WORLD GOLD COUNCIL

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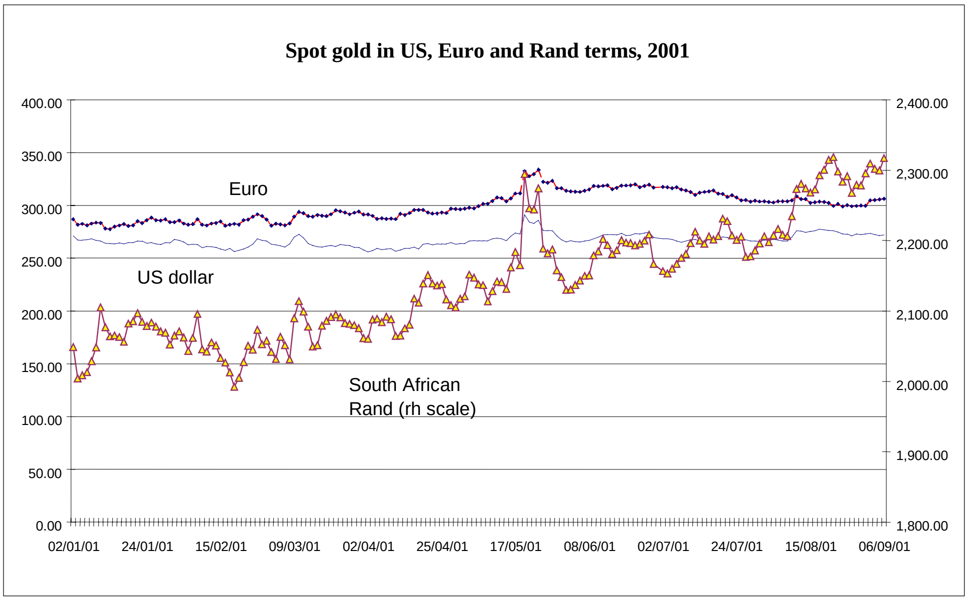
WEEKLY GOLD MARKET COMMENTARY (September 3rd-7th, 2001)

Trading patterns

The liveliest performance from gold's price came at the end of last week when it attempted to cast off the shackles of the $271-273/ounce band and moved to test the resistance at $275, but finally fell back to close in New York at $272.90-3.40, fractionally down on the week. This was in response to currency fluctuations, which themselves have been the primary parameters driving short term movements as the market slowly gears itself up to move out of summer's torpor. Physical demand has remained sluggish, with Asia showing scant interest at present, and Indian purchases undermined by the 15-day "Pitri Paksha" period, when Hindus pay homage to their forefathers. The event revolves around prayers and donations believed to grant peace to the souls of their ancestors, and gold and other purchases are therefore reduced; imports run at typically only about half of the usual daily rate. Any approaches towards the $270 level have, however, engendered some physical demand in the market and helped to cushion any weakness.

Dealer sentiment was generally neutral over the course of the week with the focus primarily on currency moves, but the impending UK auction of 20 tonnes (Wednesday 12th) has been increasing frequently cited as a cause for prudence. In the speculative area the market has also been quiet, with the long liquidation of the previous fortnight notable by its absence. Indeed the CFTC Commitment of Traders report, released after the close of trading on Friday, showed that for the week ended September 4th, the net long large-scale speculative position in the market had increased very marginally from 25,822 contracts (80.3 tonnes) the previous week to 25,917 contracts (80.6 tonnes). Spot prices on September the 4th were in the region on $272-273, just one dollar higher than they had been seven days previously. Technical analyses have also tended in the main to be neutral, with technicians pointing to the close grouping of the important moving averages; upside resistance is cited in the 20-day, at $274.27/ounce, while the 400-day stands at $272.29, the 50-day at $270.50 and the 200 at $267.59.

Lease rates remain low, but this is largely viewed as a steady flow of liquidity in the face of minimal borrowing requirements rather than any unusual lending levels. On balance, therefore, a broadly neutral week with the lower levels underpinned with good physical demand and the resistance at the upper end of the band coming under test, but so far failing to give way.



Market factors

Economic numbers have again, in the main, pointed to protracted slowdown in the US, with reverberations in Europe and continued problems in Japan. Currencies have been comparatively volatile over the week as the succession of economic announcements have pulled them in different directions, but ultimately the dollar closed 0.6% firmer against the euro over the week, and 1.4% stronger against the Yen.

US figures were mixed. The National Association of Purchasing Managers released much higher than expected "manufacturing" numbers for August, but were substantially below expectations for the "non-manufacturing" sector. The University of Michigan's consumer sentiment index for July registered a decline in the face of concerns over unemployment. This was duly borne out when the August unemployment figures were released on Friday. Against consensus expectations of a drop of 33,000, the Non-Farm Payroll Figure fell by 113,000, taking the unemployment rate to 4.9% (against an expected 4.6%). This has fuelled renewed expectations of a rate cut announcement from the FOMC at its October meeting, and was the trigger for gold to push towards the $275 level on Friday, although the major beneficiary of the stream of US numbers this week was the Treasury market.

Elsewhere, European numbers were below expectations with Germany's inflation registering 2.6% annualised and German industrial production fell by 3.0% in the year to July, against economists' expectations of a drop of 1.6%. Industrial orders for July were also below expectations at –1.6%, giving a year-on-year fall of 4.4%.

In Japan, meanwhile, economic figures released at the end of the week showed a 0.8% drop in GDP (a 4.1% drop in public-sector capital spending) in the second quarter of the year, suggesting that the beneficial effects of last year's supplementary budget have worked their way through already. This has prompted local economists to comment that large-scale government spending is only a temporary remedy. When combined with the fact that Moody's has put Japan's JGBs on credit-watch with a view to a possible downgrade, the latest figures are bolstering calls for renewed economic reforms.

Background News

The talk of the week, certainly in the equity markets although less so in the bullion sphere, was the bid by Anglogold for Normandy Mining, and the allied concept of market consolidation, especially when the Anglogold bid is taken in conjunction with Franco-Nevada and Kinross converting their bond-holding in Echo Bay Mines to equity (see below).

To recap:

The Anglogold offer is all paper, with 2.15 Anglogold shares offered for each 100 Normandy shares. On the basis of the closing prices in Sydney and New York on Wednesday (prior to the announcement), this represented a value of A$3.2Bn (US$1.66Bn), a premium of 29% to Normandy stock, a premium which was rapidly closed when trading resumed and Normandy rallied accordingly.

Hedging impact minimal

Anglogold Finance Director Jonathan Best told the Johannesburg presentation outlining the bid that the Normandy hedge book would fit "quite easily" into that of Anglogold, and the figures do look to bear this out. The market is not, therefore, expecting much by way of adjustment to the books overall if the bid is accepted.

Costs, synergy

The point was also made at the presentation that acquisition would improve Anglogold's balance sheet; while the change in the debt:equity rating was not quantified, the debt:capital employed ratio improves from 35% to 30%.

The combined entity would be second only to Gold Fields in the position on the cost curve.

Anglogold expects to save US$25m through synergy, including rationalising complementary exploration programmes. Spending on Australian Magnesium Corporation (62.4% held by Normandy) would also be limited.

The bid is seen as friendly, and Normandy Chairman Robert de Crespigny's response included the following comments: -

"It is fair to say that the objectives AngloGold has in this offer are similar to the strategies we at Normandy have expressed for some time. Consolidation in the gold and other commodity sectors is necessary as companies seek to gain critical mass, both operationally and in order to gain more efficient access to capital through greater liquidity and better market ratings. Normandy has acted as a consolidator in this industry to date but we recognise that even larger scale is now required".

The Normandy Board has advised its shareholders to await its advice before acting upon the bid.

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Other corporate activity
Franco-Nevada is to take a 49% stake in **Echo Bay Mines Ltd** by converting its bond holdings in the company. **Kinross Gold Corporation** is also to convert its 15.89% holding of Echo Bay's capital securities, giving Kinross an 11.8% stake in the company. Echo Bay's production in 2000 was 695,000 ounces.

Durban Roodepoort Deep has confirmed that it is in talks with Afrikander Lease about a possible take-over; details will be released once the Afrikander board has considered the offer.

Aurora Gold, meanwhile, has become the subject of a take-over offer from Silvara Pty Ltd., while **St. Barbara Mines** Ltd is to buy back, on market, a maximum of 20 million shares, representing just less than 10% of the company's capital. The Board is of the belief that the current share price understates the value of the company. The shares bought back will be cancelled. St. Barbara's Meekatharra operation is forecast to maintain output at 150,000 ounces per annum over the next two years, while the Paulsens Gold property is expected to produce 100,000 ounces of gold per annum, starting in 2002.

Operations
Newmont Mining, meanwhile, has announced that mining is to resume at Deep Post, one week after the collapse of a slope wall at the Betze-Post open pit. The mine was out of action for eight days. Elsewhere **Barrick Gold** has re-opened the El Indio mine in Chile after a three-month shut down for the Chilean winter. This mine is at approxiamtely13,000 ft altitude in the Chilean Andes and Barrick suspended operations in mid-June to ameliorate the higher costs that winter brings, allied to a depletion of higher-grade gold reserves. Exploration continues. Output in the first half of this year was 53,049 ounces, against 79,518 ounces in the first half of 2000.

Bendigo Mines has said that it hopes to finalise within two months the negotiations for A$50M funding for development of its Bend mine. The property is expected to be producing 450,000 ounces of gold per annum at full capacity, which is scheduled for 2007. Bendigo has said that expressions of interest have been received from six Australian and international companies and that a shortlist has been drawn up.

The latest quarterly review of the FTSE Gold Mines Index has left the components of the index unchanged.

Mining codes improving again
The Argentinean Government has announced tax cuts designed to help promote investment and exports in the local mining industry. In addition, the Government has said that it appreciates the need to develop infrastructure to enable access to remote areas. The government will exempt mining companies from tax on debt, and provincial governments will exempt companies from taxes on gross revenues.

The Oman News agency has reported that the **Oman** government is planning to change its mining code in order to allow foreign firms to invest in mining for a range of base and precious metals including gold and silver. The law is expected to be implemented by the end of this year.

Demand; Gujarat sales tax down and small issues of new coins capture the attention
The state of Gujarat in India has halved its sales tax on gold and silver to 0.5% (although the state government will continue to impose a surcharge of 10% on the basic sales tax). The change was implemented, with immediate effect, on Tuesday evening. The cut reflects healthy market competition, with the state looking to recapture market share from the neighbouring state of Rajasthan, where local taxes on imports into Jaipur are 0.46%.

The Isle of Man Mint has launched a series of legal tender commemorative coins bearing the head of Queen Elizabeth II on one side and Harry Potter on the other, and the Pobjoy Mint reports that they are selling rapidly. The coins are cupro-nickel (unlimited number of units), silver (15,000) and gold (10,000) with the gold coins commanding a substantial premium over bullion; some purchasers are buying multiple units. The gold coins are 24-carat purity and contain 0.04 ounces (1.24g of gold); there is likely to be a launch at a later date of coins containing 0.1 and 0.2 ounces, while there has apparently also been enquiry for the possibility of one-ounce coins.

The Japanese Government is to mint 100,000 gold and 100,000 silver coins to commemorate the World Cup, to be played next Spring in Japan and South Korea. Gold usage will be approximately 50,000 ounces. The denomination of the coin, at ¥100,000 or US$83, will be considerably below the gold content and the point-of-sale price will exceed the denomination.

The **Canadian Central Bank** sold 22,000 ounces of gold in August, as part of its long-standing disposal programme.

If you have any questions or comments on this input, please address them to Rhona O'Connell in our London office, Tel. +44 207 930 571, Fax. +44 7839 6561, E-mail: rhona.oconnell@wgclon.gold.org