.0	64.0	15.0	14.5	21.0	9.5	15.0	14.5	19.0	8.5	16.5	17.0	22.0	10.5
Mexico	42.0	47.0	31.0	41.0	49.0	55.0	11.0	8.0	16.0	8.0	14.0	9.0	18.0	10.0	15.0	8.0	22.0	10.0
Europe	**294.3**	**279.0**	**294.9**	**272.9**	**292.8**	**308.6**	**64.8**	**67.5**	**86.8**	**52.7**	**63.8**	**72.3**	**103.9**	**62.2**	**68.3**	**78.1**	**100.0**	**55.0**
- Italy	125.0	116.1	110.0	105.3	110.8	112.1	25.0	27.4	35.4	17.9	23.4	30.2	39.3	19.2	23.4	30.1	39.4	16.7
- France	45.2	44.4	50.4	47.5	49.4	59.5	12.9	10.0	13.0	10.9	12.8	9.9	15.8	13.7	15.4	13.1	17.3	14.1
- Germany	85.5	77.4	88.3	73.0	73.8	70.2	16.4	17.4	22.6	14.3	15.5	16.2	27.7	15.7	14.5	17.3	22.7	12.3
- UK	38.6	41.1	46.2	47.1	58.8	66.8	10.5	12.7	15.8	9.6	12.1	16.0	21.1	13.6	15.0	17.6	20.6	11.9
USA	**295.5**	**300.6**	**314.7**	**331.7**	**362.0**	**428.4**	**70.0**	**86.8**	**102.1**	**79.9**	**70.4**	**95.3**	**116.5**	**91.1**	**83.7**	**118.5**	**135.1**	**116.7**
Japan	**219.6**	**212.1**	**272.1**	**152.2**	**107.1**	**110.4**	**42.6**	**34.1**	**29.5**	**40.6**	**26.5**	**16.0**	**24.0**	**23.9**	**15.0**	**22.0**	**49.5**	**36.0**
WGC Mkt Total	**2605.2**	**2591.3**	**2864.2**	**2779.4**	**3053.5**	**2712.2**	**681.0**	**683.9**	**724.9**	**805.7**	**705.7**	**670.7**	**719.9**	**484.7**	**699.6**	**721.3**	**806.6**	**787.6**

Some data may have been revised since the last issue of Gold Demand Trends *N.B. Figures may not add due to rounding*

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