GOLD SUPPLY AND DEMAND IN FOURTH QUARTER 2004
World Gold Council briefing note

Key points:

- Consumer (jewellery and net retail investment) demand for gold recorded another strong quarter in Q4, rising 6% above year-earlier levels in tonnage terms and a substantial 18% in dollar terms. For 2004 as a whole demand was 7% higher than 2003 in tonnage terms and 20% in dollar terms.

- Jewellery demand performed well in both Q4 (up 7% in tonnage terms and 19% in dollar terms) and the year as a whole (up 6% and 19%). In most of the price sensitive markets in India, the rest of Asia and the Middle East consumers are now not only comfortable with prices in excess of $400 per ounce but also expect prices to rise further. Thus the sharp price spike in November and early December had much less of a dampening impact on purchases than similar episodes have had in the past.

- For 2004, jewellery demand in tonnage terms was a record in Turkey and Vietnam; in a number of markets, including India, it was also a record in value terms. Nevertheless, in others demand remains below previous peaks. Gold jewellery still faces stiff competition from diamonds, electronics and other luxury consumer goods and services. Continued, increased and consistent promotional spending remains essential.

- Net retail investment was slightly lower in Q4 than a year earlier in tonnage terms (9% higher in dollar terms) but it was 15% higher in 2004 as a whole than in 2003. A major breakthrough was the approval in late December by the China Banking Regulatory Commission for banks to market retail investment products in that country.

- Net institutional investment, which had been negative in Q2 and Q3, turned positive in Q4 with a substantial increase in offtake by Exchange Traded Funds and similar vehicles.

- Total supply to the market, while 5% lower than a year earlier, was much less constrained than in Q3. As expected net central bank selling rose following the start of sales under the second Central Bank Gold Agreement.

Early indications for Q1 and year 2005

Early indications suggest a continuation of strong demand for jewellery in Q1 with strong buying reported in India and Turkey and for the Chinese New Year. Consumers have been taking advantage of what is now seen as the favourable price levels of the first few weeks of the year, with prices depressed by various factors including a somewhat stronger dollar and some speculation over possible IMF sales. For the year as a whole, however, economic conditions are likely to be less favourable to jewellery than 2004 so growth may be less strong than last year. Industrial demand may also suffer from this. In contrast a weaker world economy and concerns over global imbalances and the dollar, along with on-going political worries, should favour investment.

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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 13.

OVERALL SUPPLY AND DEMAND

Gold supply and demand (WGC presentation)

Tonnes	2002	2003	2004	*% change 2004 vs 2003*	Q4'03	Q1'04	Q2'04	Q3'04	Q4'04[1]	*% change Q4'04 vs Q4'03*
Supply										
Mine production	2,591	2,592	2,478	*-4.4*	641	573	603	654	649	*1.3*
Net producer hedging	-412	-279	-445	…	-27	-76	-111	-144	-113	…
Total mine supply	2,179	2,313	2,034	*-12.1*	613	497	491	510	536	*-12.6*
Official sector sales[2]	545	617	497	*-19.4*	172	119	79	65	234	*36.5*
Old gold scrap	835	944	829	*-12.2*	240	235	197	192	205	*-14.2*
Total supply	3,560	3,875	3,360	*-13.3*	1,025	851	767	766	976	*-4.8*
Demand										
Fabrication										
Jewellery	2,680	2,522	2,673	*6.0*	634	619	691	672	690	*8.8*
Industrial	291	318	348	*9.3*	82	84	94	86	84	*2.9*
Dental	69	67	68	*1.1*	17	17	17	17	17	*0.5*
Sub-total above fabrication	3,040	2,907	3,088	*6.2*	733	721	802	774	791	*7.9*
Bar & coin retail investment[3]	373	314	396	*26.2*	83	105	106	90	95	*14.6*
Total demand	3,413	3,221	3,484	*8.2*	816	826	908	864	886	*8.6*
Balance[4]	147	653	-124	…	209	25	-141	-98	90	*-56.9*
London PM fix (US$/oz)	309.68	363.32	409.17	*12.6*	391.06	408.44	393.27	401.30	433.80	*10.9%*

Source: GFMS Ltd. This table is consistent with data published by GFMS but adapted to the WGC's presentation.
1. Provisional . 2. Excluding any delta hedging of central bank options. 3. Bar hoarding plus medal, official coin and imitation coin fabrication. 4. This is the residual from combining all of the other data in the table. It includes institutional investment, stock movements and other elements as well as any residual error

Q4 overview: positive demand trends; looser supply constraints

Our expectations for the last quarter of 2004 were largely met. The quarter was mainly positive for demand, particularly for jewellery which continued the robust growth of recent quarters. Industrial demand was higher than a year earlier, although weaker than Q3. Fabrication of coins and bars was 15% higher than a year earlier; on a consumption basis net retail investment in major markets remained strong, albeit slightly below year-earlier levels. Net institutional investment – the main component of the balancing item – turned from negative in Q2 and Q3 to positive in Q4 helped by the launch of the gold ETF on the New York Stock Exchange in November and a similar product on the Johannesburg market in October.

The rise in jewellery demand occurred despite the price spike in November/December. Normally such a spike would have seriously affected offtake in the price sensitive markets of Asia and the Middle East. However, we noted last time round that consumers in all markets seemed not only to have become accustomed to prices in excess of $400/oz but that they generally expected prices to rise further. So while the price spike certainly constrained demand its effect was considerably milder than that of comparable movements in earlier years (such as those in 2002 or 2003).

While still 5% lower than one year earlier, overall supply to the market in Q4 was not as constrained as in Q3 with, as expected, additional supply from central banks and a slower pace of de-hedging.

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2004 as a whole: overview

The year as a whole saw strong increases in jewellery and in net retail investment (both commented on in the section on consumer demand on page 4). Industrial demand also rose although the pace of its growth moderated as the year progressed in line with the electronics cycle and the slowing world economy. Net institutional investment (see page 4) moved from positive to negative and back to positive again; the overall figure was negative but the reduction was much smaller than 2003's gain. All elements of supply were lower than in 2003, resulting in an overall fall of 13% in the total figure.

Supply in detail

Mine production recovered slightly in Q4 and was 1% higher than a year earlier with the massive Grasberg mine in Indonesia back to full production levels, albeit mining lower-grade ores. Q4 also benefited from a number of new mines coming on stream although some were still in the ramp-up stage. For the year as a whole, however, mine output, at 2,478 tonnes, was sharply down on 2003 – according to GFMS Ltd this was the sharpest fall in production since the 1940s. The fall was partly due to temporary factors including the after effects of the landslides at the Grasberg mine in Q4 2003 and bad weather in Australia and USA in the early part of the year. In addition, however, the strength of the rand, and hence the high US$ costs of South African mining, prompted cut-backs of marginal production areas. There was a limited contribution of new mines to output in 2004. GFMS Ltd expect an increase in production in 2005 partly as Grasberg should see a return to full operation for the whole year and partly as 2004 start-up mines will contribute a full year's production.

The pace of de-hedging remained fairly rapid in Q4 although at 113 tonnes it was lower than in Q3. Most of the decrease in hedgebooks was due to a reduction in forward sales. Of particular importance was the completion of a major hedgebook restructuring by AngloGold Ashanti. The Q4 de-hedging brought total mine supply in that quarter to 536 tonnes, 13% lower than a year earlier. De-hedging was high throughout 2004, 59% higher than in 2003. Together with the 4% fall in mine output mine supply for the year was 12% lower in consequence. GFMS expect de-hedging to be lower in 2005 than the 445 tonnes this year, but to remain a substantial force in the market.

Scrap supply was 14% lower in Q4 than a year earlier at 205 tonnes, continuing the trend evident in the first three quarters of the year. The acclimatisation of consumers to higher prices and the growing expectation that prices would continue to rise reduced the impetus to take profits. In addition, improving economic conditions in Egypt (see page 10) meant that that country was not the substantial supplier of scrap it was in 2003.

Central banks – the start of CBGA 2

After three quarters in which net central bank selling had been running well below 2003 levels, we expected selling to be higher in Q4, partly as a result of the start of the second Central Bank Gold Agreement (CBGA 2). In fact net central bank sales over the quarter amounted to 234 tonnes. 136 tonnes of this came from the CBGA (see box), with the balance from published and non-reported holdings outside the Agreement. There were no apparent major purchases during the quarter.

CBGA 2 sales

Declared sales from 27th September to end-year (tonnes)

Austria	10.0
France	39.3 (of which 0.6 tonne in September)
Luxembourg	2.3
Portugal	20.0
Switzerland	65.9 (of which 1.1 tonnes in September
Total	**137.5 (of which 1.7 tonnes in September)**

Announced and probable sales in Q1 2005

Up to February 18 Eurosystem central banks sold a further 39 tonnes with at least two central banks selling (probably France and the Netherlands).
Sweden announced in January that it had sold 15 tonnes.
Switzerland has a further 64 tonnes to sell after the end of 2004 which it intends to sell by end-March.

Announced plans for CBGA 2

The following central banks have announced their sales intentions for the period of the Agreement:

Austria	Less than 90 tonnes
France	500-600 tonnes
Germany	8 tonnes in 2004/2005 out of an option for the year of 120 tonnes. The remaining 112 tonnes to be offered to another Eurosystem central bank. No plans yet announced for following years.
Netherlands	165 tonnes
Switzerland	60 tonnes

Demand (*Fabrication basis)*

Jewellery fabrication was 9% higher in Q4 than a year earlier, bringing the annual increase to 6%. Jewellery trends are commented on in detail in the next section. Fabrication of bars and coins was 15% up on Q4 2003, pushing the increase for 2004 as a whole to 26%.

Industrial demand in Q4 was just 3% higher than a year earlier. Electronics demand rose 2% but this was considerably less than the strong growth rates recorded in the first three quarters. Slowing economic growth, together with a reduction in inventory levels across the electronics supply chain was responsible. Japanese offtake fell as, in addition to lower domestic demand, the country lost market share to South Korea, Singapore and elsewhere.

Other industrial and decorative demand rose by 6% year on year in Q4 with a particularly strong rise in India, due in particular to rising demand for *jari,* (gold thread used in wedding and other saris). Swiss demand also rose strongly on the back of increased demand for gold-plated watches,

After two quarters of negative results, net institutional demand turned positive in Q4. Overall offtake was probably in the 110-130 tonne region. The main event of the quarter was the launch of the State Tracks Gold Shares Exchange Traded Fund, sponsored by a subsidiary of the WGC, which had gained 95 tonnes by the end of the quarter. The NewGold ETF was also launched in South Africa. The launch of the US fund in particular provoked heightened market interest in gold. Most additional investment was visible in the ETFs and similar funds but there also appears to have been some net additional investment elsewhere.

Seasonal movements would have resulted in inventory reduction by retailers and wholesalers in Q4 so that the balance figure for the quarter, which combines net institutional investment, stockbuilding and other residual elements including, if appropriate, changes in delta hedging not included elsewehere, was 90 tonnes.

For the year as a whole the balancing figure was -124 tonnes following +653 tonnes in 2003. This largely reflects net disinvestment over the year (notwithstanding the rise in Q4) by short-term speculative buyers who had bought in 2003. The scale of disinvestment was substantially lower than the amount of purchasing in the earlier year, suggesting that many buyers had bought with a longer-term perspective and held onto their investment. Market reports confirm this analysis. Meanwhile there are indications that a growing number of institutional investors, particularly pension funds, are investing in commodities, including gold, although so far this is primarily via futures or commodity index trackers.

CONSUMER DEMAND

Overall consumer demand (consumption basis)

	2002	2003	2004	*% change 2004 vs 2003*	03'Q4	04'Q1	04'Q2	04'Q3	04'Q4	*% change Q4'04 vs. Q4'03*
Tonnes										
Jewellery	2,680	2,522	2,673	*6.0*	733	577	661	639	788	*7.5*
Net retail investment	332	300	335	*11.4*	94	90	89	76	91	*-3.1*
Total consumer	3,012	2,823	3,007	*6.5*	827	666	750	714	879	*6.3*
Value, $bn										
Jewellery	26.7	29.5	35.2	*19.3*	9.2	7.6	8.4	8.2	11.0	*19.2*
Net retail investment	3.3	3.5	4.4	*25.5*	1.2	1.2	1.1	1.0	1.3	*7.5*
Total consumer	30.0	33.0	39.6	*20.0*	10.4	8.8	9.5	9.2	12.3	*17.9*
Price, $/oz	309.68	363.32	409.17	*12.6*	391.06	408.44	393.27	401.30	433.80	*10.9*

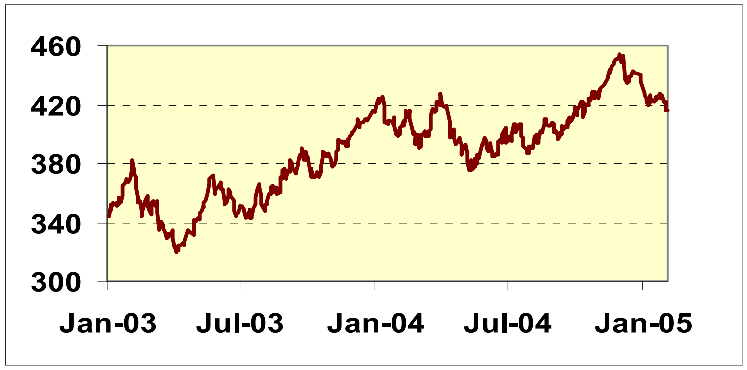
Sources: Tonnage data are compiled by GFMS Ltd. Value data are calculated by the WGC from GFMS data.
1. Provisional.

(Jewellery and net retail investment in the rest of this report are on a consumption basis.)
Overall jewellery demand grew consistently well throughout the year. For 2004 as a whole demand in tonnage terms was 6% higher than a year earlier with demand in dollar terms a spectacular 19% higher. For Q4, the growth rates compared with Q4'03 were 7% and 19% respectively.

Yet this overall picture concealed divergent trends in different market blocs. Against the background of vibrant economic growth, a pattern of price movements that was favourable for much of the year, and, most recently, an apparent change in consumer attitudes to price rises, trends in Asia and the Middle East were almost uniformly strong – in some countries exceptionally so. Against the background of a substantial gold price rise, US demand posted a strong rise in value terms, and only slipped marginally in volume terms. Europe, as in other recent quarters, remained the laggard.

To analyse trends in the Asian and Middle East bloc throughout the year, it is necessary to consider price movements. The graph shows the dollar price, most markets in this region having currencies linked either tightly or loosely to the US currency. This is a region where sharp upward movements in price normally hurt demand; consumers are highly aware of price and reluctant to buy when the price is moving upwards lest it fall back following a purchase. They return to the market once the price has stabilised.

Gold price, $ per oz, London pm fix



Price trends in 2003 were not generally favourable to demand in this region. The price peaked in February and, while it fell back afterwards, it was then on a rising trend for much of the year. In 2004, while a double peak in the price occurred in January and, again, at the beginning of April prices then remained below the peak level until late October. A further sharp spike, with prices rising to over $450 per ounce, occurred in late November/early December.

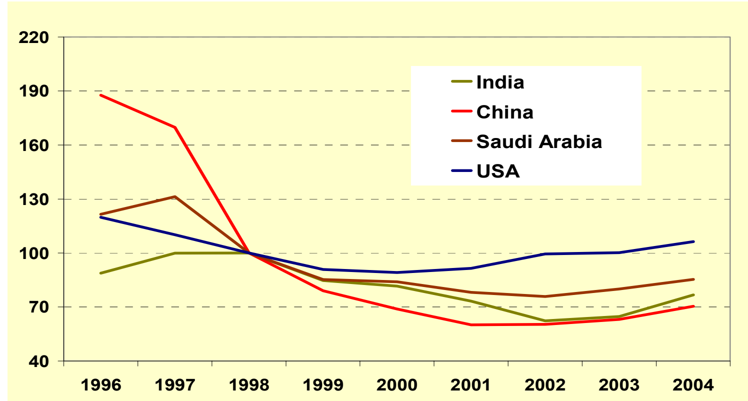
During the second half of the year a noticeable change in consumer sentiment towards rising prices seemed to occur. Reports from the trade in all countries suggested that not only were consumers comfortable with prices in excess of $400 per ounce but that they expected prices to continue rising. As a result the sharp rise in prices in November, while it dampened demand, was far less of a deterrent than would have been the case in earlier years. In consequence demand remained reasonably robust throughout the quarter.

A different pattern was evident in Western markets. Consumers here are less immediately sensitive to price movements but they do impact on manufacturers and can result in the gold content of jewellery being shaved to maintain price points at the lower end. US demand remained generally healthy, particularly in dollar terms, but European markets were less strong. A common feature of Western markets is the dichotomy between the stylish and fashionable end and the more traditional, basic products. Almost without exception products that are stylish, and of good and innovative design (whether at the expensive or cheaper end of the market) are performing well. More basic, less stylish, and heavier products are struggling.

We have noted in previous reports that jewellery demand in both value and volume terms remains below previous peaks (see historical statistics on page 11) and underlined the importance of continued promotion. These strictures remain. However 2004 did see gold regaining some market share in key markets as the following graph shows. A number of promotional efforts by the WGC, informed by a programme of market research, were successful in 2004 but more work remains to be done.

Net retail investment remained strong throughout most of the year buoyed by the rise in price and the political and economic environment. Demand in Q4 remained at a high level but was slightly lower than a year earlier in tonnage terms, although it was 9% higher in value terms. A rising gold price trend against a background of continued concern over political and some economic worries created a positive environment in most Asian and Middle East countries for increased purchases of bars and coins. Nevertheless dishoarding continued to outweigh buying in Western Europe.

Ratio of gold jewellery demand to retail spending indicators (1998=100)



Value of gold demand in national currency compared to value of:
India: Private consumption; China: Retail sales of consumer goods; Saudi Arabia: private consumption; USA: retail sales of jewellery, luggage and leather goods stores

CONSUMER DEMAND TRENDS IN INDIVIDUAL COUNTRIES

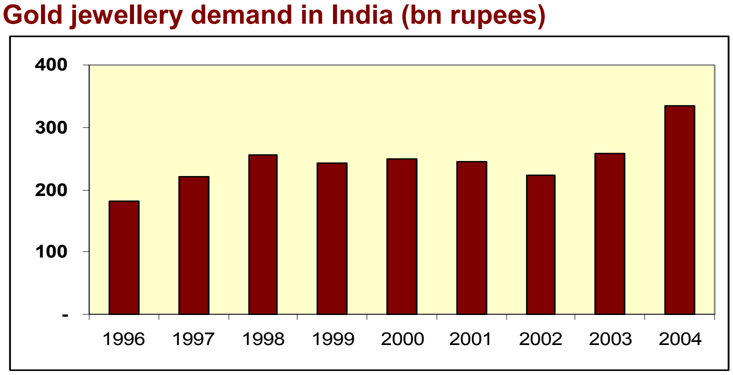
India

Demand in India for both jewellery and retail investment remained very strong in Q4, rising 49% and 31% in tonnage terms respectively (total consumer demand up 46%) above an, albeit weak, Q4 2003. For the year as a whole total consumer demand rose by 17% (jewellery 18% and net retail investment 16%). The increases were more spectacular in rupee terms (jewellery up 29% and net retail investment up 27%). This was the first year that the value of jewellery demand had noticeably exceeded the level attained in 1998, when demand was boosted by the initial impact of import liberalisation; it was 29% higher than the 1998 level in rupee terms.

A number of factors combined to boost Indian demand. The economy grew very strongly. While the monsoon was patchy, constraining agricultural output and hence rural incomes, the real impact of this on demand is not expected to show until the first half of 2005. Not only did consumers become comfortable with prices in excess of $400/oz but during the second half of the year they increasingly began to expect prices to rise further. Thus the growth in prices which persisted throughout most of the final months of the year did not prove too great an obstacle to buying – a marked contrast to normal behaviour in this market. Even the sharp price spike in November only provided a temporary interruption to buying and in December, when prices dipped, buying appeared to hit new peaks. Indeed the rise in price has increased the "investment" arguments for buying gold whether in coin or bar form or as jewellery. Finally market research evidence clearly indicated that the WGC Speak Gold campaign had a noticeable impact on urban propensity to buy while other promotional campaigns also appeared successful in promoting buying.

The bright picture did not, however, apply in all the country. Demand in the south was relatively weak; the surge in demand was concentrated in the north and west.

Gold jewellery demand in India (bn rupees)



Source: WGC calculations based on GFMS data..

Consumer demand in selected countries, annual data

Tonnes	2003 jewellery	2003 net retail investment	2003 total	2004[1] jewellery	2004[1] net retail investment	2004[1] total	% change 2004 vs 2003 jewellery	% change 2004 vs 2003 net retail investment	% change 2004 vs 2003 total
India	475.0	90.0	565.0	558.5	104.0	662.5	*17.6*	*15.5*	*17.2*
Greater China	231.0	1.2	232.2	258.7	12.2	270.9	*12.0*	*902.2*	*16.7*
China	201.0	6.4	207.4	224.1	9.8	234.0	*11.5*	*53.1*	*12.8*
Hong Kong	12.0	-4.9	7.1	13.8	1.2	15.0	*15.2*	…	*111.6*
Taiwan	18.0	-0.3	17.7	20.7	1.2	21.9	*15.0*	…	*23.7*
Japan	43.2	49.6	92.8	46.3	70.8	117.1	*7.2*	*42.7*	*26.2*
Indonesia	82.0	1.6	83.6	83.9	5.0	88.9	*2.3*	…	*6.3*
Vietnam	22.8	36.0	58.8	25.4	39.2	64.6	*11.5*	*8.9*	*9.9*
Saudi Arabia	128.2	4.9	133.1	133.4	5.2	138.5	*4.1*	*5.1*	*4.1*
Egypt	66.1	0.6	66.7	73.0	0.5	73.5	*10.5*	*-16.7*	*10.3*
UAE	81.7	6.1	87.8	89.3	6.5	95.8	*9.4*	*6.6*	*9.2*
Other Gulf	46.9	4.6	51.5	50.4	4.9	55.3	*7.4*	*6.7*	*7.4*
Turkey	163.6	48.7	212.3	189.6	48.6	238.1	*15.9*	*-0.2*	*12.2*
USA	354.5	20.9	375.3	352.0	20.1	372.2	*-0.7*	*-3.5*	*-0.8*
Italy[1]	82.0	…	82.0	77.3	…	77.3	*-5.7*	…	*-5.7*
UK[1]	73.1	…	73.1	70.2	…	70.2	*-3.9*	…	*-3.9*
Western Europe[2]	…	9.1	9.1	…	-20.4	-20.4	…	…	…

Source GFMS Ltd
1. Jewellery only. 2. Net retail investment only

2005 has started strongly in India with the comparatively low prices in January and February apparently providing additional impetus to buying behaviour. A generally strong economy should prove supportive to demand throughout the year although this will be tempered in the first half by the impact on rural incomes of last year's substandard monsoon.

An interesting footnote to the role gold plays in the rural areas of India has been provided by the aftermath of the devastating tsunami. A distribution of financial aid to the victims has prompted a surge in buying in certain affected areas of Tamil Nadu with a number of women using a substantial proportion of their aid to buy gold jewellery. With day to day needs generally met by NGOs, the purchase of gold jewellery, which can be worn permanently on the person, was seen as a safe way of holding the money until it could be used constructively in rebuilding victims' lives, and a deterrent to it being spent on non-essentials.

Greater China

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Demand in **China** was 13% higher in tonnage terms (and 21% in value terms) in Q4 compared to the final quarter of 2003, bringing the annual increase to 17% (26%).

As it did earlier in the year, K-gold (18 carat gold) performed strongly in Q4. The previous conviction that lighter and 18 carat pieces were more for summer than winter wear seemed to be fading as consumers became more used to the concept. It is thought that demand for K-gold, a large part of which is influenced by Italian design and where the consumer has the option of buying white metal, rose by 7% year on year in volume terms with a substantially higher increase in value. There was a noticeable increase in the sale of bigger pieces. However it appears that the quarter also saw an increase in buying in the traditional *chuk kam* 24 carat jewellery, which is thought to have risen over 10% in volume terms. Better design is helping to promote buying while the rise in the gold price has made the investment element of any gold jewellery purchase more attractive. As elsewhere in the world, consumers now appear to expect the price to continue rising so the sharp rise in November proved a limited deterrent. This change in conviction also resulted in less trading in or selling of old jewellery and thus less scrap supply. In addition to these factors, there was a higher than usual number of weddings in Q4 in advance of the Year of the Rooster which in some areas is considered inauspicious for marriages.

Demand for jewellery appears to have remained brisk for the Chinese New Year in February, There remains debate about the extent of the slowdown in the Chinese economy in 2005 but consumer spending should continue to grow and provide a healthy underpinning to further jewellery purchase. The number of weddings will be lower in 2005 due to the impact of the Year of the Rooster (although there is speculation about a rise in the birth rate).

As regards investment, the China Banking Regulatory Commission (CBRC) finally gave its long-awaited approval to the marketing of investment products by banks at the end of the year. Already, with several banks finding ways round the previous restrictions, retail investment demand rose from 1.7 tonnes in Q4'03 to 4.0 tonnes in Q4'04 but prospects for demand in the future should dwarf this. Nevertheless this will not be very evident in the first months of 2005 as each bank has to obtain individual approval from the CBRC and then prepare its plans.

In **Taiwan**, jewellery demand in Q4 was 20% higher than a year earlier with a strong rally in the traditional wedding market. This brought annual demand to 20.7 tonnes. This is the first year recorded since the beginning of the 1990s in which demand has risen, interrupting a long fall in offtake, albeit demand remains a small proportion of levels seen 10 years earlier. Net retail investment was positive in Q4 – encouraged by the rise in the gold price and expectations that the rise will continue which also reduced selling back.

Demand in gold jewellery was also robust in **Hong Kong.** As in China and Taiwan there were more weddings than usual towards the end of the year with number being brought forward in advance of the inauspicious Year of the Rooster. In addition the number of tourists, and hence tourist spending, rose strongly. Over a million tourists from mainland China now visit Hong Kong every month. While demand was strong in Q4, the high price, particularly during the November/early December price spike also prompted an increase in purchase through trading-in of an existing piece so that offtake was just 3% higher than a year earlier. Nevertheless, for 2004 as a whole jewellery demand was 15% higher than 2003, the first year since 1997 that demand has risen. Net retail investment was also positive (albeit at a low level) for the first year since 2001.

Consumer demand in selected countries, quarterly data

	Q4'03	**Q4'04[1]**			***% change Q4'04 vs Q4'03***		
Tonnes	**total**	**jewellery**	**net retail investment**	**total**	***jewellery***	***net retail investment***	***total***
India	121.7	147.0	30.5	177.5	*49.2*	*31.5*	*45.9*
Greater China	65.9	71.7	4.8	76.5	*9.8*	*700.0*	*16.1*
China	58.7	62.2	4.0	66.2	*9.2*	*135.3*	*12.8*
Hong Kong	2.1	3.1	0.3	3.4	*3.5*	*…*	*62.1*
Taiwan	5.1	6.4	0.5	6.9	*20.2*	*…*	*34.6*
Japan	30.2	11.4	19.0	30.4	*4.6*	*-1.6*	*0.7*
Indonesia	20.9	18.1	0.5	18.6	*-4.5*	*-75.0*	*-11.2*
Vietnam	19.0	8.0	7.0	15.0	*6.2*	*-39.1*	*-21.2*
Saudi Arabia	29.0	28.7	1.1	29.8	*2.5*	*10.0*	*2.8*
Egypt	16.2	17.6	0.1	17.7	*9.7*	*0.0*	*9.6*
UAE	19.3	17.6	1.5	19.1	*-1.1*	*0.0*	*-1.0*
Other Gulf	12.2	10.9	1.4	12.2	*0.2*	*-0.7*	*0.1*
Turkey	30.8	30.5	8.3	38.8	*18.2*	*64.7*	*25.8*
USA	167.0	155.8	5.4	161.2	*-2.0*	*-32.4*	*-3.5*
Italy[1]	41.4	38.9	…	38.9	*-6.1*	*…*	*-6.1*
UK[1]	39.3	37.6	…	37.6	*-4.3*	*…*	*-4.3*
Western Europe[2]	10.7	…	0.5	0.5	*…*	*…*	*…*

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

Other East Asia

Investment demand in **Japan** was high throughout the year reaching 70.8 tonnes, 43% higher than in 2003 and the highest figure since 1999. The Q4 figure was 19.0 tonnes, only slightly down on a very strong Q4 2003. The strengthening of the yen against the dollar meant that the price spike during the quarter was less evident than it was in dollar terms, so this did not prove too great a deterrent to purchase. An important element in supporting demand – and one that should impact on 2005 – is the planned limitation of government bank deposit insurance guarantees from April 1. After that date bank deposits will only be guaranteed, in the event of bank failure, up to a maximum of 10 million yen (approximately $90,000). Since 56% of household investments are held in bank accounts, and given Japan's history of occasional bank failures, this is prompting some depositors to consider holding their savings in other assets. Some are purchasing gold with sporadic reports of individuals buying 100 kg or more at a time.

In 2002, the bank deposit insurance was reduced to a limit of 10 million yen on time deposits. This prompted a surge of gold investment in the first quarter of that year with net purchases rising to 44 tonnes, before falling to 17 tonnes in the second quarter. We do not expect such an increase this time as, unlike 2003, the economic climate has improved, the yen is not weak and there have been no recent financial crises. But the impending reduction in guarantees is expected to help encourage gold buying throughout the year.

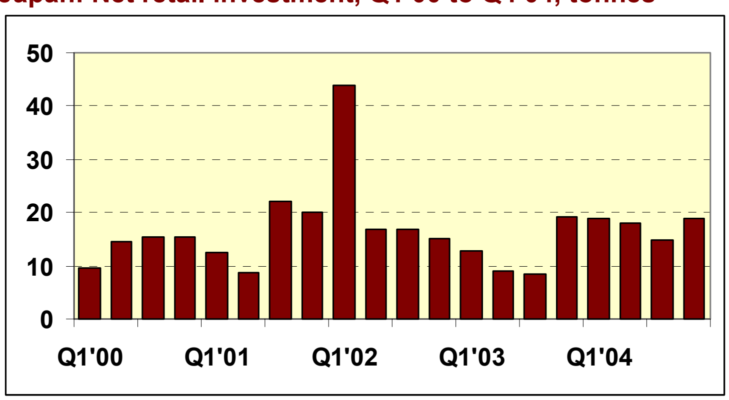
Jewellery demand was 5% higher in Q4 than a year earlier, bringing the rise for the year as a whole to 7%. Consumer confidence grew slowly while still remaining fragile. The high price of platinum also helped gold sales. Consumers are, however, viewing 2005 with a note of caution as economic growth slows.

Indonesia was an exception to the general rule with demand relatively subdued in Q4 and a rise in selling back and hence scrap levels. The main reason for this was a fall in the rupiah which compounded the local rise in the gold price in November/early December. Manufacturers remained busy and consumer interest remained high but much of the demand was met by recycled scrap rather than by the import of new bars. Jewellery demand was, therefore, 4% below what was already a weak quarter in Q4 2003. Nevertheless for 2004 as a whole consumer demand was 6% higher in tonnage terms than in 2003 with jewellery rising 2% and net retail investment rising from 1.6 to 5.0 tonnes.

In **Vietnam**, both jewellery and retail investment demand were records for the year at 25.4 and 39.2 tonnes respectively, giving substantial rises of 12% and 9% on 2003. A strong economy and increased consumer purchasing power provided the backdrop to buoyant demand for jewellery as wedding and year-end gifts so that Q4 continued the buoyant trend of earlier quarters rising by 6% over the last quarter of 2003. The rise in the price in Q4 did, however, dampen net retail investment temporarily leaving offtake for the quarter sharply lower than a year earlier. In part this was due to the impact of the gold price on the housing market (since property prices are linked to gold) reducing transactions in real estate. Nevertheless the fall in the price in December did see purchasing pick up in late December and January. Generally investment remains responsive to promotional campaigns.

Prospects for gold buying in Vietnam in 2005 seem promising with the combination of a strong economy and a probable completion of the liberalisation process.

Japan: Net retail investment, Q1'00 to Q4'04, tonnes



Source: GFMS Ltd

Middle East and Turkey

Throughout **Saudi Arabia** and **the Gulf** 2004 as a whole was a strong year for gold consumption with a booming economy on the back of high oil prices and, for the Gulf, increasing numbers of tourists. Demand in Q4 was nevertheless dampened by the price spike in November although, as in other countries. the impact of this was less sharp than it would have been in previous years. An additional factor was confusion over the date of the Eid al Fitr at the end of Ramadan, which is a major gift-giving occasion. The Eid is declared on the first sighting by eye of the new moon. It was expected to be on a Sunday but late on Friday night was declared for the Saturday; this had the effect of losing, in the Saturday, what would have been a prime shopping day.

In the **UAE,** Q4 demand was additionally restrained by the mourning after the death of the President, His Highness Sheikh Zayed Bin Sultan Al Nahyan, who was genuinely respected and liked by both locals and expatriates, in November. Gold offtake was 1% lower than year earlier levels in tonnage terms. Nevertheless consumer offtake for the year as a whole was a substantial 9% higher in tonnage terms than 2003 (up 23% in value terms).

In **Saudi Arabia** Q4 demand was 3% higher than a year earlier in tonnage terms. In addition to the strong economy, the year on year increase was boosted by the recovery from the Saudiisation process which in 2003 depressed buying due to a lack of sufficiently trained Saudi personnel and hence a number of store closures. For the year as a whole demand was 4% higher in tonnage terms (up 17% in value terms).

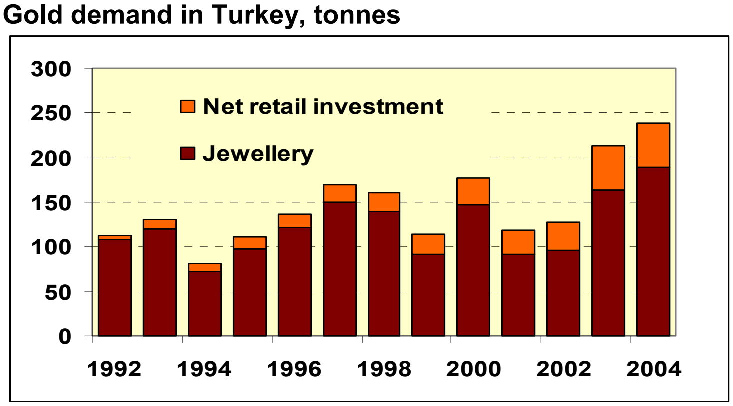
Among other Gulf countries, demand in **Kuwait** was particularly strong in 2004. Confidence has been high due to the removal of Saddam Hussein and both business and consumer spending have risen as a result. Gold offtake was 10% higher than in 2003.

Nevertheless, throughout the region continued promotion is essential if gold is to retain its share of the consumer wallet. Competition for consumer spending is intense and the annual increases in demand were only possible, despite booming economies, with continued marketing.

Demand in **Egypt** continued to grow in Q4 as the economy recovered. This brought offtake for the year as a whole to 73.5 tonnes, 10% higher than in 2003. The new government generated additional confidence in the currency which recovered some of its lost ground against the dollar so that the impact of the price rise was muted. Tourism also rose. The recovering economy and more favourable price trends also resulted in less scrap being generated.

Turkey remained a star performer – indeed the strength of demand in Q4 surprised many who had expected some levelling off following the sharp rise in demand in 2003 and 2004. Instead overall consumer demand rose 26% in tonnage terms compared to a year earlier with an 18% rise in jewellery consumption and a massive 65% jump in net retail investment. This brought annual jewellery demand to 189.6 tonnes, up 16% on 2003 and a record for the second year in a row. Net retail investment, at 48.6 tonnes, was only a shade below the record 2003 figure. A strong economy and successful promotion has underpinned jewellery demand for the last two years. As the chart shows, net retail investment has grown over the last decade due to the increasing popularity of the *cumhuriyet* gold coin. This has been helped by global political uncertainty, particularly in the Middle East and its popularity has not been dented by the recent improvement in the domestic economy.

Gold demand in Turkey, tonnes



Source: GFMS Ltd

USA and Europe

Jewellery demand in the USA was slightly below 2003 in volume terms. but a substantial 12% higher in terms of gold value, gaining market share when compared to comparable items (see graph on page 6). Retail spending in the US was generally strong last year but with some underlying fragility due to its reliance on increasing household debt and, as the year progressed, doubts as to whether personal income growth could be maintained in the future. Spending on gold jewellery was affected by this. The mixture of strength and weakness was demonstrated in Q4. Sales during the early part of the quarter were subdued; an important element in this was the uncertainty over the presidential election which always tends to dampen purchases of luxuries. The Christmas spending period too got off to a slow start but picked up later and gold sales appear to have reflected this. Consumers appear increasingly to wait until shortly before Christmas to do much of their Christmas shopping and this year was no exception. An additional trend is an increasing use of gift certificates which do not translate into actual purchase until January. Reports by retailers indicate that 2004 was, in the end, a good Christmas for gold jewellery. For the quarter as a whole, gold purchases were 2% lower in tonnage terms although 9% higher in terms of gold value.

A clear trend was the movement to newly-designed, more fashionable and stylish pieces. Available information provides strong indications that this sector of the market performed well but that sales of low value-added, more basic, products slowed dramatically. Demand for 18 carat pieces, as distinct from lower caratage, was strong. There was a fashion-driven resurgence in yellow gold. Earrings were popular. Good promotion worked too. WGC partners reported very strong holiday sales, with gold gaining share in total jewellery sales for the first time for many years.

Net retail investment in Q4 was 5.4 tonnes, in line with recent quarters.

Italian demand for jewellery continued to fall with a disappointing Christmas season making Q4 6% below year-earlier levels, relatively weaker than earlier quarters. The trend away from traditional Mediterranean feeling for gold towards a more Northern European attitude continues; so too does the trend towards mixed metals jewellery and the use of new materials such as stainless steel.

But not all is gloomy. As in other Western markets there is a clear move towards fashionable and stylish pieces; innovative suppliers are doing well while more traditional suppliers suffer. There are encouraging results from promotions. The WGC's *Speak Gold* campaign appears to have more resonance than some earlier campaigns. The *Gold Expressions* campaign, which encourages the creation and promotion of fashionable and stylish jewellery, has also been very successful both as regards domestic sales and as regards Italian exports.

Q4 **UK** demand remained subdued with offtake 4% below year-earlier levels in line with earlier trends. While the economy was generally strong in 2004 consumer spending lacked the exuberance of recent years. Concern over the impact of rising interest rates on mortgage payments and a slowing housing market made consumers more cautious and less conducive to luxury purchases. Nevertheless the trends remained the same as in other Western markets. More stylish and fashionable pieces sold well. It is noticeable that while 9 carat jewellery remains dominant in the UK market, hallmarking statistics show that in 2004 the number of 18 carat items was a record at over 10% of the total.

Historical data for gold consumption (tonnes)

	1996	1997	1998	1999	2000	2001	2002	2003	2004[1]	Q1'03	Q2'03	Q3'03	Q4'03	Q1'04	Q2'04	Q3'04	Q4'04[1]
Tonnes																	
Jewellery	2,856	3,311	3,182	3,148	3,222	3,028	2,680	2,522	2,673	536	631	614	733	580	664	642	788
Net retail invest.	255	447	257	354	155	344	332	300	346	69	69	68	94	90	89	76	92
Total	3,111	3,758	3,439	3,502	3,376	3,372	3,012	2,823	3,018	605	700	682	827	669	752	717	880
$ bn																	
Jewellery	35.62	35.27	30.08	28.20	28.91	26.39	26.69	29.46	35.16	6.07	7.03	7.17	9.22	7.58	8.36	8.24	10.99
Net retail invest.	3.18	4.76	2.43	3.17	1.39	3.00	3.31	3.51	4.40	0.78	0.77	0.79	1.18	1.18	1.12	0.97	1.27
Total	38.79	40.03	32.52	31.37	30.30	29.38	29.99	32.97	39.56	6.85	7.81	7.96	10.39	8.75	9.48	9.22	12.25
Price, av, pm fix, $/oz	387.87	331.29	294.09	278.57	279.11	271.04	309.68	363.32	409.17	352.09	346.90	363.16	391.06	408.44	393.27	401.30	433.80

Source: Volume data are from GFMS Ltd. Value data are WGC calculations based on GFMS data. Detailed tonnage figures will be available on Bloomberg from March 1st or contact GFMS (+44 (0) 20 7478 1777; gold@gfms.co.uk)

.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 March 1st; alternatively contact GFMS Ltd (+44 (0) 2074781777; gold@gfms.co.uk)..

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