

GOLD - 19 89

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Debt payment dents reserves

FOREIGN exchange and gold holdings increased by 0,7 percent, or R33 million, during December in spite of exceptionally heavy debt repayments.

The Reserve Bank said yesterday that the figure rose to R4 932 million (R4 898 million) during the month.

It said total debt repayments and interest payments for December came to R2 125 million in December alone.

The bank said the buoyancy of the gold and foreign exchange reserves in spite of the heavy outgoing payments indicated a strong performance of the balance of payments during December.

The Reserve Bank said: "Preliminary estimates suggest this performance reflects both a con-

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tinued surplus on the current account and a net inflow of certain forms of short-term capital, including private sector pre-export financing and other favourable movements on leads and lags in foreign payments and receipts.

Interest rates

"This inflow, in turn, was partly induced by the rise in domestic interest rates after early November and the Reserve Bank's preferential rates of forward cover for certain types of import and pre-export financing".

Other factors were the decline in the dollar value of the rand which resulted in a foreign exchange gain of R44 million and an increase in the value of gold holdings by R62 million.

The Bank said the foreign exchange component of reserves decreased from R1 900 million to R1 853 million in December while the gold component rose to R3 079 million (R2 993 million).

This represented a decrease from 3429 million ounces to 3468 million ounces.

Identifiable debt was 108 million inside the net and 175 million outside the net — total of R983 million.

Ratio of gold reserves liabilities to the public less foreign assets is 39,5 percent.

The gold reserves as December 31, 1988 were valued at R887,75 per fine ounce, compared with the valuation price R872,85 per fine ounce as at November 31, 1988. Sapa.

Gold battered by strong dollar

B/D on 10/1/87 (79)

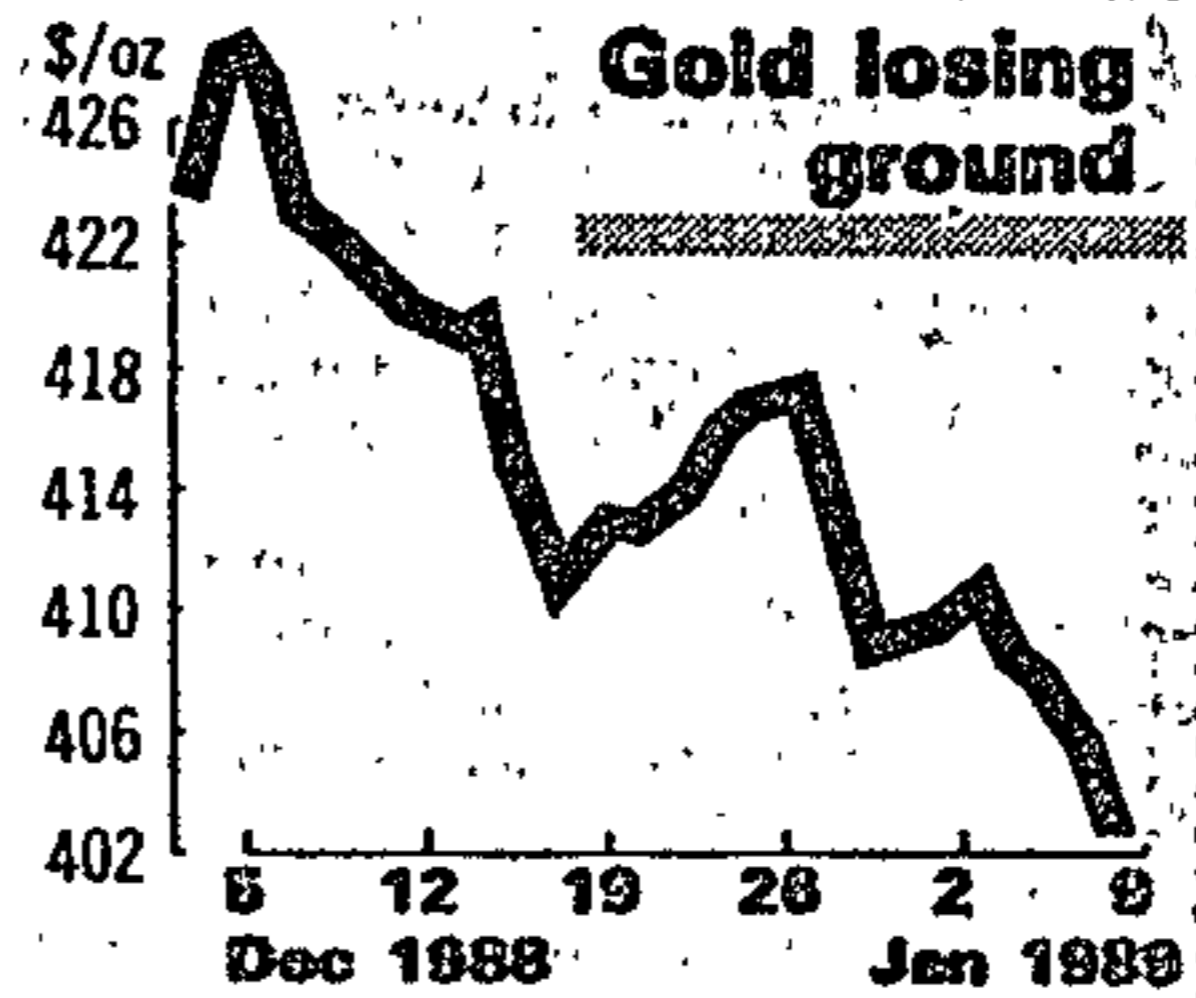
GRETA STEYN

GOLD was battered by a strong dollar yesterday, with the metal down to its lowest London fixing since early October and testing the \$400 resistance level.

Reuters reports the London afternoon fix was \$402.45, sharply down from Friday's closing level of \$406.85.

Holcom senior trader Lindsay Williams said: "Expectations of a hike in US interest rates seem to be the main factor underpinning the dollar's strength at the moment. No one wants to be caught short of dollars when US interest rates rise. Investors are switching from non-interest bearing metals to the dollar."

The US currency hit its highest level for nearly three months against the West German mark yesterday, breaking through DM1.83 in Europe and extending the gains started last week. The trend continued with the market also optimistic that progress would be made in dealing with the US's twin deficits.



Graphic: FIONA KRISCH Source: REUTERS

Dollar selling by the Federal Reserve and the Bundesbank failed to undermine bearish sentiment on the US currency, but pushed it off its day's highs to around DM1.8273 by early yesterday evening. The central banks' intervention saved the gold price from dropping below \$400.

Gold slumps to \$402,75

10/11/89 Finance Staff 79

Expectations of higher interest rates in the US has caused gold to slump \$3 to just above the psychological \$400 barrier.

Although the opening price of \$406,30 in Hong Kong today was up on yesterday's London and New York prices, the metal is still down on its price of \$407,18 in Hong Kong yesterday.

It fell to a late bid price of \$402,75 in London yesterday, down from \$405,75 late on Friday. In Zurich, the metal was bid at \$402,75.

The dollar rose in active European trading yesterday and hit its highest level in nearly three months against the D-mark, breaking through 1,83DM, but then lost some of its earlier gains amid repeated intervention by central banks.

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of the new link to ply between Sandton, Randburg and Soweto along the Western Bypass concrete highway.

The funds are urgently needed

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9/10/11/89 Finance Staff (79)

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SA is in for a jolt as bullion slides to the \$400 mark

Star 18/1/89

Facing up to the crunch



Buffeted by sanctions and a weaker gold price, South Africa faces another jolt as bullion slips towards the psychological \$400 an ounce mark.

"Gold is so important for this country. We're always anxious about the gold price level, especially when it approaches \$400. It has very serious consequences," said Mr Edward Osborn, chief economist of Nedbank, the country's third biggest bank.

Gold accounts for some 45 percent of export earnings and economists say a sustained \$10 price drop in the bullion price costs about \$200 million a year in lost revenue.

The metal was trading at about \$402 an ounce in Europe yesterday compared with almost \$500 a year ago.

"The trouble with the gold price is that it's not something that's amenable to easy prediction and certainly not something the South African authorities can control," said Mr Ronnie Bethlehem, chief economist at Johannesburg Consolidated Investment Co. "It's the joker in the pack."

The South African Reserve Bank never reveals what gold price it has budgeted for in setting mon-



Gold bullion . . . analysts say if gold stays at current levels or drops again, the rand will weaken and the balance of payments surplus will shrink as gold exports bring in fewer dollars.

Bullion analysts say if gold stays at current levels or drops again, the rand will weaken and the balance of payments surplus will shrink as gold exports bring in fewer dollars. South Africa needs to generate a surplus on its balance of payments — a rough measure of trade in

goods and services — to make repayments on its estimated \$22 billion foreign debt.

It has had only one new foreign loan since international banks cut credit lines in 1985 amid anti-apartheid pressures.

Mr Osborn said a dip in imports plus healthy exports in minerals other than gold had strengthened the balance of payments position in recent months.

"Everything in the garden is rosy, except for the gold price," he said. "We're facing an enormous crunch in 1990-91. We've got to put money aside for those two years."

The Government and the Reserve Bank could also be forced to take unpopular policy decisions to keep the economy on an even keel.

"If the gold price continues to decline or remains so low that it substantially affects South Africa's export earnings, we will have to take the necessary policy decisions," a senior Reserve Bank official said.

He did not rule out a further rise in interest rates to shore up the rand and compensate for increased State spending.

The Reserve Bank steeply increased its discount rates last year, prompting commercial banks to raise their prime lending rates five times, from 12.5 percent to 18 percent.

JCI's Mr Bethlehem questioned whether the Government would let interest rates rise further in a year which could see a general election.

"The economic situation could provoke an early election," he said. "In South Africa, rather more than anywhere else, economics have to be traded off against political considerations." — Reuter.

JCI wants better rand gold price

By Derek Tommey

Gold mining executives are looking to the Government to stop the rand gold price falling any more — possibly by a further devaluation of the rand.

The fall in gold and rising inflation is squeezing gold mining earnings — and threatening to make several marginals unprofitable.

The executives' concern has been highlighted by the lower profits earned by many mines in the December quarter.

All six JCI and Anglovaal gold mines reporting yesterday had lower profits.

Executives fear pressure on profits is likely to continue

One factor hurting mines has been the 10 percent drop in the rand gold price in the past six months from R1070 an ounce to R969. This followed the drop in the dollar gold price and the modest recovery in the rand against the dollar.

At the same time, rising prices, partly the result of the import surcharge, has been increasing mining costs.

Mr Bill Nairn, a director of Randfontein Estates, said last night cost inflation at the mine was running well ahead of the official 12,5 percent.

Financial year

However, he expected the mine to contain costs at below 20 percent in the present financial year.

In this situation the lower gold price is affecting profits

Although Randfontein increased both tonnage milled and grade in the December quarter — two factors which should have boosted profits — earnings from gold mining dropped 21,8 percent to R54,1 million from R69,3 million in the September quarter.

Taxed profit was down 23,3 percent to R55,1 million. After providing for capital expenditure of R66,1 million, the mine had a cash deficit of R11,0 million, equal to a deficit of 180,3c a share.

Mr Nairn said he did not know

how the Government could allow the rand gold price to fall further.

However, Randfontein was fighting back. It had been decided to go ahead with a second shaft at Doornkop to open up the South Reef, estimated to contain 28 million tons of ore with a recovery grade of 6,5 grams a ton.

It would be a low-cost shaft and built in stages. Further details would be released later, he said.

Mr Nairn said it was not intended to use the ore from the shaft to increase production, but to maintain Randfontein's viability.

Western Areas, hard hit by the lower gold price and by falling grade, saw its profit of R10,7 million in the September quarter turn into a loss of R2,09 million.

Twin haulage

Grade unexpectedly dropped from 3,61 g/t to 3,18 g/t. But grade should start improving this quarter.

The twin haulage into the South Deep project was progressing well and had advanced about 700 metres, which was about 20 percent of the total distance.

Mr Nairn reported that Western Areas had raised R100 million by issuing 14 percent preference shares. The money could be used to finance Western Area's participation in South Deep

At Joel, development values are starting to improve and the 411 metres sampled gave 19,6 grams over 30cm, equal to 588cm-g/t against 534cm-g/t in September.

A Joel director, Dr CJ Fauconnier, said that as development moved into the deeper areas, the reef was thickening and higher gold values were expected.

The mine concentrated on constructing the main access roadway in the quarter and the tonnage stoped rose from 10 758 tons to 23 609 tons. Development would be stepped up this quarter

The mine milled 46 000 tons, giving 2,6 g/t. The milling rate would be substantially higher this quarter, said Dr Fauconnier.

Falling grades depress JMF profits

Star 20/11/59

The lower gold price and falling grade depressed the December quarter profits of the three mines in the Johannesburg Mining and Finance Corporation Group.

West Witwatersrand's working profit was almost halved, dropping from R7,7 million to R3,9 million. Taxed profit dropped to R1 745 000 from R3 429 000 in the September quarter.

The milling rate was higher but grade dropped to 1,60 grams a ton from 1,76 grams. One of the reasons was that the Christmas holiday affected production at the open-cast workings.

But company officials say grade has started to recover and are expecting the working profit this quarter to reach R4 million.

Efforts to restore Wit Nigel to profitability were partly successful in the December quarter. Following a rise in the milling grade the mine moved into profit last September and stayed in profit until December, company officials report.

However the grade of ore mined then dropped unexpectedly, leading to a working loss for the quarter of R588 000. Even so, this was less than half the September quarter's working loss of R1 315 000.

Modern research methods have been employed to determine the richer reserves in the mine and development is continuing in these areas.

In the longer term the company is planning to work the deep areas where good grades are expected.

Waverley's working profit was affected by a sharp drop in tonnage milled owing to the Primrose/Jumpers plant failure to reach target production. However, some improvement was expected by the June quarter.

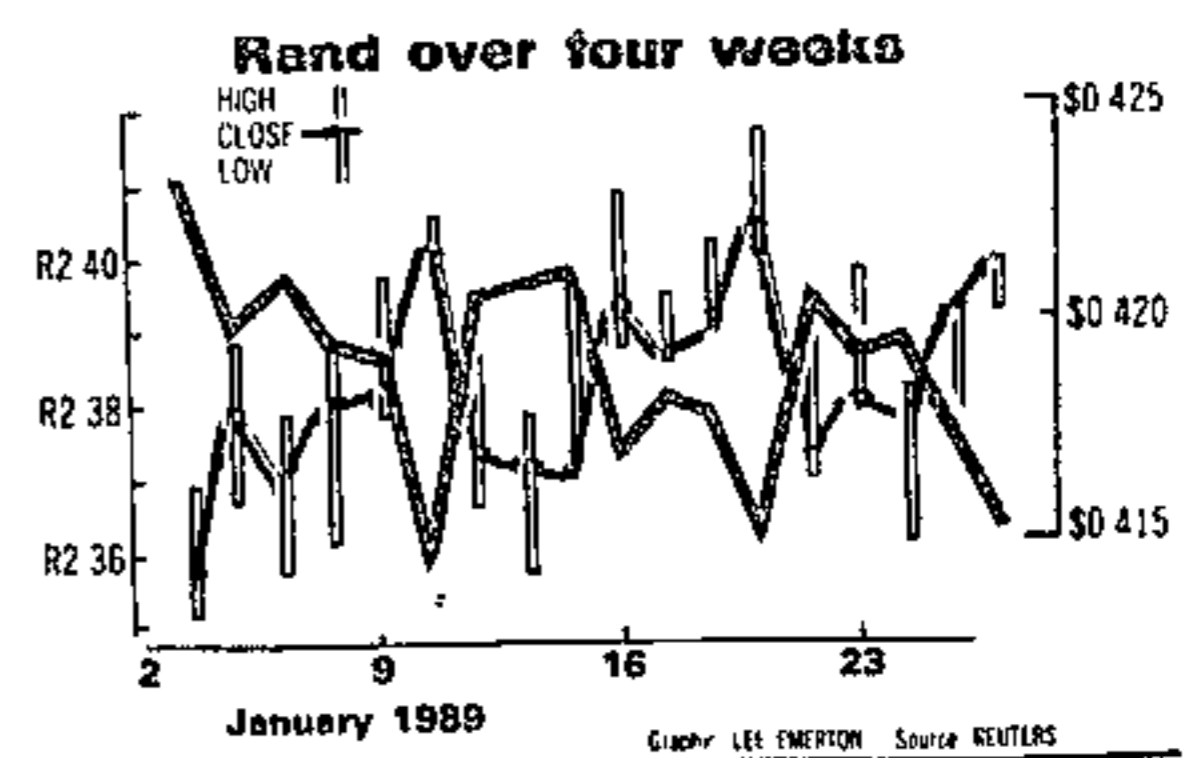
Working profit was R1 500 000 against R189 000 in the September quarter.

'No need to hit panic button'

Gold's rand price lowest since March

B/Dam 30/1/89

79



THE rand is battling to survive the surging dollar, but looked better towards the end of last week as central bank action pushed the US currency lower.

The dollar's strength is expected to continue on higher interest rates in the US, favourable expectations for the new Bush administration and buying demand from investors. There will be no relief for the rand from the gold price, as investors' confidence in the dollar has also knocked the metal's price.

CHERYLYN IRETON and GRETA STEYN

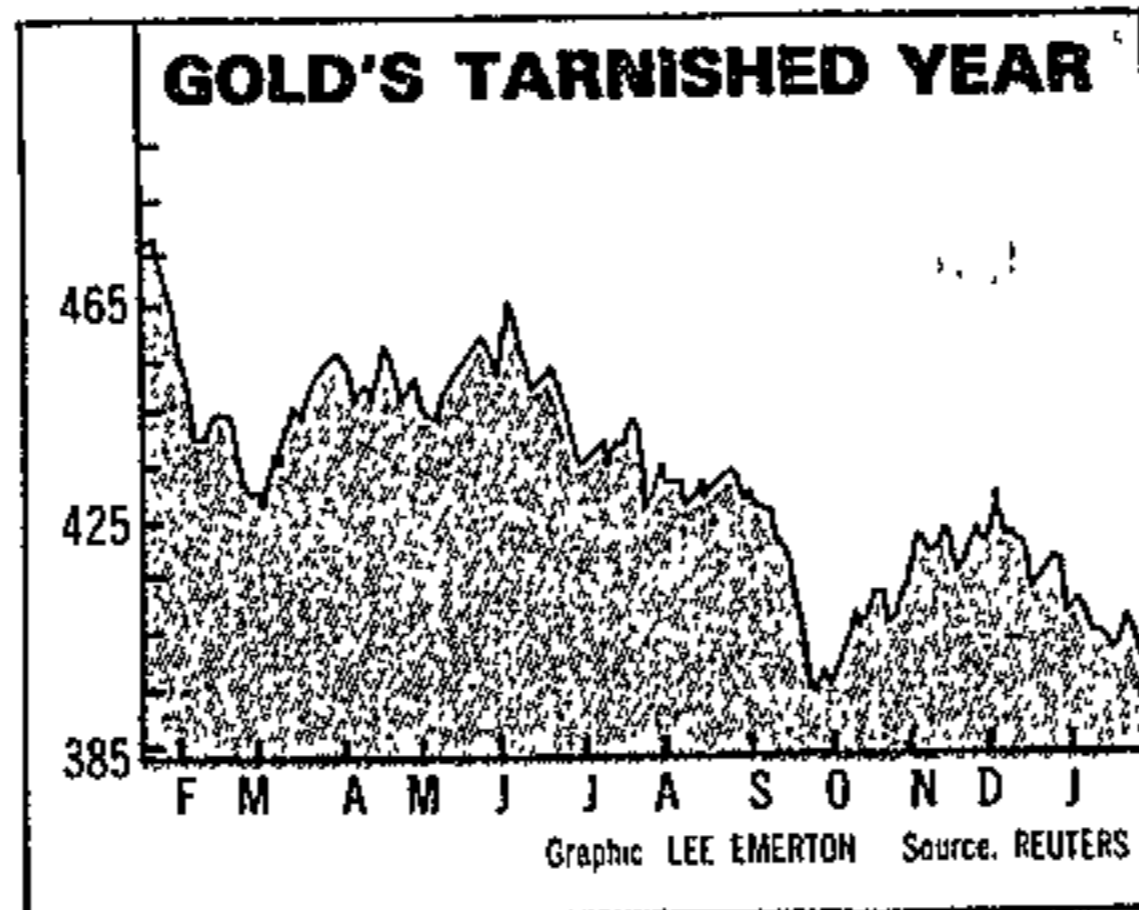
THE rand price of gold fell to its lowest level in 10 months on Friday as a strong dollar, firm equity markets and lower crude oil prices dragged the bullion price below \$400/oz.

The rand gold price dropped R14,02 to R957,60/oz — its lowest point since March 18 last year. This followed the metal's \$6,25 fall in London to \$399,35 on Friday. It weakened further in New York to end at \$395,35 and remained under pressure in Hong Kong on Saturday, trading at \$395,85.

In spite of estimates that the SA gold industry needs an average gold price of R1 000/oz to maintain its current size, economists and mining industry officials approached yesterday saw no reason to "hit the panic button".

Anglo American economic consultant Aubrey Dickman said SA's balance of payments was stronger at the moment, and a gold price around current levels was not yet cause for policy action.

"But a further fall might mean tighter policies to protect the foreign reserves." A strong world economy meant de-



mand for SA exports other than gold was likely to remain strong, offsetting some of the BoP problems implied by a lower gold price. SA would just have to live with slack investment demand for gold as long as world interest rates were high in real terms.

But strong demand from the Far East, especially at lower prices, would provide some support for the metal in the longer term. Increasing industrial demand for gold would also go a long way towards absorbing supply.

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Rand price of gold lowest since March

weakened "nor would a weak gold price over the next 3-6 months be surprising".

"The unknown factor is of course what the new US administration decides to do about the budget and trade deficits — and the view the rest of the world takes about any radical new measures the Bush administration would adopt. Failing anything of major significance in that area, the gold price might well remain weak over the next quarter or two," the spokesman said.

"We don't press any panic buttons just because the price has dropped below \$400, just as we don't become euphoric when it goes over the \$500 level."

The effect on the industry and mines would hinge on the grades being mined. Contingency plans would be prepared and obviously the first move would be to concentrate on mining areas that were profitable at the lower gold price levels.

Rand Mines said if the low price levels were maintained, problems would become graver, not only affecting the industry and leading to redundancies, but affecting the economy as a whole.

Many of the lower-grade mines could encounter problems and there would be

a lower flow of revenue to the mines. Ed Hern Rudolph director Manny Pohl said the SA gold industry — and particularly the marginal mines — needed an average gold price above R1 000/oz to maintain its current size.

"Because of the importance of the gold mines as foreign exchange earners, direct employers and the multiplier effects they generate through the economy, R1 000/oz is regarded as the average floor price of gold for the next 12 months, regardless of the dollar price."

Holcom Commodity Brokers director Charles Johnstone said from a technical viewpoint chart analysis indicated gold was not likely to recover much from present levels, but a short rally could not be ruled out.

"The \$400 level is a major resistance level but chartists are talking of gold hitting \$380, the next resistance point. Even if one does not believe charts, the short-term outlook for the metal is not encouraging. Investors see no reason to buy gold with the dollar strong and Wall Street buoyant"

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B/Dam 30/1/89

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Drooping gold saps bullishness

THE drooping gold price might sap some of the bullish sentiment which was seeping into the money market last week.

While rates at the very short end are unlikely to change as long as they are under-pinned by the Reserve Bank's carefully monitored support, investors who have been looking for six-month, nine-month and 12-month paper might raise their sights and demand higher returns for their outlays because of the damage that a low gold price could do to the economy.

Adjusting the rand to accommodate a lower dollar price for the metal would be an unfavourable devaluation, raising the cost of essential imports, giving an upward thrust to inflation ultimately impacting on interest rates.

Until Friday morning many people on the market were confident rates would remain comfortably on an even keel, some even predicting no change well into the third quarter.

Overhang

There were slender, but real, grounds for this belief. The December trade figures boded well for a growing surplus on the current account and a slowing down in credit demand is reported from some banks. And the central bank's accommodating stance has contributed to a changing sentiment verging on the bullish.

The overhang of a possible R4,5bn market shortage has not caused undue concern or strain. Indeed, the market is relaxed. It has sufficient surplus liquid assets for discounting at the Reserve Bank's re-discount window and enough prescribed assets for the over-night repurchase (repros) facility.

On Saturday morning the total market shortage had eased slightly from Thursday's R3,973bn to R3,522bn with the window debt reducing to R2,522bn and an unchanged R1bn being advanced on repros.



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The easing of the window shortage is no indication of what the shortage might be by close of business tomorrow. Today and tomorrow are crunch days as the forex adjustments come into account and the notes issue will reach its peak. During the week notes in circulation increased by R616m to R6,99bn and will probably rise by a further R200m tomorrow.

The feature last week was the Reserve Bank's fine tuning. On Monday R600m was offered in repros, attracting tenders of only R855m at an average rate of 15,86%. On Tuesday the tender was for R900m with R953m bid at an average rate of 15,88%, Wednesday R900m was offered and R1,276bn bid with the rate rising to 15,90%, and on Thursday when R1bn was offered for over the weekend, bids totalled R1,576bn at a rate of 16,03%.

These figures reveal the tightening squeeze on the banks and their willingness to pay an increasing price for central bank assistance. And at 16,03% this help is coming cheaper than the 16,25%-16,5% being paid on Big Money overnight call. Because the banks have been given access to the repros the overnight call is unlikely to reach the December peak of 17,5%. The banks are apparently standing together to resist the leverage being exerted by the cash-heavy institutions. This is keeping call rates

down — provided that they can be assured of Reserve Bank muscle.

The market is questioning whether its Big Brother in Pretoria will be there when they want him at the end of February and during March when tax payments drain cash from the market. Some bankers believe this outflow might not be as fierce as in the past because of the expected tidal wave of government spending during the next few months.

If indeed the Treasury does disgorge its hoard the strain on the banking sector could be lessened, if not entirely relieved. But surely authorities working with banks can devise a mechanism to control abnormal flows?

A banker suggests that Receivers of Revenue in the main tax-paying centres should open accounts at commercial banks in which they would deposit tax cheques and pay the proceeds to the Exchequer in a regulated flow as the money is needed. This would prevent the shock denudation of banks' deposits.

Dropped

On Friday the Treasury bill (TB) rate dropped sharply to 15,08% from 15,16% in a small tender of R20m, five times oversubscribed. The rate for 90-day liquid bankers acceptances (BAs) also eased, to 15,35% from 15,40%. This does not hint of an overall softening of the interest rates pattern. These rates have come down because banks and building societies are bidding for liquid assets, the banks because August's rolled-over Land Bank bills no longer rank as liquid assets.

One year certificate of deposit (CDs) are trading at 16,7% but there are no issuers. The building societies are offering six months CDs at 16,65% signalling that they believe that interest rates would ease by the fourth quarter. That is before the gold price dropped.

Gold's rand price lowest since March

B/Dam 30/1/89

CHERYLYN IRETON
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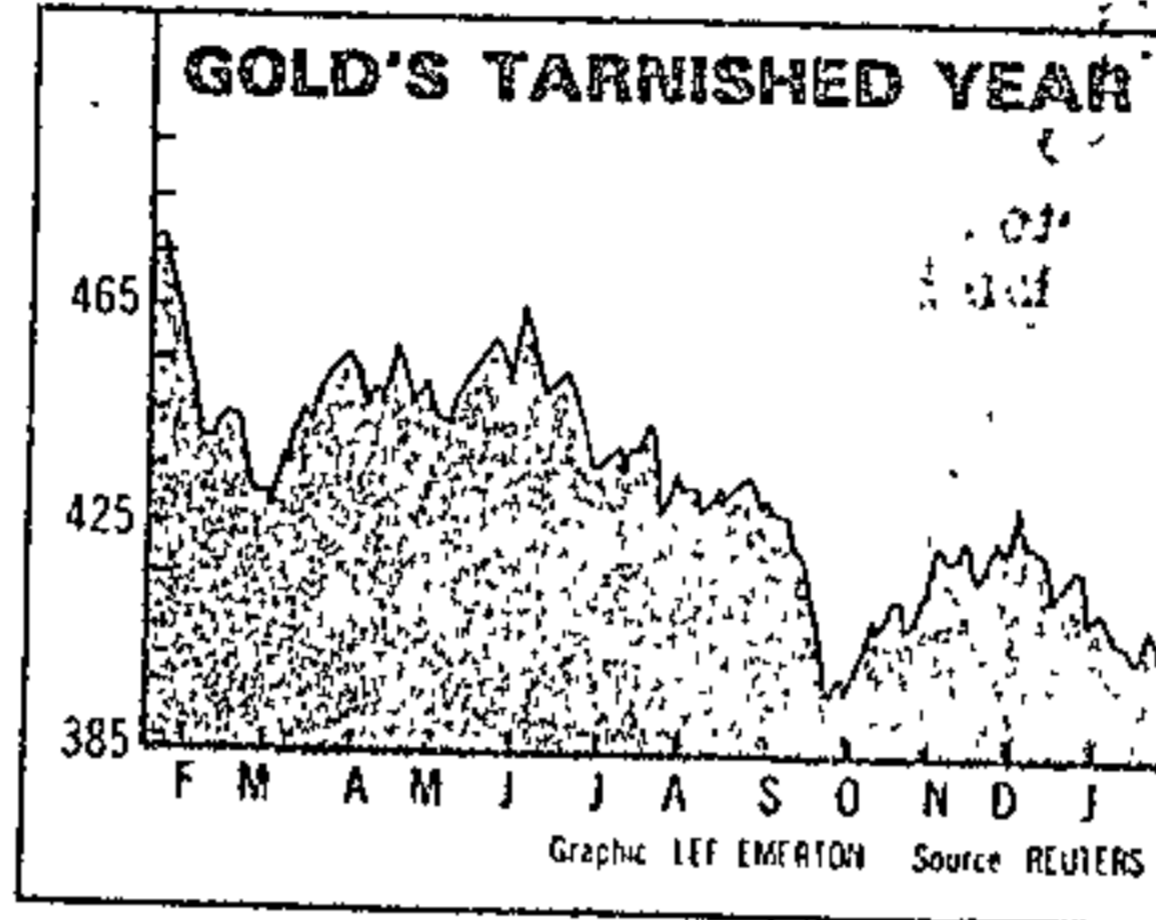
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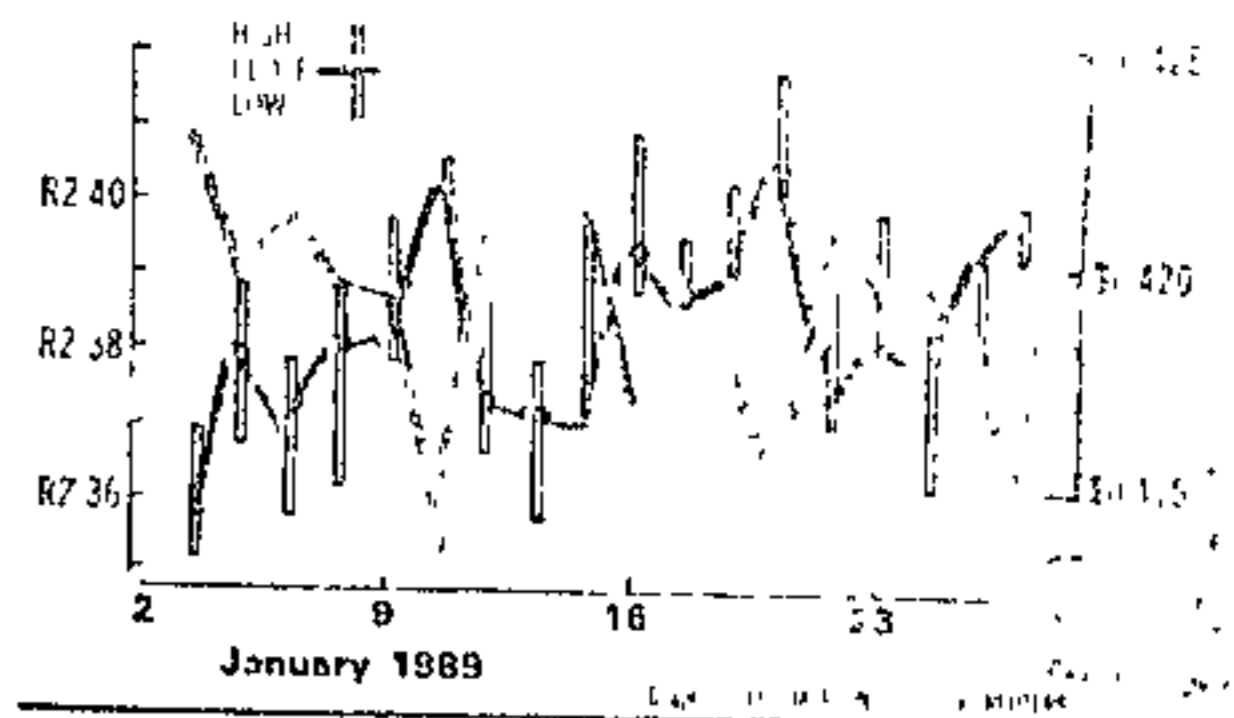


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← © From Page 1

Bullion price below \$400 threatens SA's economic lifeline

Gold Cliff-hanger

Ms 30/1/89 79

By TOM HOOD, Business Editor
GOLD, South Africa's economic lifeline in a hostile world, is hovering below the \$400 psychological knife-edge, and analysts fear any further drop could pose a threat to the country's reserves and balance of payments.

It traded at \$396.25 an ounce in London today after a \$6 drop on Friday from \$406.25.

And on the Johannesburg Stock Exchange prices of gold shares have dropped, with the gold index down 15 points to 1339 this morning. Industrial shares, however, held at weekend levels and the industrial index is unchanged at 2153.

The country desperately needs a relatively high gold price to protect its foreign exchange reserves and meet its overseas loan commitments.

Precarious position

The price has dipped by more than \$12 this month and if bullion stays around current levels, the country's reserves could be depleted by about R600-million in a year.

The fall could also trigger widespread selling of the metal, placing the South African economy in a precarious position.

A sustained fall below \$400 could have a severe psychological impact on confidence, say economists. It could hasten the slowdown in the economy and possibly induce the authorities to make new economic curbs.

The drop below \$400 has already induced a measure of computer-generated selling in the sophisticated futures markets and, if the negative sentiments thereby created gather momentum, a further decline of up to \$20 could materialise — with serious consequences

W Cape bakes in weekend heatwave

By MICHAEL MORRIS

Staff Reporter
 SEARING heat baked the Western Cape at the weekend, drawing thousands to the beaches and recreation areas.

The temperature in Cape Town rose from 29 deg C on Saturday to 30.4 yesterday, but the heatwave pushed temperatures higher in the interior, with Worcester a sweltering 37 deg C, Beaufort West 33, Oudshoorn 41 and Sutherland 32.

While the Peninsula is likely to get some relief from a front approaching from the south bearing what weather forecasters predict will be light, occasional showers, the heatwave is expected to continue in the interior.

SWARTLAND

Farmers are hoping for rain soon.

In the Swartland they are "coping", according to a Department of Agriculture spokesman in Durbanville, though the water situation in Porterville and Eendekuil is



Early Guineas gallops

Racing Staff

THE Cape Turf Club reintroduced the official Richelieu Guineas gallops today and a small crowd saw their candidates in action.

Spectators were given breakfast on the stand and when the dust lifted so did their spirits as they watched half the

Michael Roberts had to push the favourite to catch his working companion, but he was striding well at the post.

Another of the main fancies to work well was Dawson's Trail, who also strode out magnificently in a 1 200m work-out to catch his "pick-up" on the line.

Senior Santa, too, moving effortlessly.

Race row: Cool it, 30/1/89

By PETER FABRICIUS

Political Staff

THE RACE ROW SIM-

GOING PLACES: The favourite for the Richelieu Guineas at Milnerton on Saturday, Winter Winner, is punched clear of his working companions by big race jockey Michael Roberts. Winter Winner is trained by Dove Coleman who has his first runner in the race.

Picture: DANA LE ROUX. The Argus

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Revenue up

Gold's fall at the weekend also hit the commercial rand today, lowering it to 41,43 US cents in Johannesburg from Friday's 41,74.

Fortunately for the gold-mining industry, this will increase the rand revenue companies receive for their gold.

Analysts are divided on whether or not gold will cling to the \$400 line.

Tony Henfrey is cautiously optimistic and believes gold is entering a bullish phase.

"I see it falling to no more than a couple of dollars under \$400, after which it should recover in a matter of days. If I'm wrong, there's good support at \$388, so a major fall can be discounted.

Dr Issy Bacher is more positive and sees an upturn in bullion.

"Gold below \$400 is an excellent buying opportunity. A large measure of ultra-long-term support can be noted in the \$390 to \$400 band."

● See page 8.

W Cape bakes in weekend heatwave

By MICHAEL MORRIS
Staff Reporter

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He said: "There is no rain but we could certainly do with some rain."

"There is sufficient water in most places, sufficient for the vineyard and, while the vineyard is very dry, crops are not affected."

(Turn to page 3, col 1)

ARCUS
30/1/89
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Gold's fall puts pressure on 12 marginal mines

B / Day 31/1/87

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REINIE BOOYSEN

THE decline of the gold price on the world markets over the weekend, to below \$400/oz, has plunged at least 12 SA gold mines into potential loss-making positions.

The gold price yesterday closed in London at \$394/oz — another decline from \$399,35 on Friday.

The mines worst affected by the falling price of gold are the so-called "marginal" mines — those which have a small margin between their operating costs and operating profits.

Working costs on SA gold mines have increased steadily in recent years, and this has necessitated concerted efforts by mine managers to control costs.

Nevertheless some mines have ended up in situations where small movements in the gold price, and the rand/dollar exchange rate, make all the difference between profit and loss.

Unlike many other industries, the SA gold-mining industry has very little control on the price of

Average working costs and yields of SA Marginal Mines: December Quarter

	Working Costs/ Ounce of Gold (US\$)	Average Yield: Grams/Ton
South Roodepoort	538	2,4
ERPM	522	3,6
West Rand Cons	479	2,0
Cons Modder	464	3,1
Western Areas	456	3,2
Wit Nigel	446	2,5
Rogold	446	2,2
Durban Deep	424	3,1
Modder B	406	3,9
Cengold	402	3,5
Bracken	400	3,0
Rand Leases	397	2,1

its product, and many decisions to construct or reopen disused gold mines were made when the price of gold was more favourable.

Other mines are very old, and nearing the end of their lives, with very few rich gold deposits left to exploit. One such example is Gencor's West Rand Consolidated, which has been the subject of a feasibility study to determine whether to continue underground operations.

At yesterday's rand gold price — of \$394 or R946 — at least 12 mines could make losses; unless either the gold price recovers, or the Reserve Bank allows the rand to

decline to a level where the rand gold price makes the marginal mines profitable.

In time these mines could run up enormous debt, and this could result in their closure. Some of SA biggest mines may even be affected by the drop in the gold price.

The accompanying table lists 12 mines — all quoted on the JSE — which have working costs above the current dollar price of gold.

The working costs, as reported for the quarter ending in December, have been converted to dollars at the current rand/dollar exchange rate of about R2,4 for one dollar.

Some of these mines anticipate increasing production and hence the current period of non-profitability may be temporary.

Simpson McKie mining analyst Peter Bahnemann points out that these figures exclude capital expenditure requirements.

"If these are included, the picture starts looking really bleak," says Bahnemann.

Reserve Bank pays for gold in dollars

By GRETA STEYN

JOHANNESBURG. — The Reserve Bank took a step towards freeing SA's foreign exchange markets yesterday by paying the mining houses in dollars for their gold instead of rands.

The mining houses, instead of the Reserve Bank, will from now on sell the dollar proceeds from gold sales into the foreign exchange market. The central bank has effectively reduced its influence over the market by no longer controlling the supply of dollars.

Reserve Bank Governor Gerhard de Kock yesterday described the move as a return to normality.

"In the crisis days of 1985 we went back to the old arrangement of the Reserve Bank feeding dollars into the market.

"But we have now resumed the development of efficient spot and forward foreign exchange markets outside the Reserve Bank."

He said the move was a step towards developing proper markets as it ensured a better balance between supply and demand.

Senior bankers said speculation among foreign exchange dealers that

the market would be awash with dollars this week had been without foundation.

The move had had no effect on the rand/dollar exchange rate, because the central bank had been feeding the dollars into the market evenly.

De Kock said the Reserve Bank's planned withdrawal from the forward exchange market was a longer term objective.

"If we move too fast, we run the risk of sharply higher interest rates and extreme downward pressure on the exchange rate. Nevertheless, we have already held discussions with the banks on balancing their forward purchases with their forward sales."

The Bank's losses on forward cover had declined in recent months after severe losses in the second quarter of 1988, De Kock said.

© Reuter reports SA gold output was down slightly at 52 214kg (1 678 730 oz) in December 1988 from November's 52 510kg (1 688 220 oz), but was well up from December 1987's 49 956kg (1 606 118 oz), Chamber of Mines official figures show.

This brought total production for 1988 to 619 043kg (19 902 702 oz) versus 604 948kg (19 449 533 oz) in 1987.

Dollar and oil create squeeze *B/Day 31/1/89.*

Gold's fall ⁽⁷⁹⁾ causes JSE price slide

MERVYN HARRIS

SHARE prices were under pressure across the board on Diagonal Street yesterday with sentiment knocked as the gold price continued its decline below the crucial \$400 level.

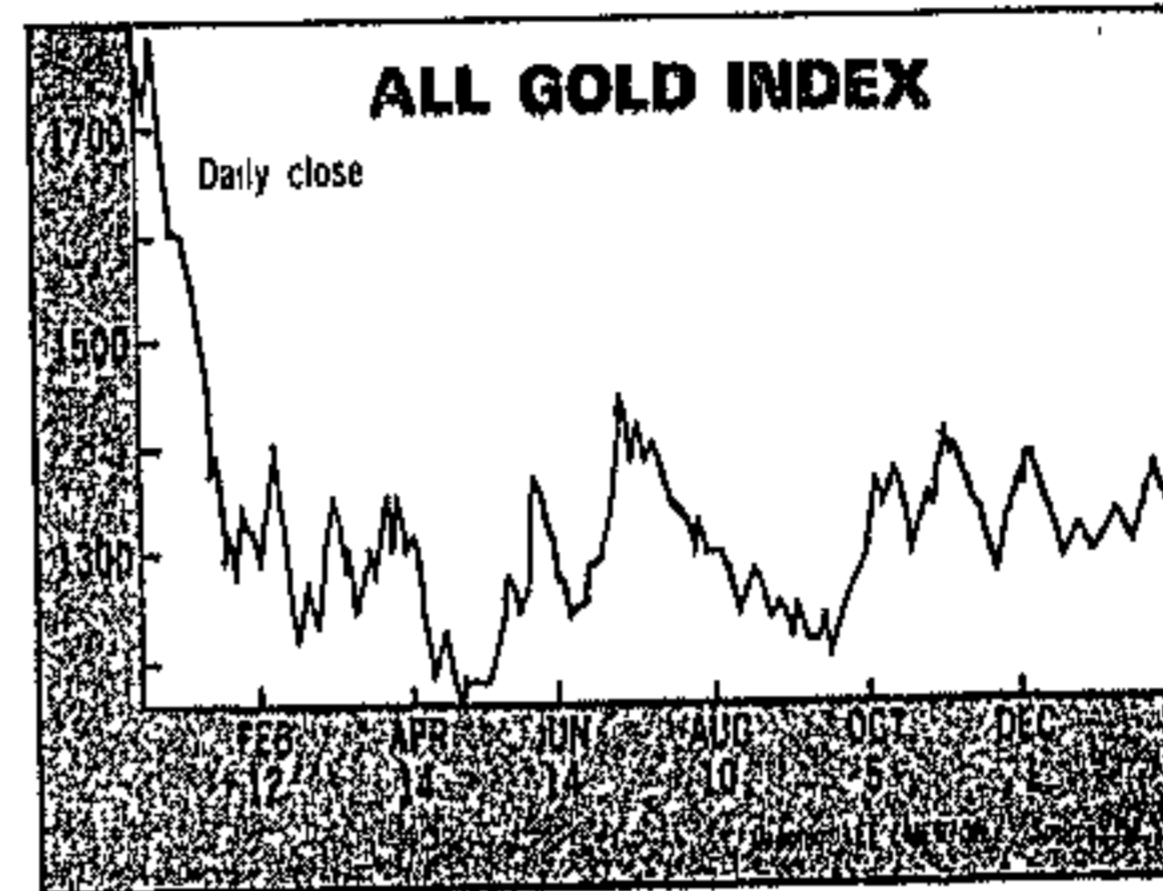
Pressured by a stronger dollar and weak oil prices, gold hit a low of \$392,80 in Europe yesterday before recovering to a London afternoon fix of \$394, its lowest setting since September 26.

The lower gold price and weaker rand clipped another R9 off the rand price of gold. It ended at R948,63 after losing more than R23 over two trading days.

The softer gold price put the skids under gold shares and the JSE all-gold index slumped 3,1% to 1 312 points. Trading in quality stocks was relatively thin, as institutions sat on the sidelines to await further developments, but light-weight stocks dominated the list of the market's largest price falls with losses extending to 16,7%.

While leading industrial shares were expected to cool off, after their sharp rally this month, the downtrend was accelerated by the weaker undertone on the market.

The JSE overall index gave up 1,4% (31 points) to 2 149 while the fall of the



industrial index was limited to 15 points to 2 158 as many leading shares, such as SA Breweries, were offered at lower prices but were untraded.

The industrial futures index was down sharply.

The dollar rally — from a low of DM1,8575 to a high of DM1,8700 before easing slightly on central bank intervention — swept the US currency above 130 yen for the first time since early October and put renewed pressure on the rand.

After opening weaker at R2,4138 to the dollar, the rand recovered slightly in quiet and stable trading to close at

● To Page 2 →

Stronger dollar pushes down gold price ⁽⁷⁹⁾

R2,4077 against Friday's R2,3958 but was firmer against other major currencies.

The 5c weakening in the finrand to R3,9100 to the dollar gave little support to currency-linked stocks on the JSE.

The free market price of platinum shadowed the softer trend of gold and

was fixed in London at \$516, its lowest level since late December when the metal plunged on reports that Ford had developed a platinum-free exhaust emission catalyst.

B/Day 31/1/87.
← ● From Page 1

Gold perks up after 26-month low

By TOM HOOD and
TREVOR WALKER
Business Staff

GOLD, the country's economic lifeline, dropped to a 26-month low of \$389 an ounce in New York last night but recovered slightly to \$390.45 today in London.

The price has plunged by nearly \$100 in 12 months and last touched \$390 in December 1986.

The price is now below the figure for which the government has budgeted in the current financial year and it could pose a threat to the country's reserves and balance of payments.

Bullion has been hit by the strengthening of the dollar since the American presidential election and a steady fall in world crude oil prices.

The low price means about 12 of the country's marginal gold mines could become unprofitable and face closure unless gold recovers. Their working costs are between \$397 and \$538 an ounce.

Mr Gary Maude, managing director of Gencor's gold division, said any marginal gold mine making a loss for three months in succession would have to consider closing.

"OPTIMISTIC"

However, he said he was "guardedly optimistic" about gold's prospects for the next seven months.

Among potential loss-makers as a result of the low gold price are Wit Nigel, Rogogold, Durban Deep, South Roodepoort, Rand Leases, Cons Modder, ERPM and West Rand Cons.

The falling gold price is pressuring the government to make increasing use of indirect taxes such as GST, the tax on petrol and customs and excise duties.

The Treasury is budgeting on a figure well above \$400 for the tax year.

However, the latest plunge in the price will inevitably mean that in the Budget to be presented on March 15 the Treasury will have to work on a figure close to and most likely below \$400 an ounce.

Capit Times 11/2/89 79

US gold price drops to \$390

THE gold price moved downwards in the United States yesterday to close at \$390.75 an ounce after holding steady in Europe for most of the day and futures prices dropped to four-month lows, while platinum closed \$4 an ounce higher from Monday's one-month low.

Gold's apparent steadiness yesterday gave a boost to the Johannesburg Stock Exchange. Gold shares closed mostly firmer with gains of up to R6 although some fell by up to 40c.

Shortly before the close the JSE all-gold index was 16 points higher at 1,328. The overall index rose 10 points to 2,159 and the industrial index was one point higher at 2,139.

But the gold price moved down in London to close at \$394 an ounce as the dollar strengthened.

Platinum traded in a narrow range of \$4 an ounce throughout the day.

Futures prices on the New York Commodity Exchange fell to four-month lows.

● JSE shares — Page 10

No rand safety net for gold

Stev 2/2/89

By Derek Tomney
Those who expect the latest fall in the price of gold to lead to a drop in the exchange rate of the rand against the dollar could be disappointed.

In the past the authorities have tended to let the rand slide whenever the gold price has dipped in order to maintain the rand price of gold at a suitable level.

Last year, when the dollar gold price fell 16.4 percent from \$486 to \$407, the rand was devalued by 20 percent from 195 US cents to 246 US cents.

As a result, the gold mines, far from suffering from a lower gold price, saw their revenue rise from R950 an ounce in December 1987 to R1 002 at the end of last year.

So, in spite of the lower gold price, they actually received a 5.4 percent revenue increase. Since December, the dollar price of gold has fallen further, to reach \$390.45 yesterday afternoon. But this time around there

are indications the Government has told the mining industry enough is enough.

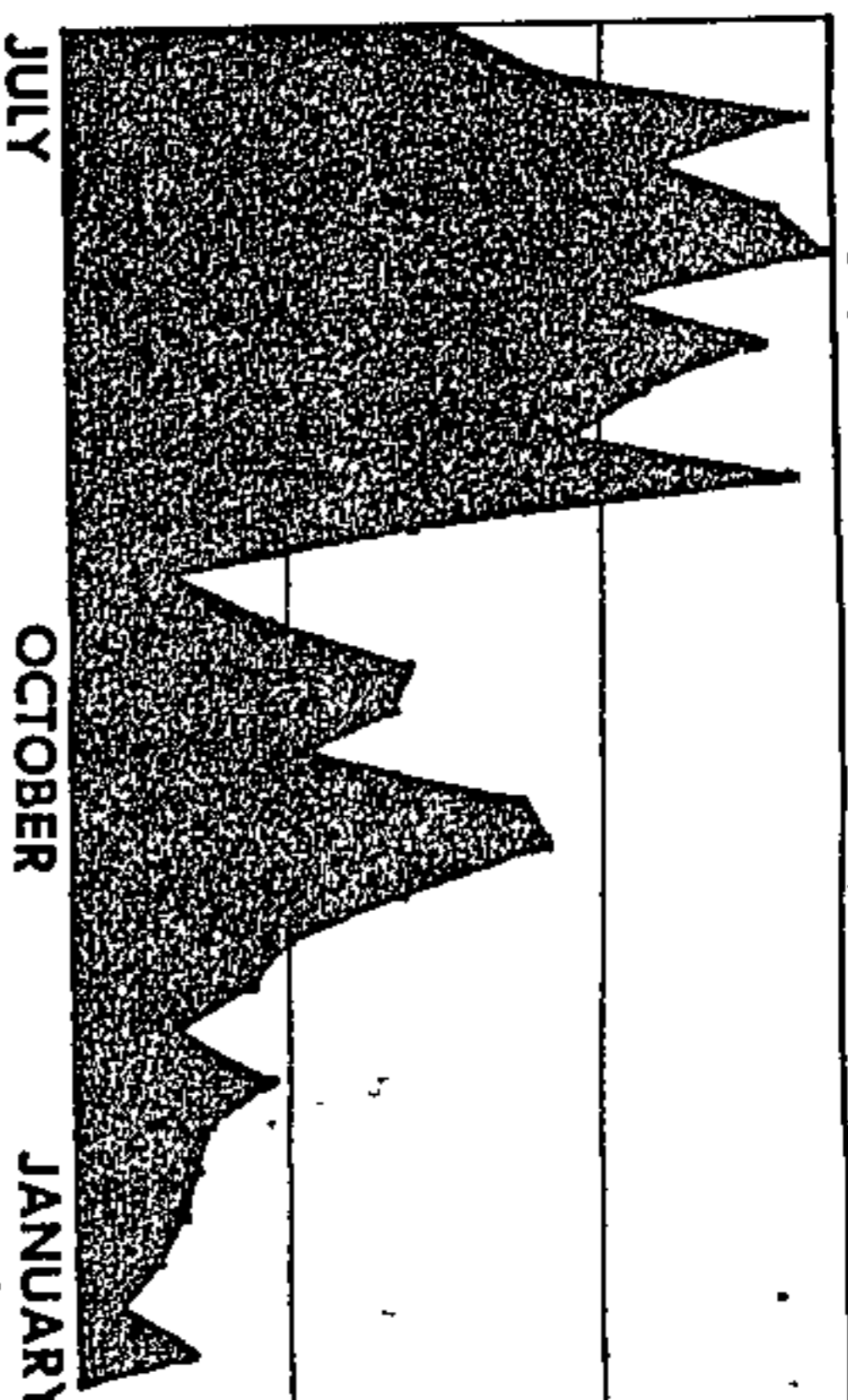
One gets the distinct impression the authorities have been weighing the cost of helping the mining industry by devaluing the rand and so maintaining the rand gold price, and have realised the resultant inflation, individual impoverishment and disincentive to invest make it a not particularly profitable operation.

Mining industry

This time the exchange rate of the rand has not followed the gold price lower. The result is that the rand price of gold has fallen below R950 for the first time in 10 months and some marginal mines are probably having to fight for their lives.

One suspects the mining industry has been told it has to stand on its own feet from now on and to adjust to whatever the gold price may be.

R1090
R1040
R990
R940



Some sections of the mining industry, especially marginal mines, might not like this.

But after the favourable treatment granted the mining industry last year, one must expect the authorities to draw the line somewhere.

And there are extremely good economic reasons why the rand should not be devalued any further.

Some mining industry sources, in fact, say the actual amount of gold produced by marginal mines

is only a small portion of total output and that jeopardising the economy for these by devaluing the rand does not make much sense.

It is estimated that were all the five marginal mines which are members of the Chamber of Mines — Bracken, Durban Deep, ERPM, Marievale and West Rand Cons — to close (a most unlikely occurrence), SA would lose 2 000 kilograms of gold a month worth R120 million, or about four percent of its total output.

In view of the greatly improved foreign trading position, which produced a trade balance of R1.2 billion in December, this would be affordable.

In return, by not using the exchange rate to help the margins, the authorities in the next 12 to 18 months should get a marked drop in the inflation rate.

In all this one gets a glimpse of possible long-term economic planning.

In the past year or so it seems the intention of the plan was to improve the balance of payments, even if this meant large devaluations of the rand, in order to create a climate suitable for sustained economic growth.

Foreign investment

The next stage, now about to begin, would be to reduce inflation by maintaining a stable rand and so again attract foreign investment.

Political factors have undoubtedly played a role in the disinvestment that has taken place in recent years.

At the same time, the slide in the rand has made it a most unprofitable country for foreigners to invest in because their dividends and interest have been shrinking at an frightening rate year by year.

If they could be promised a fair return on investment, they might be induced to put money in again.

If the inflation rate could be brought down, they might even help raise the R5 billion needed in the next few years to finance the new generation of gold mines.

The outlook is bright, but one must remember that the exigencies of the next election could dump long-term economic planning on its head.

Making out a technical case for gold shares

79

Star
10/2/89

By Issy Bacher

Last October, I wrote in The Star as follows: "Technical evidence is building up that the foundation for a bull market is being laid — diamonds, the gold sector, mining financials and leading shares in the industrial sector are participating in the primary stages of a bull run."

The interpretation from the charts that a bull market had begun was correct, with the obvious exception of gold and gold shares. Since then De Beers has risen from 4625c to 4840c, Anglos from 6100 to 7200c and Barlows from 2500c to 3100c.

Bullion and the gold mining sector have in contrast travelled in a sideways and downward direction.

DIRECTION

It is very rare for the gold price and the gold mines not to move in the same direction as the industrial and financial sectors and the situation at present can best be described as weird.

Are golds out of step and about to do an about turn and follow the industrial direction? Of course, gold shares will not perform unless the gold price is able to reverse out of the present negative trend.

Let us examine the technical evidence and then come to a conclusion.

Articles in the financial press are bearish about gold. There is nothing going for bullion is the theme of most articles. I remember that these same articles appeared in February 1985 when the metal was \$287. By July 1985, bullion had broken into a strong bull run.

To obtain a proper long-term perspective of the gold price, study the top chart which shows the gold price from 1973 to the present. Despite its volatile movements, rising to \$850 and then falling to \$287 it has remained above a rising support line. At the current \$390 it is again very close to the support. It's difficult to be precise where the support is (as the chart is a monthly one) but plus/minus \$380 would be close to the line.

As the gold price sank below \$400, North American gold stocks held firm, with the Toronto gold index rising into a short-term positive trend.

The Toronto gold index bottomed at 5707 on De-

cember 23 1988 when the gold price was \$417 and has since risen to 5797 against a declining gold price.

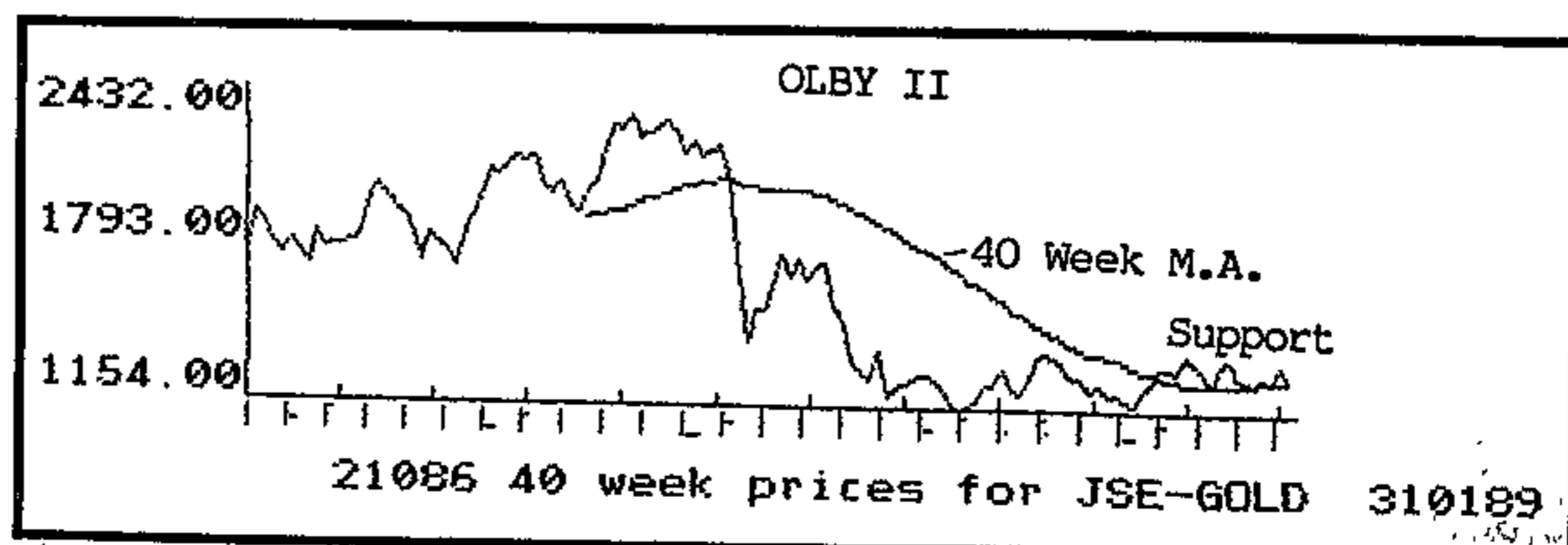
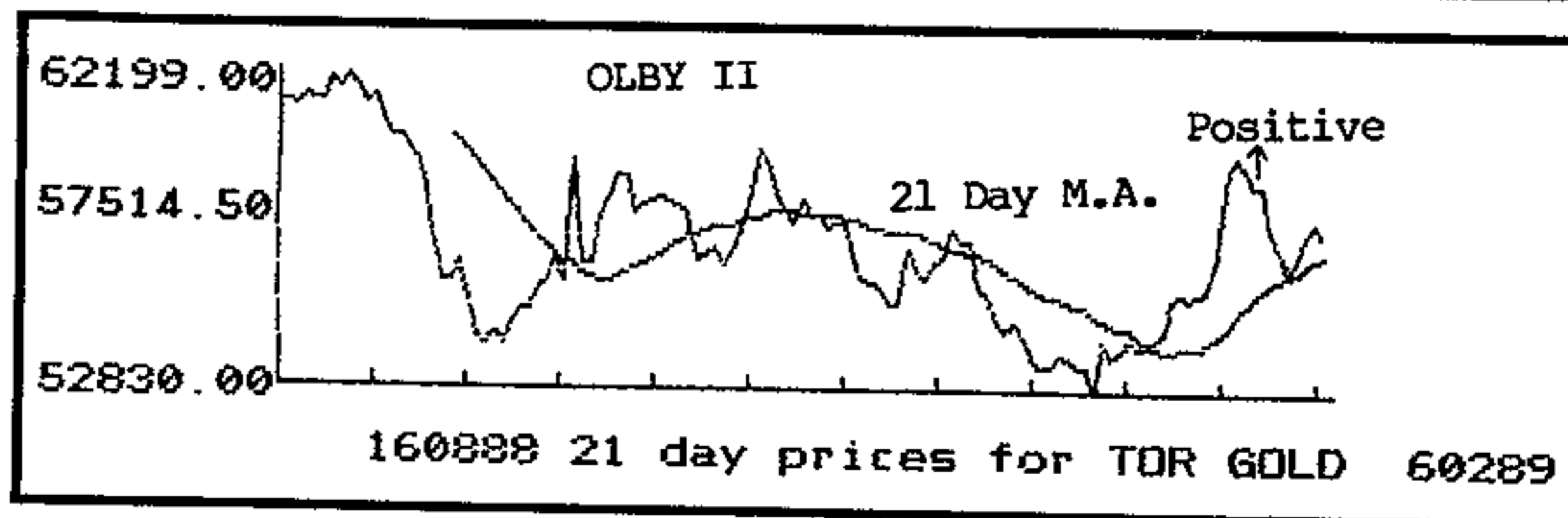
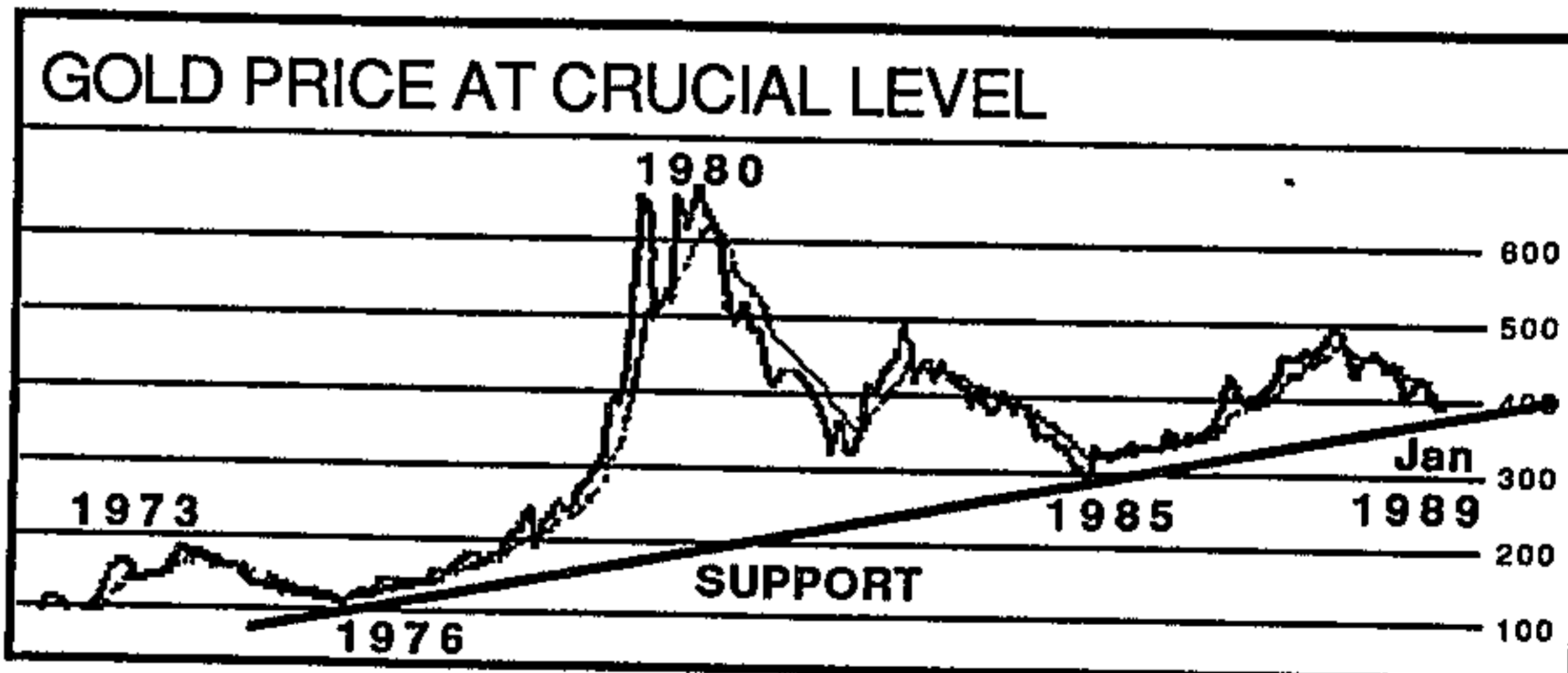
The positive trend of Toronto gold is clearly apparent in the middle graph.

As North American gold stocks are not influenced by fluctuations in the financial and commercial rand they are a better indication of the trend of gold shares. Remember that gold shares also have the inherent ability to lead the gold price.

Just as the gold price is perched above a vital support line, so the all gold index at the February 3 close of 1301 has come down to its own support in the form of its 40 week moving average — the line that divides the bull from the bear.

Any fall below 1290 will send the gold index reeling to the 1200 mark and a rise above 1320 could well be the start of the gold bull run.

CONCLUSION: The gold price and the all gold index have reached critical levels of support. The strength of North American gold stocks suggest the supports will hold.



IN APRIL 1969, ahead of the peaking of the stock market in May, the gold reserves of the South African Reserve Bank amounted to R999m, nearly five-and-a-half times greater than their level immediately after Sharpeville in March 1960. These figures compare with gold reserves of about R3 000m today, but there the comparison ends.

In the 1960s, the Bank's official bullion holdings were valued at R24,80 an ounce, so the April 1969 reserves amounted to 40,2-million ounces while the March 1960 reserves were 7,3-million ounces. Today's reserve level is approximately 3,5-million ounces.

This represents a dramatic change, for the worse, in SA's basic financial situation and it goes a long way to explaining why it is that the country's political position in the world has also deteriorated.

Without gold reserves, the ultimate strategic asset, SA is not able properly to defend itself from speculative attack in exchange markets, and exchange markets attack is inevitable when such basic reserve weakness is perceived by market participants.

The situation becomes worse when political factors further complicate matters and when, internally, there has been a loss of economic control, as measured by a huge increase in the adverse inflation differential between SA and its principal trading partners.

Had the economic management of SA been different after 1969, and had the March level of gold reserves been maintained at 40,2-million ounces, the current value of the Reserve Bank gold holdings would have been more than R39 220m, equal to more than \$16 000m. So the country's gross reserves would have exceeded \$18 000m and would have amounted to more than 80% of its foreign debt of about \$22 000m, were much debt still to have been necessary for the financing of regular development.

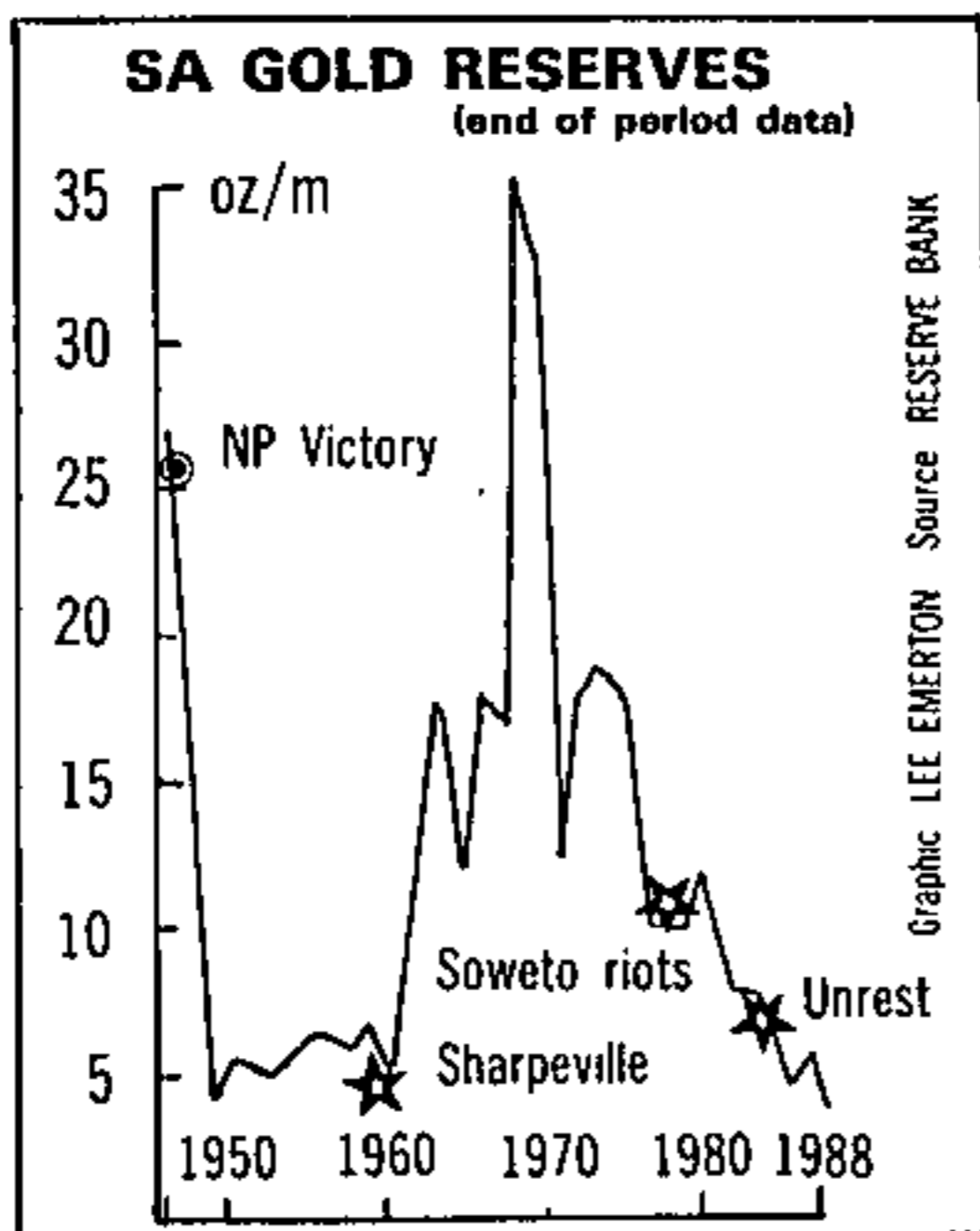
In other words, SA would not have been over a sanctions barrel and there would have been little scope for the country's opponents or friends exerting undue economic pressure on it for political or any other purposes.

What went wrong? How did it happen that such extraordinary reserve strength was squandered? Would it serve any purpose now to attempt to restore the position if only partially? What would SA have to do to accomplish such a goal? These are difficult and controversial questions, but they are important enough to try to answer.

Firstly, what went wrong? The short answer is that SA failed to work out an effective strategy for dealing with large fluctuations in the gold price in a new era of dollar non-convertibility and floating exchange rates. It has not been increases in the

How SA's gold reserve strength was squandered

RONNIE BETHLEHEM



Position at end of period	1988	1980	1986	1987	1988
Rm					
Reserve Bank					
Gold 000s/oz	35 524	12 153	4 841	5 830	3 469
Gold	881	4 854	3 832	4 904	3 079
Foreign exchange etc	104	413	816	1 235	1 853
Total	985	5 267	4 448	6 139	4 932
Other	284	1 014	1 903	2 368	2 625*
Gross reserves	1 289	6 281	6 351	8 507	7 557
(Less) S/T foreign liabilities	(1 174)	(632)	(8 903)	(5 403)	(7 865)*
Net reserves	1 095	5 649	(2 552)	3 104	(308)
Gold price					
Dollars per oz	40 20	589 50	326 80	486 50	410 15
Rands per oz	29 00	439 40	845 54	938 28	976 39
Rand-dollar exchange rate	1,3882	1,3416	0,3885	0,5186	0,4205
\$m					
Gross reserves	1 759	8 427	2 455	4 411	3 178
(Less) S/T foreign liabilities	(241)	(848)	(3 441)	(2 802)	(3 307)*
Net reserves	1 518	7 579	(886)	1 609	(129)

gold price as such, but its fluctuations that have been the problem.

Gold price increases, when they have happened, have always been regarded as a windfall in which all groups have wanted to share. The end result has been a rise in the general domestic cost structure which has not been flexible downwards when the gold price rise has eventually been reversed.

So economic adjustment has happened, quite predictably, via a collapse in the rand exchange rate. What has appeared, therefore, as a windfall at first, has quickly turned into a disaster.

Right now, it is probably true to say that South Africans, the Reserve Bank included, would rejoice were the gold price suddenly to increase to \$4 000 an ounce (10 times its present level). Sanctions would disappear instantly like a bad dream and the BoP would return to massive surplus.

But, unless the gold price stabi-

lised at its new incredible level and efforts were made to contain or displace a flood of liquidity, the boon would turn quickly into a monster of inflation, economic instability and deteriorated economic performance. Matters would be made worse if, after rising as described, the gold price then retreated to a mere \$2 000 an ounce!

Remember, the gold price did rise tenfold between the early 1970s and the present, with a brief peak at \$850 an ounce in January 1980. The higher average gold price of the last nine years has not been associated with better real GDP growth. Quite the contrary has been true.

Associated with these developments has been a biasing in the allocation of scarce resources in sub-optimal ways. Consumption has benefited at the expense of capital formation and much of capital formation has been distorted by bureaucratic or ideological factors. The Johannesburg Hospital and extrava-

gant expenditures on duplicating constitutional structures are examples of capital wastage. Politics have taken their toll of economic performance.

It is clear, given the financial and other sanctions applied against SA, that the current level of its gold and foreign exchange reserves is too low. Indeed, on a net basis, SA is once again in the red! This is no position to be in 12 months ahead of a renegotiation of the debt standstill agreement with foreign banking creditors.

To get the reserves back up again to anywhere near where they should be would require a severe tightening of economic policy in the absence of any help from the gold price. If the economy will not cool spontaneously, and there is little sign of that yet from money growth and credit extension, then policy will have to do the job. But that would be harmful to incomes and employment in an election year.

The case, therefore, for an early

general election is a powerful one. Get the election over with so that the rough things that need to be done can be done, and done quickly. The alternative is to take the risk of entering the debt negotiations 12 months from now without reserves and having to declare "force majeure".

One wonders what the consequences would be were SA, acting differently, to decide, as a matter of policy priority, to reconstruct its gold reserves by adding 5-million ounces a year to them for the next four years. This would involve a very big sacrifice, but it would probably also involve an increase in the gold price and that would be offsetting.

The sacrifice on an unchanged gold price (say \$400 an ounce) would amount to approximately \$2 000m pa and would no doubt prompt a knee-jerk rejection of the idea by conventional analysts because of its deflationary implications. But 5-million ounces is a large amount to withhold from the physical bullion market and it would not, therefore, take much for a change in expectation to turn around the price sharply.

If it recovered to only \$533 an ounce, the dollar value of gold receipts would remain unchanged.

One criticism of such a suggestion, and it has to be taken seriously, is that accumulating gold reserves is mercantilist. However, this puts the wrong construction on the proposed policy. In themselves, gold reserves are sterile assets. One should also need less of them in a world of floating exchange rates.

But for SA, burdened by sanctions, the situation is different. The hard fact of the matter is that one's opponents, in markets no less than in politics, are impressed by strength, and reserve strength is no exception. It was the absence of reserve strength (indeed, the lapse into negative net reserves) and a sharp rise in short-term foreign liabilities, that led to Chase Manhattan blowing the whistle on SA in 1985. We don't need that happening again!

There is, however, another reason for a policy of reserve reconstruction today. It would provide the rationale for the application of the tougher monetary and fiscal policies necessary if balance of payments and internal demand-supply equilibrium are to be restored.

The decision to be tough with economic policy is always difficult in SA because no one wants to put the underprivileged under additional pressure, and there is an empirical link between economic deterioration and socio-political turbulence. But if economic policy fails to deal with disequilibrium, the end result for the underprivileged and everyone else will be worse, not better.

The art of government is not to allow matters to deteriorate so far that the choice becomes invidious.

□ Bethlehem is the JCI group economics consultant.

Broker goes for only the best gold shares

By Julie Walker

RAND-HEDGE, platinum and diamond shares can be considered, and motor counters should be avoided if stockbroker Kaplan & Stewart's two-year projections are to be followed.

"Although economic fundamentals are deteriorating and a general economic slowdown is inevitable, a number of factors augur well for at least a moderate performance in the equity market," says its report.

Among the factors which may fuel a favourable stock market trend are:

- About R23-billion of institutional funds available for investment;
- A relative resurgence of confidence in the Southern African region;
- The lack of alternative investments;
- Tight exchange control;
- Conditions endemic to a siege economy, both economic and financial, the importance of which cannot be overemphasised;
- The possibility of amendments to the prescribed asset requirement;
- The relative shortage of high-quality scrip;
- A peaking in interest rates;
- The resurgence of inflationary pressure.

Index

Kaplan sees the gold index rising to 1 550 by the end of 1989 and to 1 900 by the end of 1990. It forecasts that the gold price will average \$440 in 1989, reaching \$460 by the yearend and \$500 or more two years hence.

"Only the best, low-cost, long-life, low-risk, quality gold shares warrant inclusion in portfolios, while a small percentage of funds may be committed to growth

stocks in the latter part of 1989," says the report.

Average earnings growth of 18% for 1989 and 15% for 1990 has been assumed for the major constituents of the industrial index Kaplan expects the index to reach 2 200 by 1989 and 2 400 by 1990.

"An investment rather than a speculative approach remains an appropriate strategy over the next two years."

The report recommends the consideration of coun-

ters in used cars, motor spares, construction and engineering, low-cost housing, high-tech electronics, food and pharmaceuticals, low-gear companies, sanctions busters and import replacement, banks and building societies, selected base metals and mining companies.

Ones to avoid are credit-related companies and consumer durables, marginal gold mines, exploration companies, the motor sector, the Development Capital Market and agricultural exporters.

Share prices slump as gold hits low

Star 14/28 By Sven Lünsche (79)
Johannesburg Stock Exchange share prices slumped more than two percent yesterday as the gold price fell to a two-year low of \$384,50 at the close in London.

All sectors of the market were weaker, but gold shares led the fall as dealers regarded the drop below \$385 as an important technical factor.

The all-gold index was down 47 points to 1 324, while the industrials shed 39 points to 2207 following on recent gains. The overall index shed 2,1 percent to 2 211.

Analysts on the JSE did not seem overly pessimistic, as profit-taking was the order of the day and most falls were achieved on very low volumes. "Ironically it was one of the quietest days this year," a dealer said.

The gold price's recent slump is expected to continue, although bullion recovered a few dollars on yesterday's low in London. It closed in New York at \$385,25 and opened in Hong Kong today at \$387.

The metal was depressed yesterday by reports that Venezuela's central bank had approved a \$600 million gold loan plan, but a London analyst sees oversupply of the metal as a major deterrent for investors this year.

"World gold production is booming, with more metal for investors and the jewellery sector to absorb to keep the market in balance," brokers ED and F Man said this week.

● See Page 13.

Grim outlook for SA mines as . . .

Gold price slumps to two-year low

CHL Trip 14/2/89 79

By MERVYN HARRIS

PROSPECTS for SA gold mines took another turn for the worse when the metal was fixed at a 26-month low of \$384,50 in London yesterday afternoon to put further pressure on the rand gold price.

Buffeted by a firmer dollar and a lower gold price, the rand weakened from R2,4317 to close at R2,4522 to the dollar to push the rand price of gold down more than \$4 to R942,90.

Gold's fall through the \$385 support level put gold shares under renewed selling pressure on the JSE. With no support for currency linked stocks as the financial rand held steady at R3,9900 to the dollar, the JSE overall market shed 2,1% to 2 211

While industrial shares were expected to cool off after their sharp recent gains, the falls were accentuated by gold's weakness and dealers reported a fair amount of stock on offer.

Meanwhile a leading mining official has warned that a weakening of the rand vis-a-vis the dollar is

necessary to counter rising costs of production and lower grades in the SA gold mining industry.

Clive Knobbs, head of Rand Mines' gold and platinum division says "without this relief, the industry will be faced with the prospects of major cutbacks and even some closures, unleashing attendant socio-economic problems which the country can ill afford."

Outlining the outlook for gold in his statement to ERPM shareholders Knobbs says: "The prospects for the gold price in 1989 are anything but sanguine. Sentiment is negative and, at best, uncertain. Inflation is not expected to be a problem in the western world and continued economic growth in 1989 is anticipated.

"A rise in mine production is likely to result in an excess of supply over demand for gold, driving the US dollar price down even further.

"Although physical demand in the Far East is likely to persist this year, with the recent removal of various tariffs and sales taxes in areas where demand is strong, there is a growing realisation that this demand is becoming increasingly price sensitive.

"The immediate outlook for the dollar is very unsettled with some confusion and much caution spilling over into the bullion markets," says Knobbs.

Gold could fall to \$325 an ounce some time this year having completed a bearish chart formation, London-based Kleinwort Benson Securities-Sharps Pixley says in its forecast on the outlook for precious metals.

And analysts at traders E D & F Man International say gold could drop to \$300 an ounce by the end of the year and platinum to \$425.

"Gold is at an area of maximum risk and bulls are advised to be extremely cautious," says the Kleinwort review.

Falling gold prices continue to push the mining industry into more forward sales as a hedge, it continues. It is possible that some 20% of mine production has been sold forward and this could be one of the more bullish points ~~face~~ the market turns.

Star 15/2/89

Gold seen slipping ⁽⁷⁹⁾ to \$320

The gold market since 1980 had been seeing a series of declining waves which were returning gold towards its long-term price level of \$320, Mr Julian Baring, fund manager of the James Capel Gold and General Fund, told the conference.

He said if gold was too low in 1970 at \$35 and too high in 1980 at \$650, it would not be surprising if it settled down halfway.

Gold was still trading firmly within the bear channel which had encased it since January last year. The support level of 600 Swiss francs was still intact, although the dollar price had fallen from \$467 last year to \$389 today.

"The magic Sf600 is now equivalent to \$375, whereas last year it was equivalent to \$426."

Mr Baring said he would not be surprised if Sf600 held the line, as it had so often in the past. He doubted, however, whether gold would bottom at \$375.

Bear markets

He said that bear markets normally lasted two years and that the present one had been going for just over a year. All it needed was for the dollar to appreciate a further 15 percent against the Swiss franc and gold would be at \$326.

But Mr Baring said the recent surge in gold loans was putting some upward pressure on the price.

"As gold penetrates the \$400 barrier, there will be increased activity by forward sellers and gold loan borrowers anxious to lock in at the current level of profitability while they can.

"The effect of this will be to put further pressure on the gold price. That, in turn, will concentrate the minds of the directors of those gold mining companies caught by the falling price in the middle of a capex programme which has to be financed somehow in a falling market. Forward selling may be the only way out," Mr Baring said.

Jitters as gold sputters

By GRETA STEYN

JOHANNESBURG. — Bearish sentiment gripped local money, capital and foreign exchange markets yesterday as gold continued its relentless slide.

The metal was fixed at a 26-month low of \$381 in London yesterday — down \$3,10 from its previous afternoon fixing. The price touched a low of \$380,10 before the fix in London, putting pressure on the rand and sparking interest rate jitters.

However it recovered slightly to close at \$382 in London and \$383,85 in New York.

The rand dropped quickly yesterday, sinking to a low of R2,47 to

the dollar after opening at R2,4583. The rapid drop prompted Reserve Bank intervention to stem the tide.

Dealers said the central bank's intervention was "low profile", intended to slow the fall rather than boost a struggling currency.

With the help of the Reserve Bank and demand from exporters, the currency retreated from its lows to close at R2,4648 yesterday afternoon. The rand's weakness in the face of a declining dollar surprised some dealers.

However, Standard Bank Deputy GM Rocco Rossouw commented: "Economic fundamentals suggest that current exchange rates

are a true reflection of the rand's value. This correction was bound to come, as the currency has been overvalued for some time."

The rand has weakened dramatically against third currencies too, closing at R4,369 to the pound, compared with levels around R4,2315 at the beginning of the month.

Bearish sentiment also surfaced in the money and capital markets, with gold's weakness sparking fears of another increase in Bank rate this year. Already, the key three-month liquid Bankers' Acceptance rate has moved up to 15,45% after a low of 15,20% last week.

Gold and shares continue to slide

Star 16/2/89

By Finance Staff

79

The slide in the gold price to another 26-month low continues to haunt South Africa's financial markets.

Bullion yesterday dropped by about \$3 to an afternoon fix of \$381 in London. It recovered slightly to a close of \$383,85 in New York and an opening of \$384,40 in Hong Kong today — but analysts forecast further falls.

The importance of gold on South Africa's economy was underlined when the rand and share prices dropped on news of the lower bullion price.

Despite Reserve Bank intervention the rand slid from R2,458 to R2,47 against the US dollar.

On the JSE, share prices continued the downward trend. Since Monday share prices have dropped by more than 3,5 per cent.

IT SEEMS that whenever one opens a newspaper these days one is faced with an article on the bearish outlook for gold.

First it was heading for US\$380 per ounce, and now that it is barely US\$5 from that level we are apparently looking for gold to only bottom out at US\$320 per ounce.

I still have misgivings about that chart validity of the US\$380 level, but it is quite easy to see from the accompanying chart where the soothsayers find their US\$320 per ounce level. It was the period of consolidation that occurred way back in 1985. Although this type of analysis is somewhat simplistic, it does tend to make a great deal of sense.

However, if one has to look for a bottoming out in the nether regions it would seem much more valid from a technical viewpoint to project the target which is determined by the head and shoulders top formation.

Here we have an outlook for a bottoming out at a level just below US\$300 per ounce. To all intents and purposes, this projection has already become feasible following the fall below the neckline at the end of January.

Gold losing its glitter

1/10/89 15/2/89

One must, however, point out a few factors, both technical and fundamental, that run contrary to this projection.

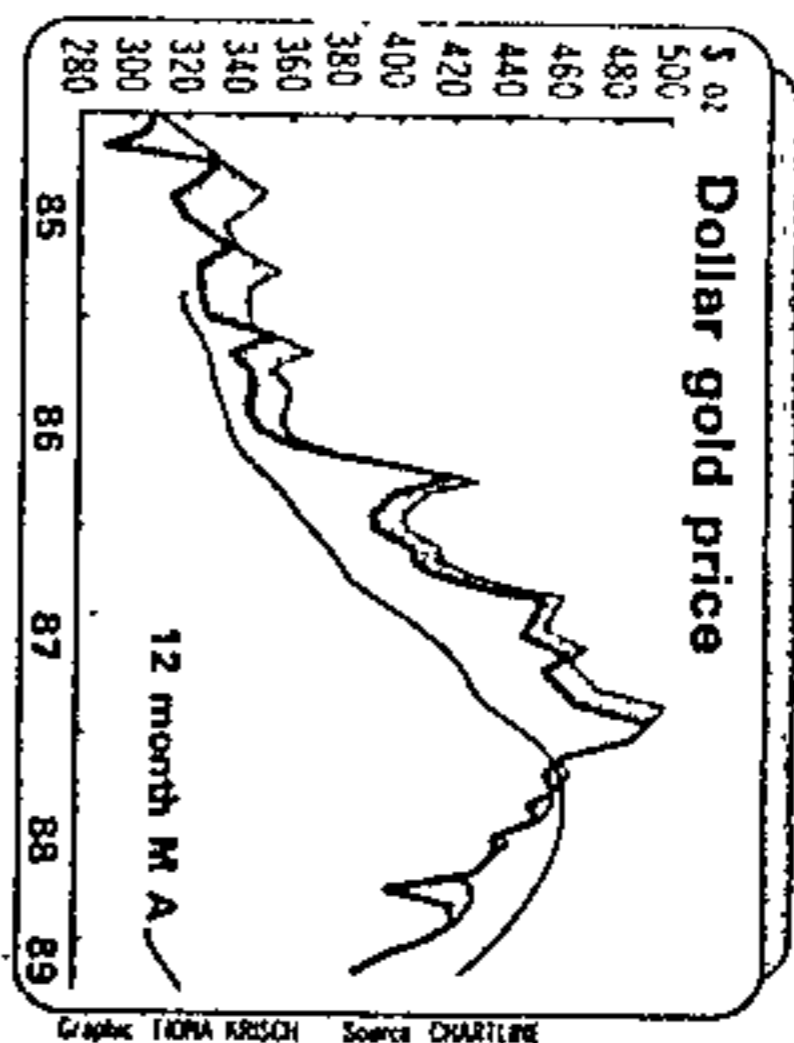
It must be remembered that the head and shoulders objective is not necessarily a foregone conclusion, especially when it is as weakly formed as the one we have on the chart before us.

Comfortable

Indeed, it was only the last gold fix for January that took the price below the neckline — even the day prior to that it was still relatively comfortable above the neckline.

We also have no final February fix yet — I have shown Tuesday's pin fix on the chart, which tends to distort the result.

A final fix above US\$398 for February would have to cause a rethink



on the head and shoulders pattern, although it would only officially abort by a rise in the gold price above US\$420 per ounce. At this stage this seems a long way off.

In the short-term technical picture we have a much more exciting development. Here, in my favourite five- to 13-day period analysis, we find that, despite the recent relapse in the gold price to below US\$400 per

ounce, the oscillator has shifted upwards and is likely to hold this momentum and direction for at least another month and a half. Only a steady decline of around US\$3 per week cumulative would reverse this trend.

In a squeeze

There is, of course, a possibility that this could occur — gold has certainly lost its glitter. In fact, trying to find something less negative to say about it is like poking around in a dark closet. Trying to find something positive is even more difficult.

Nonetheless, and despite the apparent gloom that would seem to surround the gold price, there is just not sufficient evidence to support further large falls, just as there is not enough support for a potential short-term rise.

The market is caught in a technical squeeze that will only unfold as the players begin to play out their hands.

We must, however, confirm at least one fact. Gold is presently in a bear phase and will remain so until it once again rises above the 12-month moving average.

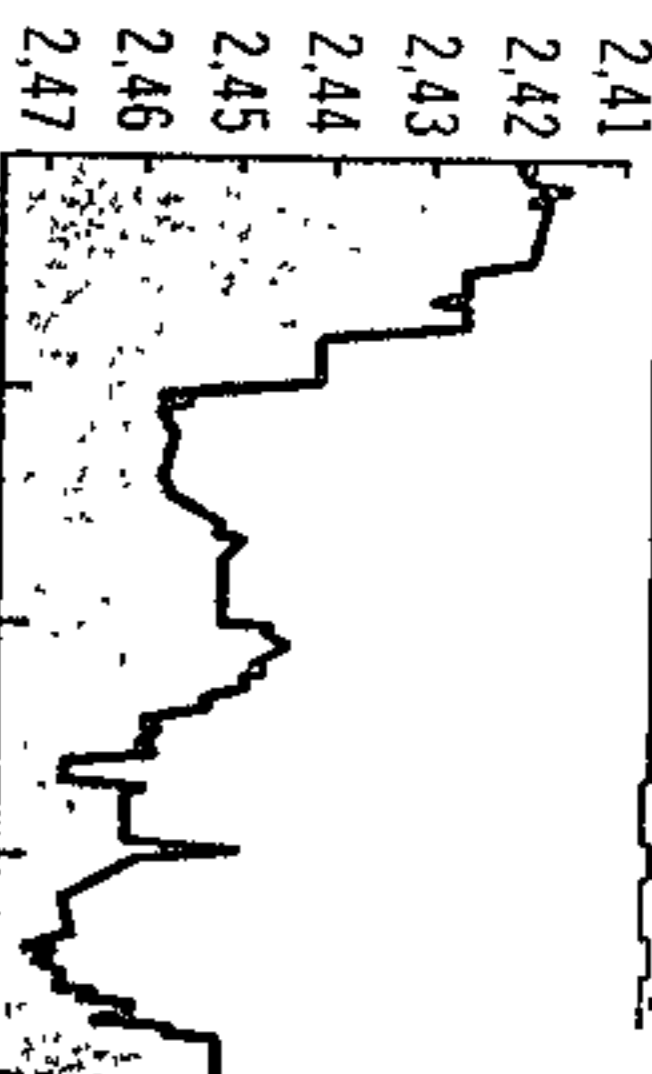
It is the nature of these averages that it takes about twice the length of the period for the full oscillator cycle to work through, which means that we could only expect the gold price to rise above this average in the second half of the year.

The fact that gold is presently in a bear phase does not necessarily imply further continued losses and in the short run we could see the development of support at current levels as the price stabilises. This would fit well with the impasse that presently exists between the short-term and the medium-term outlook and would give the upper hand to a more positive future of the metal.

Meanwhile, we must wait for the daily developments to see whether gold will shine again, even if it's just a little sparkle or whether the tarnish will grow even duller.

REVIEW

R/\$ Rand looking shaky



Graphic: ROMA KRISCH Source: REUTERS

Bears rule local markets as relentless gold slide continues

BEARISH sentiment gripped local money, capital and foreign exchange markets yesterday as gold continued its relentless slide.

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GRETA STEVENS

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Rocco Rossouw commented: "Economic fundamentals suggest that current exchange rates are a true reflection of the rand's value. This correction was bound to come, as the currency has been overvalued for some time."

The rand also weakened dramatically against other currencies, closing at R4,369 to the pound, compared with levels around R4,2315 at the beginning of the month.

Bearish sentiment also surfaced in the money and capital markets, with gold's weakness sparking fears of another in-

crease in Bank rate this year. Already, the key three-month liquid Bankers' Acceptance rate has moved up to 15,45% after a low of 15,20% last week.

Statements by Finance Minister Bar-end du Plessis and Reserve Bank Governor Gerhard de Kock that policy would remain restrictive aided the harder trend.

In the capital market interest rates on long Eskom stock ended the day at 16,56%, compared with Tuesday's close of 16,48% and levels below 16,40% at the beginning of the month.

Gold lowest price for 2½ years

Business Editor

PK645 17/2/89 (79)

GOLD, the country's biggest export earner, plunged to \$377 an ounce in Hong Kong today before recovering to \$379 in London — the lowest levels for two and a half years.

The price closed at \$383,05 last night in New York.

Today's drop was triggered by Australia's gold mines selling bullion to cash in on a sharply weaker Australian dollar, Reuter reported from Melbourne.

Finance Minister Barend du Plessis said in Parliament yesterday that if the gold price dropped substantially there would be a number of negative effects and one result would be a need to "drastically" cool the economy down.

Replying to the Second Reading debate on the mini-Budget, he said another consequence would be that government spending would have to be severely cut back as well.

The price has shed more than \$100 — about 20 percent of its value — from last year's peak of \$484,75 in London on January 6.

The latest price is below the figure for which the government has budgeted in the current financial year.

● The lower gold price hit the value of the rand today, which slipped to 40,24 US cents from 40,36 yesterday in Johannesburg. Gold shares also lost ground on the Johannesburg Stock Exchange.

Trade figures add to gloom over gold

By Sven Linsche

January trade figures are bound to cause a few long faces at the Reserve Bank.

The R535,2 million surplus is 57.5 percent down on December's surplus of R1,26 billion, with the impetus coming largely from a R1,2 billion decline in exports to R3,315 billion.

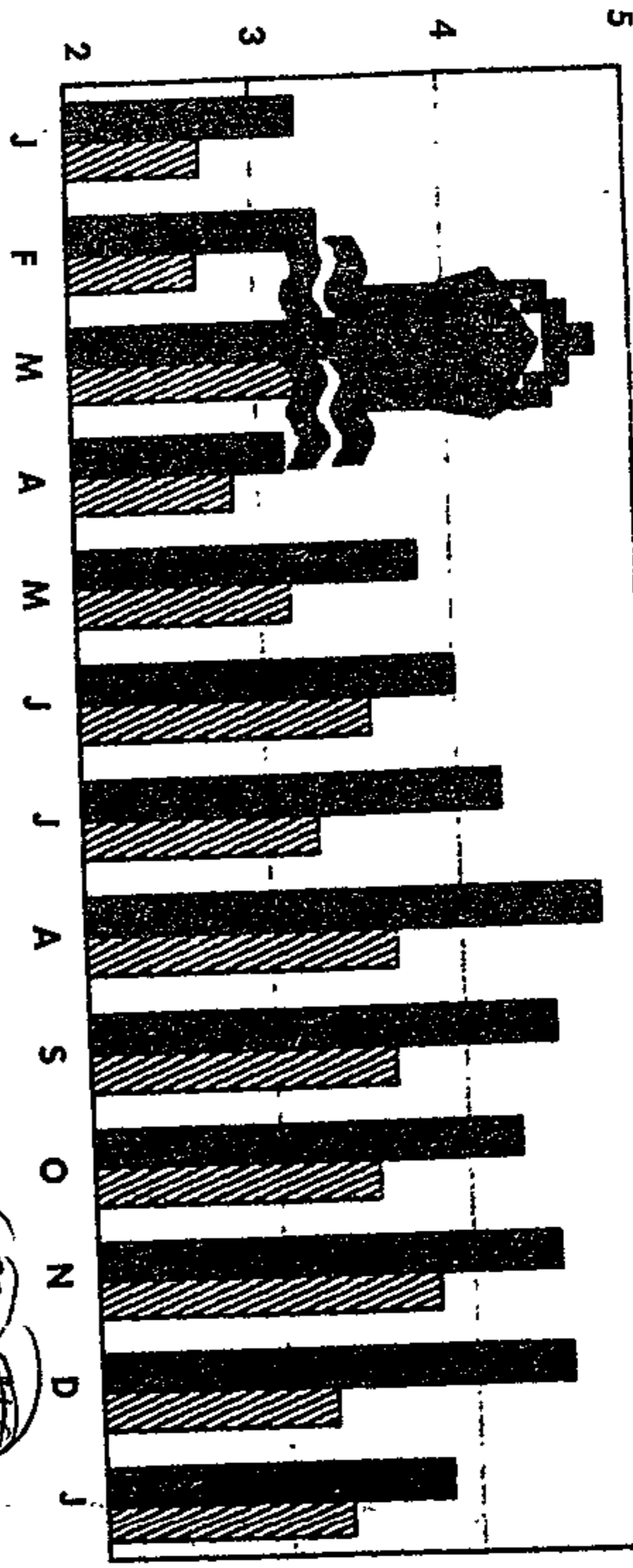
A surge in exports towards the end of 1988 boosted the year's surplus to a satisfactory R9,27 billion, but January's decline and the renewed downward pressure on gold — it hit a two-and-a-half year low yesterday — are once again raising the spectre of a severe foreign exchange squeeze.

Even more so, since imports were on the rise again in January. They totalled R3,315 billion, a slight increase on December 1988's R3,25 billion and this raises the question whether last year's restraining measures will suffice to cool down consumer demand and limit import spending this year.

But it is the staggering decline in exports that could spell greater danger in the months ahead.

Largely to blame in January was the decline in the gold price. This week's continued fall is bound to curb export earnings even more.

Rand billions



Exports

Imports

After selling by Australian producers depressed prices in Asia, bullion was quoted as low as \$377,90 in London, \$4 down on Thursday's close, before edging up to close at just over \$380 in Europe.

"Physical demand is not bad, but it's not good enough to offset the selling pressure," one Zurich trader told Reuters.

Australian producers took advantage of a weaker Australian dollar to sell from their stocks.

of gold bars, traders said. A previously strong Australian currency has compounded the effect of a falling gold price on the country's mining industry.

"The Australians seem to have taken advantage of their falling currency to get shot of a bit of gold," a London analyst said.

A stronger US dollar and surging stock markets have attracted investors out of gold recently, driving it down by more than \$30 since the start of the year.

Investors seem to think that governments are serious about controlling inflation with higher interest rates.

The US trade deficit narrowed to \$11,89 billion in December, making a total loss for 1988 of \$137,34 billion, sharply down from the record shortfall of 1987, the US Commerce Department said yesterday.

November's deficit was \$12,2 billion.

Sharp drop in trade surplus

Fears of renewed BoP squeeze

CMT Trust 20/2/89
79

By GRETA STEYN

JOHANNESBURG. — Fears of a renewed balance of payments squeeze were fuelled by a sharp drop in SA's trade surplus in January as the gold price hit its lowest level in more than two years.

Customs and Excise figures show the trade surplus in January was R535,2m — 58% down on December's R1,26bn. A disappointing export performance accounted for the drop while imports remained at a high level.

Exports slid by about R600m from December to R3,85bn and imports rose slightly to R3,32bn. The total surplus was down from January last year's R550m.

The figures were released as gold hit a two-and-a-half year low of \$378,15 on Friday, spelling trouble for the balance of payments. However, the metal rebounded a little and the London afternoon fix was \$380,40 compared with a morning fix of \$378,95.

Bearish sentiment intensified on local markets because of gold's weakness and the worse-than-expected SA trade figures. In the capital market, Eskom-Loan 168 climbed to 16,68% at the close on Friday from 16,55% on Thursday and 16,40% the previous week.

In the money market, the three months liquid Bankers' Acceptance rate hardened to 15,65% from Thursday's 15,50% with one discount house

quoting 15,70%. The rate on Treasury Bills rose to 15,27% from 15,12% a week ago.

The markets see a strong possibility of another increase in Bank rate to protect the balance of payments.

Economists agreed Bank rate might have to rise, but not before economic indicators over the next few weeks presented a clearer picture on the economy. They noted the rand was weakening, cushioning some of the effects of the gold price and encouraging a better trade performance.

Rand Merchant Bank economist Rudolf Gouws cautioned against reading too much into one month's trade figures. Although the surplus was weaker than expected, it had come after an exceptionally strong December.

The Trust Bank's Nick Barnardt said: "The key factors for the balance of payments and interest rates are non-gold exports and imports in the next few months. If non-gold exports rise while imports drop, an average gold price of \$380 would still yield an increase in foreign reserves."

Safto economist Bruce Donald said imports appeared to be levelling off, as January's figure was well below November's record of R3,8bn. However, he was disappointed about the weak export performance in spite of a sharp depreciation in the rand.

He said: "With SA inflation running well above that of our trading partners, SA exporters could be pricing themselves out of foreign markets."

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CAPE TOWN 21/2/89

Stronger gold price boosts shares

Financial Staff **79**

SHARE prices on the Johannesburg Stock Exchange went up yesterday with a slightly stronger gold price.

A weaker rand also helped to support share prices.

The All Gold index gained 16 points to close at 1309 and the Industrial

index also gained 16 points to end the day at 2216.

The Overall index climbed to 2207 from Friday's close of 2188.

No fresh leads were evident and dealing was described as cautious due to the economic uncertainties.

● Full report — Page 10

Brokers pick gold shares to shun or secure

M/D M/M ADAM PAYNE (79)

BROKERS Simpson McKie believe the gold price could rise above \$400 in the second half of the year to average \$415 for 1989 because of expected slower world growth and lower interest rates.

They have produced a wide guide on which shares to sell, buy or hold.

Shares to buy: Deelkraal (on weakness), ET Cons where capex should start falling and production rising; Driecons; Kinross (the longer-term view is of continued steady performance).

Lindum Reefs at 175c represents value and may be bought as a speculative stock by investors positive on the gold price and not adverse to risk.

(11) Shares to sell: Modderbee (it is difficult to see the operation ever making meaningful profits); Nigel (the continuing losses must have pushed up borrowings to uncomfortable levels and the brokers advise reducing exposure in both Nigel and holding company Southgo); Joel, the average development figures are cause for concern because they point to much lower-than-expected recovery grades during the initial years of production; Elandsrand, until it has rectified mining problems the brokers recommend switching from Eland to Deelkraal; ERPM, the brokers remain sceptical about the future of the mine, borrowings now amount to R274m; Doornfontein, investment is not recommended until the heavy capex programme has been completed; Consmodder, interest-bearing debt is more than R36m and total debt close to R60m. M/D M/M

Shares to avoid: Cengold, because two operations had to be closed and the remainder are having grade and production problems; Durban Roodpoort, shun in spite of standing high in the broker's rankings; Eersteling: the brokers are sceptical whether the mine will be able to sustain output. The high levels of borrowings (R18,2m) gives cause for concern and the share is highly speculative.

Supply and demand, or 'favourable climate'?

79 B/Dam 2 2/2/89

What determines the rise and fall of gold?

THE GOLD price recently declined to the lowest level in two years, but analysts still differ about what makes gold move.

Experts disagree whether the major factor influencing gold price movements is human sentiment, or whether gold is just another commodity, with its price determined largely by supply and demand.

Contrasting views were aired by speakers at three different conferences held recently in Johannesburg.

At the Financial Mail Investment Conference in December American Precious Metals Advisors MD Jeffrey Nichols argued that the recent decline in the gold price could be attributed largely to the supply and demand scenario.

Gold-loans

The increase in the supply of gold available for sale on the international markets, from about 2 000 tons in 1987 to an estimated 2 500 tons in 1988, was one important depressing influence, said Nichols.

He said the increase largely resulted from the higher incidence of gold-loans and forward selling, which had the effect of bringing future mine output onto the market long before it was actually produced.

Nichols said there was also a substantial "dishoarding" of gold — perhaps as much as 700-800 tons — by institutional and super-wealthy investors in North America and, to a much lesser extent, Western Europe during 1988.

Nichols was equivocal about demand. He estimated that investment demand in North America dropped from about 2.5-million ounces in 1987 to about 1-million ounces in 1988, but conceded that 1988 was

REINIE BOOYSEN

"a year of record demand", particularly from the Far East.

Two other speakers — James Capel analysts Julian Baring (at the Frankel Kruger Investment Conference) and his colleague, Robert Weinberg (at the International Metals & Minerals Price Outlook Conference) — offered an opposing view.

"If we have learned anything from history it is that if the climate is favourable then the price will rise irrespective of how much gold is supplied to the market," said Weinberg.

He pointed out that between 1975 and 1979 gold supply to the non-communist private sector rose from 1 104 to 1 702 metric tons. In that period the annual average gold price rose from \$161 to \$305. In 1980, the average gold price was \$612 (it peaked at \$850 in January).

Weinberg cited many other examples, but his conclusion, for the present, is that rising world production will not necessarily depress the gold price; and that secondly, the gold buying spree in the Far East — by countries like Japan, Taiwan, Hong Kong and Korea — will not be the deliverance of gold producers.

He said the reason for this was that gold is not a commodity. Although it does have some useful properties, the industrial demand for gold is relatively small. Electronic and other industrial applications only



● BARING

accounted for 180,8 metric tons of gold demand in 1987 (the most recent available statistic), out of a total supply of 2 008 tons. In other words it only took up 9% of supply.

There could be more than 100 000 tons of gold in circulation around the world; for as long as this is the case, gold will not behave like consumable goods, which usually become dearer as the immediately available supply decreases, and vice-versa, said Weinberg.

Nichols said the supply and demand outlook for gold was positive. He said there were indications that "dishoarding" by Western investors might have come to an end; that the Soviet Union and other centrally-planned economies would not increase gold sales; that the depressing effect of gold loans on the market had already been felt; and that forward sales were waning.

Determinants

Further good news, said Nichols, was that demand from the Far East would continue, if not increase. He concluded by saying: "In contrast to the popular view, the big surprise of the next year or two may be insufficient supplies of gold in the face of strong demand for this precious metal as investors shift from soft assets to hard, from stocks, bonds, and US dollars into gold."

Weinberg and Baring suggested that the gold price would be affected by an entirely different set of determinants, existing mostly in the minds of investors, which, Weinberg explained: "... all boil down to one thing in the end, and that is fear. Fear of inflation, or of currency turmoil, or of banking crisis, or of confiscation, or of war, or of a debt crisis, ... and so on".

SA could lose R2,5bn in forex because of gold

1/10/89 GRETA STEYN (79)

IF THE gold price remained around the \$380 level, SA could lose about R2,5bn in foreign exchange earnings this year, Reserve Bank Governor Gerhard de Kock said yesterday.

He said the sharp drop in the gold price and surging money supply growth were cause for concern.

"The combination of a lower gold price and the continued vigour of the upswing indicates a need for some adjustment of short-term stabilisation policy."

Asked whether that implied a shift towards a stricter monetary policy stance, De Kock said the Bank would not hold interest rates down artificially.

"We cannot base our policies on wishful thinking. Even though the gold price could improve tomorrow, we cannot continue with a wait-and-see policy for too long."

A lower gold price impacted on almost every SA economic variable.

On the money supply, he said the increase in M-3 was attributable to bank credit, and not to a strong rise in the reserves. He described the carry-over of the upswing into January as "quite remarkable".

● To Page 2 →

SA could lose R2,5bn because of gold

1/10/89
2/2/89 ← ● From Page 1 (79)

De Kock said: "There is evidence that big corporate borrowers made extensive use of their overdraft facilities last month. The economy is still strong, as is clear from surveys among businessmen. We know the economy will eventually slow down, but it is taking a long time and we cannot afford to sit and wait while bank credit rises at this rate."

However, he stuck to his view the economy had started levelling out as a result of earlier demand-restraining measures. Imports were falling in volume terms and had started to level off in rand terms. De Kock cautioned against making too much of January's drop in the trade surplus, saying the underlying trend on the current account was strong.

Consequently, the rand had not depreciated substantially in spite of the weaker gold price. The decline in the

value of the currency was a positive factor in that it would head off the danger of adverse leads and lags.

Although an adjustment in short-term stabilisation policy was obviously necessary, the Bank would assist the banking sector with repurchase agreements at the end of February.

"February is the biggest tax-paying month of the year and we will see a tremendous flow of funds from the private sector to government. The Bank will offer buy-backs to neutralise the seasonal shift in funds but will not keep interest rates down artificially."

Once the seasonal flow was reversed from government to the private sector in March, the Bank would cease offering buy-backs.

Share prices surge as confidence returns

Gold rebound breathes life into JSE marginals

REINIE BOOYSEN

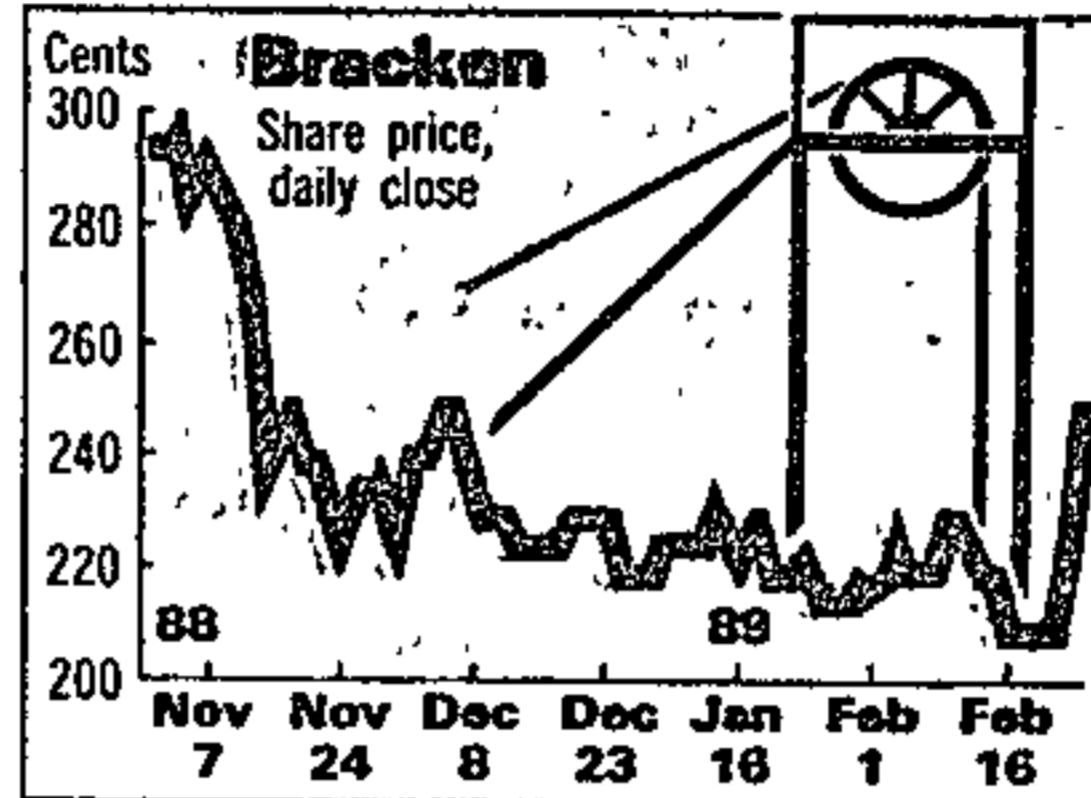
THE recovery of the gold price to the important psychological level of \$390 on world metal markets yesterday — it closed at \$391,00/\$391,50 an ounce in London last night — sparked off renewed interest in the so-called marginal gold mines on the JSE.

Marginal gold mines are those which have a small margin between their operating costs and operating profits.

They mostly have low grades of gold in their ore resulting in relatively high working costs in terms of gold production.

Working costs on SA gold mines have increased steadily in recent years, and this has necessitated concerted efforts by mine managers to control costs.

Nevertheless some mines have ended up in situations where small movements in the gold price, and the rand-dollar exchange rate can make all the difference between profit and loss.



Unlike many other industries, the SA gold-mining industry has very little control on the price of its product, and many decisions to construct or reopen disused mines were made when the price of gold was more favourable.

Yesterday 11 600 shares in five mines — Bracken, Lesley, Vlaktefontein, Witwatersrand Deep and Consolidated Modderfontein — changed hands on the JSE.

The share price rises were as follows:

Bracken by 25c or 11,1% to 225c; Cons Modder by 20c or 11,1% to 180c; Leslie by 25c or 10% to 250c; Vlaktefontein by 20c or 8,7% to 230c; and Wit Deep by 50c or 7,7% to 650c.

Besides Wit Deep, all these shares were last at 12-month highs in February or March last year, and they all touched 12-month lows in the last two weeks.

The fact that sentiment has improved markedly is evidenced by the interest in Consolidated Modderfontein, which is known to be suffering from dangerously tight cash-flow constraints.

There was also increased interest in an exploration company recently listed by JCI, Barnato Exploration. Its share price rose by 11% from 320c to 360c.

According to information contained in the most recently quarterly reports released by the mines, two of the above mines have working costs which are way above the current gold price: Bracken's working costs were \$400/ounce of gold produced during the December quarter, while Cons Modder's working costs are at \$464/ounce.

Between devil and deep blue sea

S/Times 26/2/89



OUR policymakers have entered one of these haunting spells when things tend to go wrong.

January's money supply continued to accelerate with M3 growing 28%, while inflation picked up strongly to 13.3%. In addition, the abysmal trade surplus of R535-million was a shocker.

It showed December's R1 260-million to be a fake. The true trend is once again down, the national cash flow is in jeopardy, and the foreign-currency reserves could be more seriously eroded in coming months.

There is real trouble on the current account side of the balance of payments — and potential problems face the capital account.

PINGER

It is one of these pincer movements that in war spells death. In the third quarter of last year, there was a major spurt in non-gold export volume. Fuelled by strong international growth and the depreciated rand, the export performance promised an easier time ahead.

Unfortunately, it did not last. The rand stabilised from August last year, but international growth this year looks likely to slow down, especially by the second half.

One counter to such gloom could be a bumper maize crop, of which up to 4-million tons worth \$400-million could be exported. But that will not fill the crevice that is opening up.

Gold is proving to be the weak link for the first time in four years. Gold was up and down in dollars, but that mattered little. Such gold price volatility has been mostly a reflection of the dollar's gyrations against key world currencies. Measured against traditional currencies such as the Swiss franc and the mark, gold has remained remarkably steady since 1985. Together with the lower oil price, it meant that our foreign trade account was not being unduly penalised by these price movements.

However, last week for the first time since 1979, gold fell through important price levels in non-dollar terms. This is serious.



The weaker gold price reflects a fundamental re-orientation, which is unlikely to be a temporary phenomenon. Gold's risk premium is eroding anew and by the looks of things is unlikely to be restored soon.

International consensus on any subject usually takes a long time coming. Events in recent months suggest that the financial markets worldwide have completed such an exercise. They love the determined behaviour of the key central banks in slowing world growth to stem any resurgent inflationary forces before they can get off the ground.

We therefore encounter the strange spectacle of rising interest rates and booming financial markets as investors endorse the policy stance. US growth is to be slowed to a non-inflationary level, the slowdown also having a positive effect on the trade deficit in the longer term by slowing import growth.

DERISION

The first inclination is to say that such a slowing may worsen the US Budget deficit. Apparently, the world does not take that proposition too seriously. For one, US unemployment is not expected to rise. For another, short-term US interest rates may be rising, but long-term rates on Government paper may have reached a cyclical high and may come off rapidly later in the year as American inflationary expectations fall sharply.

The Bush Budget proposals presented to Congress last month assumed much lower interest rates than those currently ruling. They were laughed off with derision, but that might have been premature. There might after all be a soft US landing, in which case its Govern-

ment spending does not have to be derailed.

The main negative which remains is on the revenue side where slower growth will cause reduced tax income. Overall, however, the deterioration may not be excessive, and the markets may continue to express their apparent enchantment with Bush's economics, no matter how disparaging the views of most analysts.

ARTIFICIAL

It is this climate that has given rise to a vote of no confidence in gold. Will it last? It appears that there is a serious risk that it will — at least for this year and even next year.

That would be too long for us to do nothing. There is no way of knowing by how much gold's international risk premium is likely to decline compared with the relatively steady level of the past four years.

But even a small erosion of 10% on average would imply an annual loss of foreign-currency earnings of up to \$1-billion. Add next year's additional foreign debt repayment of nearly as much, and a potentially serious situation could present itself.

Add to this real trouble the potential lurking on the capital account. The rand's stabilisation in the third quarter of last year aided a favourable reversal of leads and lags movements in our payments process, later on reinforced by the two-percentage-point interest-rate increase in November and the December change in forward cover policy.

However, rising foreign interest rates since then, coupled to a renewed bout of rand depreciation, could reverse the leads and lags

process once more. It would appear that from the beginning of February, the rand has once more been on the march.

It has been steadily depreciating on a trade-weighted basis since the beginning of this month, and after last week's gold price decline more is likely to come. The parallel with 1988 could not be closer: a time of artificial currency stability followed by a major depreciation.

All of this is most unsettling. But few of us can fathom how unsettling it must be for the authorities in the run-up to a general election, assuming that there still will be one soon.

BUDGET

A classic inclination would be not to assume the worst, and to do nothing hasty or premature. In other words, one continues to hope that the domestic economy will slow down of its own accord, pulling imports down with it, and that the gold-price decline will reverse shortly as international investors come to their senses.

However, with the Budget only three weeks away, the opportunity presents itself to apply the brakes by way of a large tax increase, presumably focusing on GST, allowing a real reduction in the Government's borrowing needs.

But that would not be enough on past performance. Money-supply growth remains too high, which is the macro-economic reason for supporting higher interest rates. Apart from such policy considerations, however, the money market is on the march because expectations have changed with a bang.

PRESSURE

Rising money-market rates, coupled to an endemically high shortage by themselves spelled higher interest rates.

The Australians, in a similar pickle as us but without the complicating factor of a general election ahead, raised their interest rates last week as international confidence crystallised. This week our Reserve Bank followed suit, raising the bank rate to 16%.

Our interest-rate cycle is entering its most exciting stage.

Has the gold share rocket taken off?

slow 3/3/89

791

Until last week the action and performance of shares on the JSE left gold shares largely untouched. Coals, De Beers, mining financials, the metals sector and institutional industrials had been the major beneficiaries of the bull market.

The fundamentals for gold shares could not have looked worse, with both the dollar and the rand gold price consistently diving to new lows.

Previously a weak dollar gold price had been balanced by a weak rand but this has not been the case this time round and the rand gold price has not been able to get above the important R1 000 mark to make the majority of mines viable.

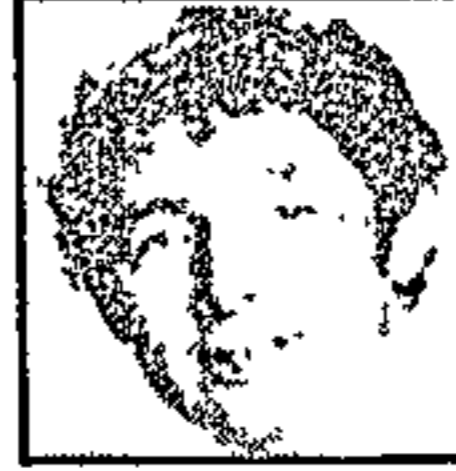
Suddenly in the past few days gold shares have come alive. Has the gold rush begun? On Friday February 17 the All Gold Index was 1291. Ten days later the index was up 14,1 points to 1 432 and all that was needed to trigger this rise was a small spurt of the gold price from \$380 to \$390.

First, the rise is part of a phenomenon that has been developing in the relationship between gold shares and the gold price for the past year, namely that the size of the gold price rise needed to send gold shares on a 80 to 100 point spurt is getting smaller and smaller.

Secondly, the All Gold Index has been

Diagonal Street

ISSY BACHER



holding up remarkably well; up to last week in a sideways channel between 1 290 and 1 400 regardless of the fact that bullion was sinking to and then falling below the \$400 mark.

A study of the two graphs illustrates both points. The top graph shows the declining gold price. Each rise of the gold price at point ABC & D resulted in a reflex climb of the gold index by approximately 80 points. This is seen at the exact same points on the lower graph but the rise needed to trigger the gold index climb diminishes from A to D, and what is more interesting, this has occurred as the gold price has fallen both in dollar and rand terms.

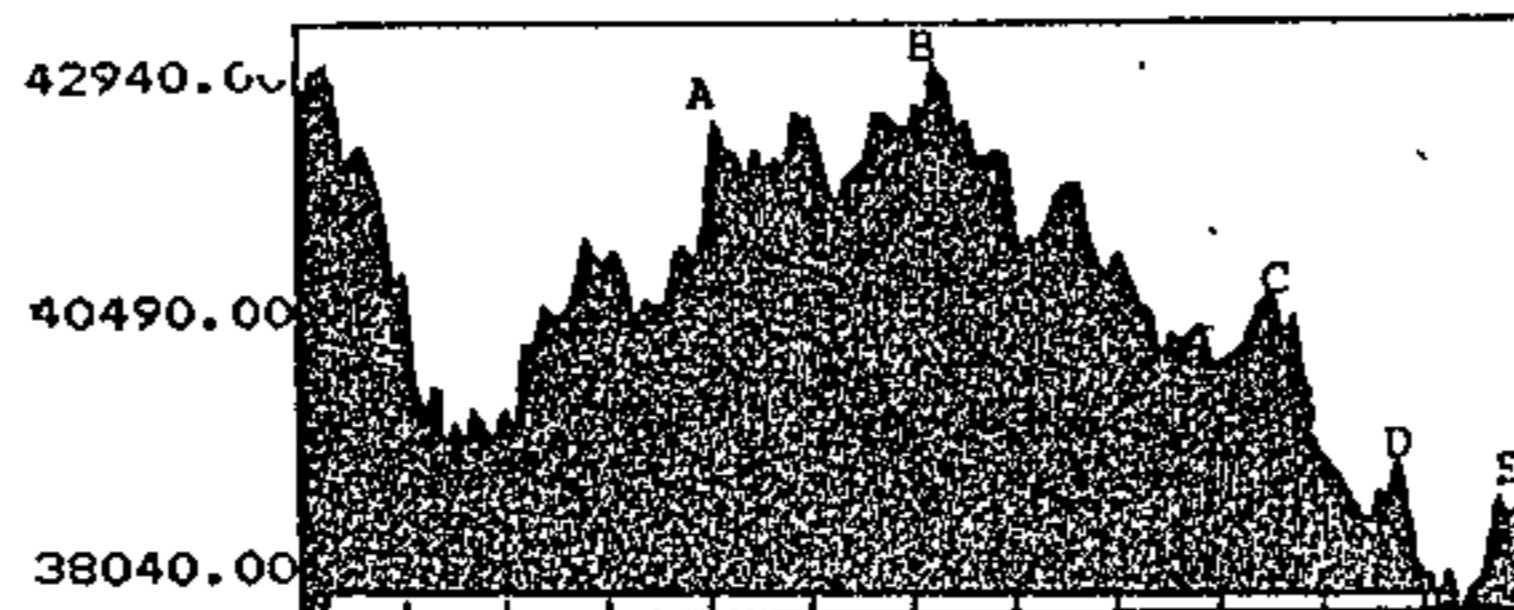
The most recent development is seen at E where the rise of bullion to \$390 has sent the All Gold Index soaring to a four months high of 1 432 and by doing so it has broken through strong resistance — which is significant. This development is exciting and holds explosive potential for the future. As the gold price falls the shares are being accumulated by the smart money and are going into strong hands. As soon as the gold price turns the scrip dries up and there are no sellers.

So the knee-jerk reaction to the gold price rise gets bigger and bigger. Until now the gold price rise has aborted just as it has appeared that the shares are going to blast off.

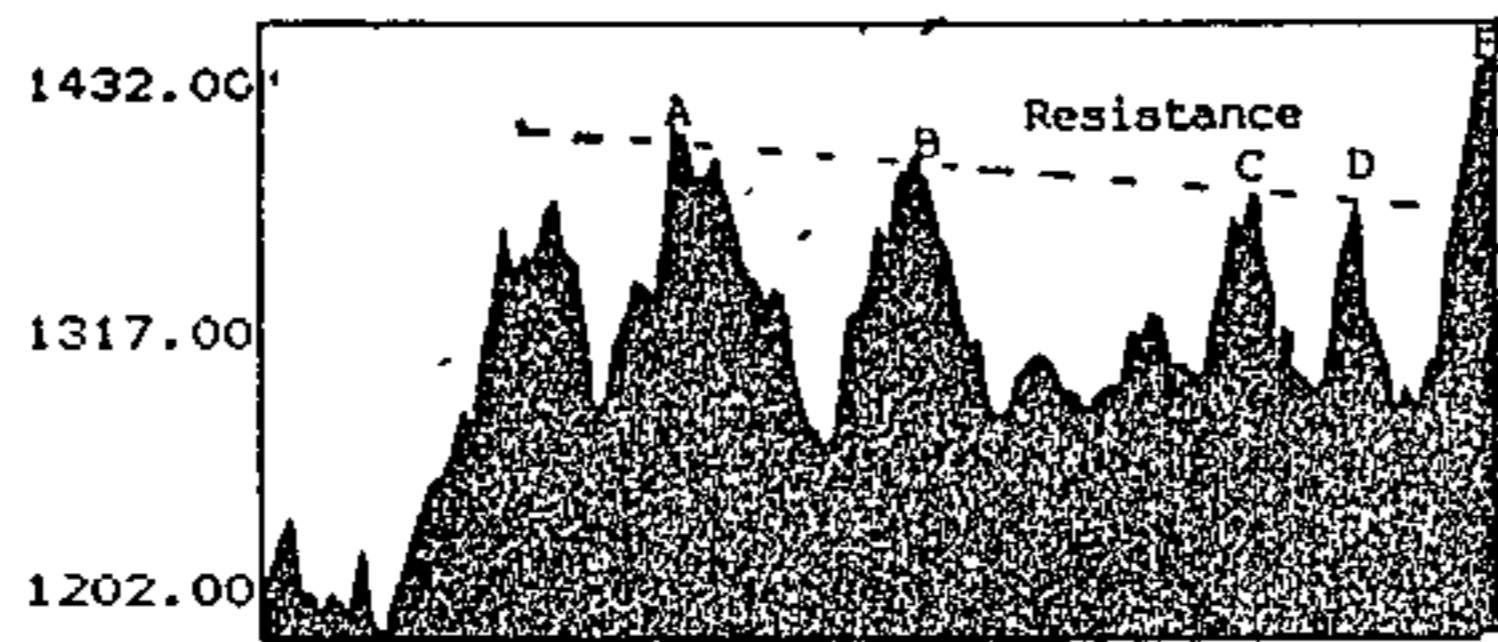
The present break-out of the All Gold index points to bullion breaking past \$400.

Failure to do so will abort the gold share rise.

It will be surprising indeed if the present strength of gold shares turns out to be false.



One-day prices for gold.



One-day prices for All Gold index.

Source: Fintel Graphics

Sats launches new bond

By Derek Tommey

SAW 7/27/87
Happiness in South Africa, someone once said, is a rising gold price. But sometimes the gold price goes down, as it has been doing for the past 14 months, creating considerable misery in some quarters and especially among holders of marginal gold shares.

However, South African Transport Services is now coming to the aid of these unhappy people with a scheme which lets them make money when the gold price is falling and could help transform some of that misery to joy.

Sats is offering to the public R200 million of financial instruments called goldfins which are linked to the gold price. It is offering R100 million worth of stock in what it terms Tranche 'A' — the bull tranche.

The redeemable value of this stock will rise and fall in line with the gold price. If the gold price doubles during the two-year period of the stock, the holder will make a 100 percent profit. Of course, if the gold price drops to zero, the holder will receive no repayment.

The 'A' stocks, which are being offered by tender, have a nominal value of R100 and carry a rate of interest of 11 percent. Sats is also offering R100 million worth of Tranche 'B' stock — the bear tranche.

The redeemable value of this stock varies inversely to the gold price. If the gold price goes down, its repayment value rises proportionately. If the gold price rises, the value of the 'B' stock declines. This is also being offered by tender, has a nominal value of R100 and carries a rate of interest of 19 percent.

Gillian Raine, economist at Frankel, Kruger, and Vinderine, said the goldfin bear tranche was aimed at the mining houses, as it allows them to cover themselves against a falling gold price.

Amgold income has fallen again

B/Dwy

6/3/89

79

REINIE BOOYSEN

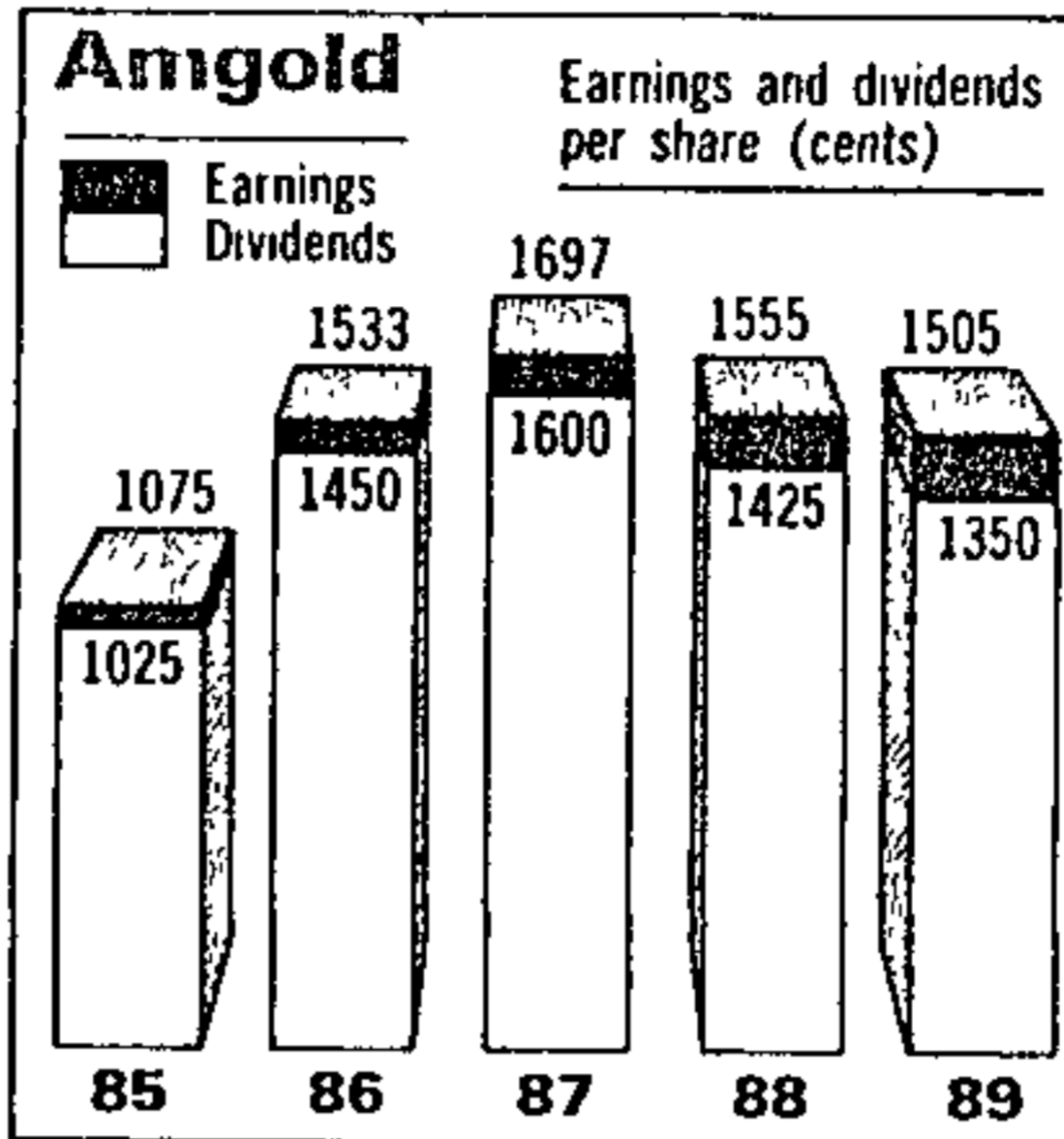
THE weak gold price and steadily rising working costs in the SA gold mining industry are the two major factors behind the decline in Anglo American Gold Corporation's (Amgold) taxed income to R330,3m (R341,3m) in the year to end-February 1989.

Earnings a share are down 3% to 1 505c (1 555c) and total dividend distribution is 5% lower at 1 350c (1 425c), after the declaration of a final dividend of 700c.

This is the second consecutive decline in Amgold's fortunes. Last year the company reported an 8% decline in earnings/share, to 1 555c (1 697c to February 1987), and an 11% decline in dividends/share, to 1 425c (1 600c).

Vaal Reefs — Amgold's largest investment which contributed R60m to investment income in the form of dividends in the 1989 financial year — is a good example of the general trend affecting Amgold's portfolio.

Although the average gold price received by Vaal Reefs during its financial



Graphic FROM KRISCH Source AMGOLD

year to end-December 1988 rose 10% to R31 876/kg (R28 968/kg), working costs rose by more — 11,4% — to R16 126/kg (R14 480/kg).

This mine managed to lift gold production and counter the squeeze on its profit margins, so it could maintain divi-

● To Page 2 →

Amgold records second drop in income

dend distribution at 1 900c/share.

Some of Anglo's investments — such as Elandsrand, Ofsil, Freegold, Welkom and Buffels — felt the squeeze more and declared lower dividends. The net effect was a decline in investment income to R352,4m (R355,9m).

A notable change in the income statement was prospecting expenditure, which rose R7,5m to R28,7m.

Amgold's investments, loans and mineral rights increased by R37,4m to

R396,6m and net current assets decreased by R3,4m to R22,2m.

Amgold's investments at market values and directors' valuations were R6,064bn, 19% higher than the previous year's R5,099bn.

Net asset value, after providing for dividends, stood at 27 979c/share (23 491c) at the end of February.

79

← ● From Page 1

0/Dwy 6/3/89

GRETA STEYN

RESERVE Bank gold and foreign exchange reserves held up well in February in spite of a sharp gold price drop.

Its assets and liabilities statement released yesterday shows gold and foreign assets rose by R117m to R5,1bn.

Governor Gerhard de Kock told a media briefing the performance had been satisfactory given the gold price decline.

"Some existing gold swaps had to be renegotiated at the lower price, resulting in an outflow of gold. Reserves increased in spite of this."

The statement shows gold holdings remained virtually unchanged in volume at 3,6-million ounces. In rand terms

Reserves of gold and forex hold up ⁷⁹₄₆

they rose by R50m to R3,2bn with gold valued at a higher rand price of R870,80/oz from R863,49 in January. The currency component of the reserves rose slightly to R1,78bn.

De Kock said short-term capital outflows were partially arrested towards the end of last year. *by Day 8/3/89*

"But the level of foreign reserves is still too low and must be rebuilt this year," he said.

Notes in circulation increased to R7,178bn from R7,151bn.

JSE marches on as rand retreats

W/Day 9/3/84

701

MERVYN HARRIS

LEADING shares continued to surge yesterday as a higher gold price and currency factors gave fresh impetus to the bull run on Diagonal Street.

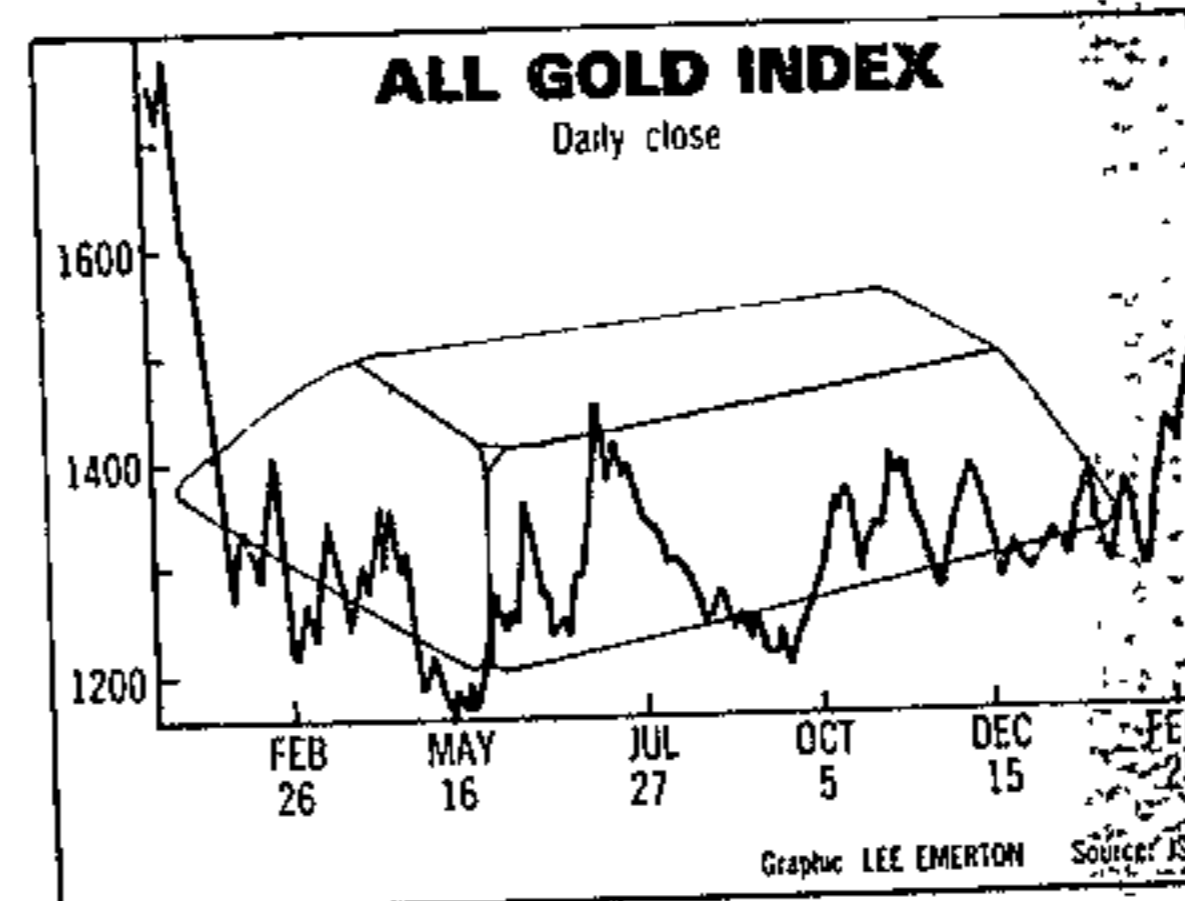
The gold price rally to a peak of \$396, its highest level since the end of January, came on technical buying, lifting the JSE all gold index almost 5% to 1 534 points.

The rally faltered as gold failed to breach resistance levels on the way to \$400, with a firmer dollar and weaker platinum prices putting the metal under pressure. It closed in London at \$393,50.

With the industrial index marching to higher ground on a 1,7% gain to 2 342 points and all other sectors strong, the JSE overall index ended 2,6% up at 2 420

Investor demand for quality scrip was shown by the rise in the value of shares traded, from almost R100m on Tuesday to R124,2m yesterday, while volume fell from 15,2-million to 13,3-million.

De Beers was again the focus of attention after its excellent results with dealers reporting heavy demand for rand-hedg stocks as the commercial rand



remained weak. The rand ended fractionally above Tuesday's 14-month lows on to close at R2,522 to the dollar.

Currency-linked stocks were further boosted by a sharp 6c depreciation in the financial rand to R4,1000 to the dollar, taking the currency past its low of R4,0800 reached four months ago.

Dealers noted more small investors making an appearance on the JSE but the market is still dominated by institutional buying of quality stocks.

RICHARD BARTLETT reports dealers attributed the finrand slump to local investors going offshore to buy stocks.

Monday 10/3/89

79

Gold price hinges on world inflation

LONDON — Gold prices this year would hinge on whether Western governments could keep a tight rein on inflation, a US broker said yesterday.

Shearson Lehman Hutton said the bullion price would not trade above \$450 for long unless inflation made a big impact on the world economy.

It said in an annual review of the gold industry: "The pivotal factor determining sentiment this year will be the ability of Western governments to keep inflation under control."

Gold was set in London yesterday morning at \$392.50 an ounce. A stronger dollar and surging stock markets have

attracted investors away from gold recently and the price briefly touched a 30-month low of \$377 last month.

An investment hedge when inflation is high, gold is now considered costly to hold, paying no interest in a time of rising rates. It has also been hit by an easing in political tensions.

Shearson expected gold to average about \$410 an ounce over 1989. It ended 1988 at precisely this price after holding generally in the \$400-\$460 range throughout the year. It nudged \$500 in late 1987.

A speculative shake-out might occur in the first six months of 1989 which

could push gold down to \$360, but the market would rebound.

Shearson forecast a surplus of gold in 1989 of 458 tons, up from 409 tons in 1988. But strong Asian investment demand and other factors made such figures less daunting.

The surplus reflected a 12% jump in Australian mine output as companies there maximised production before their profits were due to be taxed from 1991.

East bloc gold sales in 1988 were little changed from 1987 at around 300 tons.
— Sapa-Reuters.

...gold's return to Ruymuys on Wed...
...President Bona, a 10

Fire rips through gold mine, kills 10

CAM-Trip 11/3/89

JOHANNESBURG. — Ten miners were killed and 22 hurt when timber supports caught fire in the Anglo American Vaal Reefs gold mine and collapsed, a company spokesman said yesterday.

The collapse choked off the air supply to workers more than 2km underground, the spokesman said.

The accident happened 2 200m underground at 11pm on Thursday in a section occupied by 127 workers at the mine near Orkney.

The spokesman said the fire broke out on 73 level in an area where "a limited amount of timber support had been installed".

The 10 miners died of asphyxiation. Two of the injured men are in a serious condition.

According to the Chamber of Mines the accident was the worst since May 1 1988 when 10 workers were killed in an lift shaft accident at a mine near Harmony in the Free State. — Sapa

Investors go for gold as price nears \$400

CAM-Trip 11/3/89

By BRUCE WILLAN *79*

A JUMP in the gold price to \$397 sent investors scurrying for gold shares on the Johannesburg Stock Exchange yesterday as the metal seemed poised to test the \$400 level. The all gold index rocketed by 52 points to 1 591 after touching a high of 1 594.

Gold and mining financial shares reacted fast with JCI adding 700c to 67 500c and Anglos gaining 250c to 8 200c. De Beers, however, lost 100c to 5 725c.

But industrial shares were neglected as most of the hectic trading centred on the gold and mining boards.

The industrial index climbed a mere two points to 2 339 in dull trading after a week which has pushed the index and shares to record highs.

● Full report — Page 15

By Day 14/3/87

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Ailing gold price leaves SA in debt doldrums

LONDON — The fall in the gold price is weakening SA's ability to meet its foreign debt repayments, and a number of more marginal mines are already producing at a loss.

This was stated in a new survey of the gold industry by City analysts at S G Warburg Securities, who said a further fall of \$50 an ounce would render almost a quarter of SA's production unprofitable. In mid-February the price dipped to \$380 an ounce, its lowest in two years.

The spot price in London closed at the

Own Correspondent

weekend at \$393, but analysts see this as a temporary rally. Stockbroker James Capel sees \$320 as a likely low this year.

Warburg said 12 major South African producers were generating operating losses with gold prices below \$390 at the current rand exchange rates.

This group accounted for some 15% of current South African output. If the gold price were to fall by \$50, six other mines producing another 18% of the an-

nual total would be made vulnerable.

Although these marginal producers were facing a tight squeeze, no mine closures were imminent. Gold accounted for 40% of SA's annual exports, so government would not wish to see any reduction in its contribution to the balance of payments.

At \$400 an ounce, SA would expect to generate a surplus on its balance of payments of R4bn. A fall in the average price to \$380 would cut this by more than R1bn.

Analysts are less pessimistic on gold's prospects

CAPE TOWN — Pessimism is evaporating among gold experts, who expect the metal to trade close to the \$400 range in the coming months before gathering steam to a year-end level of \$450.

The poor environment for gold was brought about by strong anti-inflationary measures providing foreign investors with solid real returns on paper money, say gold analysts.

However, the strong growth being experienced by leading industrialised countries is drawing to a close, according to forecasters, as the negative as-

ARI JACOBSON

pects of restrictive monetary policies come to the fore.

An analyst for a leading broking firm says: "A thin line divides effective monetary policy from recessionary tactics which could lead US federal authorities down a cul-de-sac."

He adds that at the moment annualised inflation in the US is close to 5%, historically around the mark gold starts to react, as people get the jitters about ensuing inflation.

"There's no doubt the US is walking a

tightrope between freeing interest rates and inflationary fears"

John Bergthell, a base metal analyst for James Capel brokers in London, sees further restrictive monetary measures as a highly unlikely option considering the pressure it places on Third World countries' debt commitments.

"Enforced austerity measures have already rocked these countries to social breakpoint, activating social flair-ups from the streets of Venezuela to the copper mines of Peru," says Bergthell.

He says inflation will have a freer

rein in the coming months with the gold price in hot pursuit.

Personal Trust investment analyst Glenn Moore says the paper debt crisis in the US is going to lead investors back into gold.

"At the moment, there are remarkable tie-ups between the US economy today and that of the Great Depression years," he says.

Fergusson Bros director Ian Michler argues the present demand-supply situation could prejudice gold's standing with increased supply on the back of "overbought" futures markets.

Star 15/3/89

(79)

12 major gold producers 'unprofitable'

Star Bureau

LONDON — Almost a quarter of South Africa's entire gold production will be rendered unprofitable if the gold price falls another \$50 an ounce, according to a new survey of the industry.

The report by SG Warburg Securities says the fall in the gold price is weakening South Africa's ability to meet its foreign debt repayments.

"One of the first tangible signs of the effect of a weaker gold price in the South African industry has been the announcement in January by Gencor of production cutbacks and labour

retrenchments at its marginal mines," says the report.

"At gold prices of \$390 an ounce and at current exchange rates, it is estimated that 12 major South African gold producers are generating operating losses," it adds.

The spot price in London closed Monday at \$392.50 but a number of analysts see this as temporary. Stockbroker James Capel sees \$320 as a likely low this year.

The report says that, should the gold price drop a further \$50, another six mines would be vulnerable. This would mean a

total of 23 percent of production would be unprofitable

It says, however, that none of the major loss-making mines appears threatened with imminent closure.

"The alternative to closures and cutbacks would be for the South African Government to allow the rand to fall sharply against the US dollar to boost the mines' revenues to levels to which they can remain profitable

"While accepting that some weakening of the rand is inevitable to help South Africa's mineral exporters remain competi-

tive, the Government does not wish to see an acceleration of domestic inflation"

The report points out that gold accounts for 40 percent of South Africa's annual exports and the Government would be under pressure to "offset this possible decline in gold revenues by encouraging the industry to maximise gold production".

"At \$400 South Africa would expect to generate a balance of payments surplus of R4 billion, a fall in the average price to \$380 would cut the surplus by over R1 billion," it says.

World inflation should see gold back on track

SKW
17/3/89

79

By Neil Behrmann

LONDON — A strong dollar and high interest rates have clipped the gold rally, but the metal is expected to be supported by surging oil prices and accelerating world inflation.

The dollar rose sharply following an improvement in the US trade deficit, but after reaching a 1989 high against the Japanese yen, central bank intervention kept it within the agreed trading range.

Gold tended to follow the dollar and fell to \$391 from its Monday peak of \$396.

It ignored developments in the oil market where prices surged to their highest levels in nearly two years, mainly because of a sharp reduction in oil stocks in the US. North Sea Brent, the benchmark crude, hit a 15 months high of \$18.65 for April delivery. Other oil prices also hit new highs.

For the first time in ages, oil prices are now above Opec's official level of \$18 a barrel.

Some dealers are relatively happy with gold's performance.

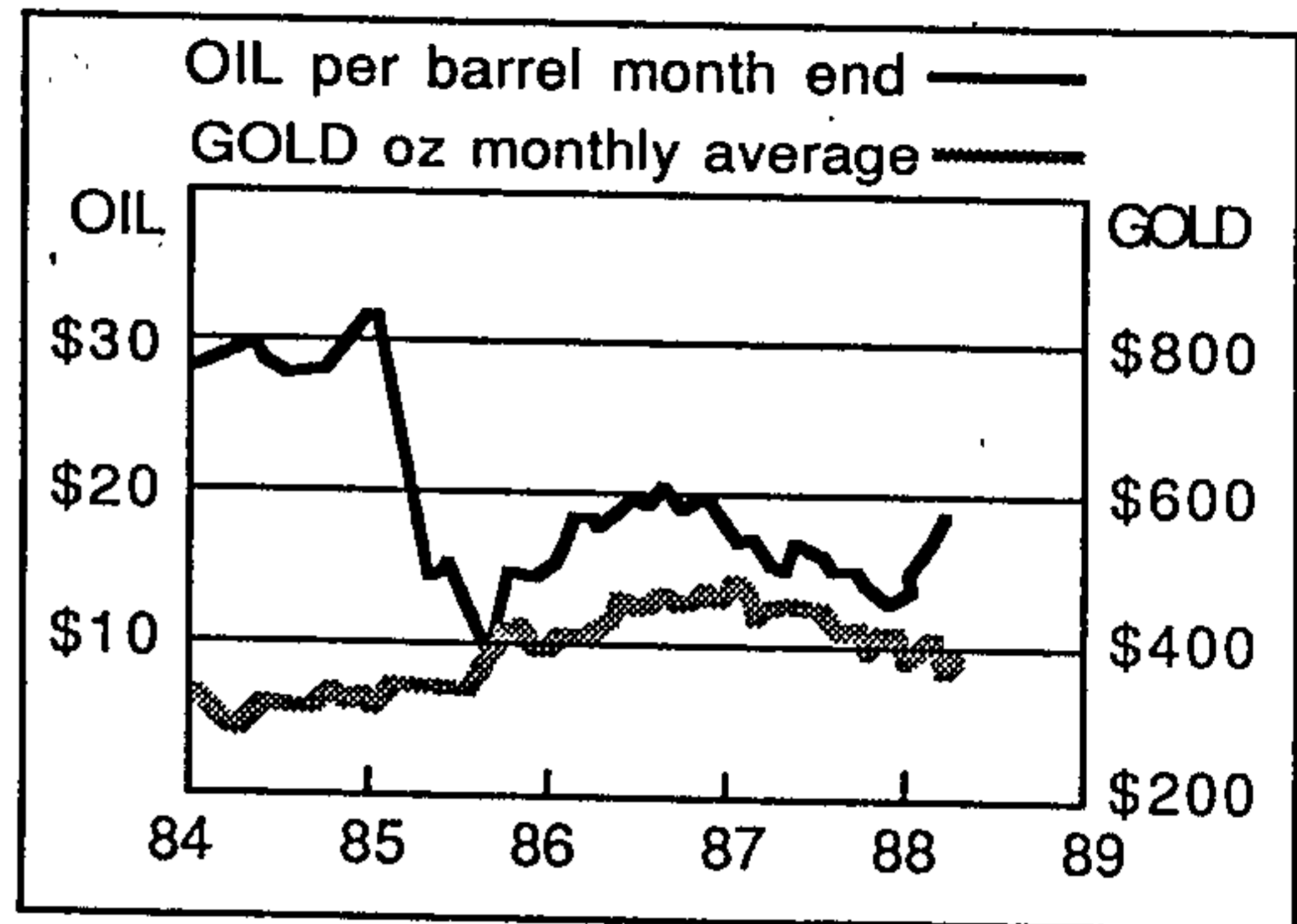
They say that there has been good demand from The Far East, Middle East and Europe. The Hong Kong price is standing at a premium of around \$5 over London.

On the other hand the firm dollar and higher interest rates are keeping a lid on gold which is stuck in a trading band of \$380 to \$400.

The big question is whether inflation will ultimately boost gold.

Oil prices have risen by 45 percent since the Oil Petroleum Exporting Countries agreed on production restraint in November.

In recent months prices received another boost when several key non-Opec countries said that they would cut output by 300 000 barrels a day, while the Soviet Union, the world's



biggest producer, said it would also be prepared to slash production by five percent.

Several oil traders such as Mr Peter Gignoux of Shearson Lehman Hutton contend that the rally will soon peter out. Particularly when the spring season gets under way in the Northern hemisphere.

But buoyant consumption has clearly taken oil dealers by surprise.

The Paris based International Energy Agency estimates that petroleum demand in the non-Communist world will rise by two percent or one million barrels a day to 51.2 million barrels.

Oil analysts at Kleinwort Benson Research say that the forecast "is on the conservative side."

The other inflationary problem could arise from the North American grain belt.

Unless there are good rains in the next few weeks about a quarter of Kansas's winter wheat crop will fail. The Kansas crop accounts

for one sixth of the US wheat harvest. Crops in other states like Illinois, Iowa, Missouri and Oklahoma are also vulnerable and with world wheat stocks at 15 year lows, international prices could soar.

It is difficult to see how high interest rates can counter commodity inflation without damaging business conditions.

Analysts contend that if interest rates slip and grain and food prices accelerate in frenetic US Commodity trading pits, precious metals prices, notably silver and gold, could recover from present depressed levels.

● South Africa's total gold output for February decreased by 3 603 ounces to 1,58 million ounces from January' output of 1,584 million ounces, the Chamber of Mines announced yesterday.

The January to February 1989 output of 3,164 million ounces, however, reflected an improvement on last year's 3,147 million ounces.

1428 change +163

AKG 2/3/89 (79)

Gold at \$394,25

GOLD traded at \$394,25 an ounce in London today against \$395,25 at the close in New York last night.

The rand traded at R2,5492 (\$0,3922) to the dollar today from yesterday's R2,5508 (\$0,3920) close.

The dollar drifted lower in quiet US trading yesterday after gaining ground overseas.

Currency traders said the dollar started out firmer following its rise in Europe and Asia but that internal market influences and fears of central-bank intervention depressed demand.

"The sentiment is still bullish, though, based on expectations of higher interest rates," said Earl Johnson, a trader at Harris Trust and Co. in Chicago.

The dollar rose against European currencies yesterday, though some traders said they believed it would not be allowed to rise much further.

Several foreign exchange traders in Frankfurt said they believed the West German central bank would intervene strongly if the dollar broke past 1,88 West German marks.

"I think the dollar's going to become much weaker very soon," said a trader at a large West German bank.

On the Commodity Exchange in New York, gold bullion for current delivery closed at \$396,10 an ounce, up from \$393,60 on Friday.

Silver prices were mixed. On New York's Comex, silver for current delivery finished at \$6,114, down from \$6,124 on Friday.

Amgold boss surveys gold's prospects

Business Day Reporter

THERE would be renewed appreciation of the advantages of investing in gold in a world beset by inflationary pressures and problems, Amgold chairman Julia Ogilvie Thompson predicted.

He said the decline in the gold price had to be seen against the broad backdrop of a firmer dollar, lower oil prices and relatively high real interest rates during 1988 and early 1989.

The pressure on the gold price underlined the pivotal role of investment demand. Central banks had been net buyers of gold in recent years, but between 200 and 400 tons, representing at most 20% of total supply, remained to be absorbed by private investors.

In 1987, investors bought additional supplies of bullion, but in 1988 willingness to do so declined as the net supply surplus was supplemented further by the growing resort to gold loans.

Ogilvie Thompson said it was fortunate the physical demand for gold in Japan and Far Eastern countries had been vigorous.

Sombre

This had been especially prominent in Taiwan where the central bank had been a major buyer until July, when US pressure forced it to curtail purchases. This development accounted in part for the greater difficulties experienced in an over-supplied market since then.

Those convinced the outlook for the gold price was sombre could point to rising production and a further resort to gold loans in a climate of relatively subdued inflation and growing detente internationally. However, banks were reported to be re-assessing the risks attendant on these loans and this might limit their availability in the future.

Ogilvie Thompson said a sober evaluation of prospects for 1989 pointed to a larger residual surplus to be taken up by investors at a time when real interest rates would inevitably remain relatively high.

The vulnerability of the gold price in these circumstances could not be denied. Nor could the relative cheapness of the metal always be regarded as an advantage when investor motivation had been impaired.

Amgold

bullish

Skw 28/3/89
on gold

price 

International inflationary pressures and other problems will, in time, result in a renewed appreciation of the advantages of investment in gold, says Anglo American Gold Investment Company (Amgold) chairman Julian Ogilvie-Thompson in his annual review.

Mr Ogilvie-Thompson says that the decline in the gold price has to be seen against the broad backdrop of a firmer dollar, lower oil prices and relatively high real interest rates during 1988 and early 1989.

He points out too that while investors bought additional supplies of bullion in 1987, their willingness to do so in 1988 declined as the net supply surplus was supplemented further by the growing resort to gold loans.

It was therefore fortunate that the physical demand for gold in the Far East displayed extraordinary vigour which helped to absorb massive Western dishoarding and a large proportion of new production.

PROSPECTS

The prospects for 1989 indicate a larger residual surplus which will have to be taken up by investors at a time when real interest rates will inevitably remain relatively high, Mr Ogilvie-Thompson says.

"The vulnerability of the gold price in these circumstances cannot be denied."

However, it is possible that Western investors have reduced their gold holdings below prudent limits.

Discussing gold exploration activities, Mr Ogilvie-Thompson says that drilling to the north of Buffelsfontein's Beatrix mine, as well as in the Potchefstroom Gap and Evander and Pietersburg goldfields are encouraging.

He adds that Amgold is also participating in gold exploration programmes in Southern Europe, where a number of interesting prospects have been delineated. Exploration will continue during the year.

He stresses that in the present state of the gold market urgent attention must be given to containing costs and improving productivity to ensure long-term viability of the industry in South Africa.

"With costs continuing to escalate, the consequences for profitability and for the position of a growing number of marginal mines are serious and call for a sharp focus on appropriate policies at both industry and national level," Mr Ogilvie-Thompson says. — Sapa.

Fears as gold price plunges

1/16/68
29/3/69

By TREVOR WALKER
Business Staff

79

THE price of gold plunged close to \$380 an ounce today, placing in jeopardy all the Budget projections of Finance Minister Mr Barend du Plessis and any hopes that the present interest-rate spiral would slacken in the months ahead.

A gold price of \$380 is bad news for the economy. Pressures are mounting for yet another increase in the bank rate, which in turn would fuel further increases in the prime overdraft rate and the whole interest-rate pattern of lending rates, which would include even higher mortgage rates for home-owners.

PRESSURE

Associated Chamber of Commerce economist Mr Bill Lacey said: "It will depend on whether the fall persists. If it does, then it will put pressure on our foreign exchange reserves, interest rates and business confidence in general."

The \$15 fall in the gold price since Mr du Plessis' Budget speech on March 15 has serious implications for the economy and the only immediate and beneficial response will be a quick and profitable increase in exports.

Gold plunges \$7 in face of ⁷⁹ strong dollar ^{Stev 29/1/89}

Finance Staff

The gold price fell by over \$7 yesterday, as the dollar climbed to a seven-month high in Europe, defying concerted Western central bank intervention to curb its strength.

Bullion, often held by speculators as an alternative to dollars, slipped on the dollar's strength. Lower prices for crude oil in New York also helped to drive the price down.

Gold fell to \$387,75 in London yesterday, compared with Thursday's close of \$394,90.

In New York overnight the metal dropped from \$390,25 to \$382,50, while in Hong Kong this morning the metal opened \$6,60 lower at \$384,65.

Most of the metal's losses came in late trading in London, as the dollar recovered from its earlier retreat to around D-mark 1,8810 and 132,50 yen, after the wave of central bank dollar selling in the middle of Europe's afternoon. The dollar closed at Dm 1,8925 and 133,05 yen.

In Tokyo this morning the dollar, which opened at 133.50 yen, up 0,60 yen from Tuesday's 132,90 yen finish, inched down to end the morning session at 133,22 yen.

Sapa-Reuter reports that dealers had expected European central banks to act following intervention on Monday from the US Federal Reserve on US currency markets which were open while Europe was mostly closed for the last day of a long Easter holiday weekend.

West Germany's Bundesbank and the US Federal Reserve sold dollars to try to stabilise currency markets ahead of a semi-annual meeting of the International Monetary Fund later this week in Washington. The collective intervention of the central banks amounted to around \$500 million.

An analyst noted that the central banks were quick to confirm their interventions, indicating that they wanted everyone to know they were acting in unity.

But dealers said the intervention, which took place above Dm 1,88, was too modest to have much impact on the dollar which is being supported by higher US interest rates that make it attractive to investors.

Low gold price forces curtailment of Fregold capex

ANGLO has announced the curtailment of further capital expenditure in the Erfdeel area of its Free State Consolidated Gold (Fregold) Saaiplaas mine, east of Welkom.

Anglo says the present weak rand gold price and escalating costs have rendered further development uneconomic at present.

ANDREW BUDDEN

Work on the Saaiplaas No 5 (Duiker) shaft is to be discontinued once sinking to planned depth is complete in April or May this year, although existing surface infrastruc-

ture contracts will be completed.

At the same time, capex necessary to exploit the Du Preez Leger and Jonkersrust farms south of President Brand mine has been suspended. Fregold and Freddev have not acquired mining rights on these farms, the announcement said.

is/Dany 2/3/84

79

Gold's fall exposes economic weakness

Star 30/3/89

79

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Nothing exposes the vulnerable state of South Africa's economy as much as a sharp overnight drop in the gold price. In two consecutive trading days this week gold shed about \$14 an ounce due, primarily to the sharp rise in the US dollar as a result of a drop in the crude oil price.

Further drops in the gold price, which cannot be entirely ruled out in the face of further rises in US interest rates, would create a major problem for both the local gold mining industry and the country's monetary authorities.

The rand, once a proud currency in international foreign exchange markets, will almost certainly bear the brunt of a sustained decline in the gold price.

The relentless rise in gold mining costs, in part fuelled by the country's high and rising domestic inflation rate, has pushed up the pay limits (the minimum value at which ore can be mined and treated without profit or loss) and a number of local gold mines are now regarded as marginal producers.

Based on the quarterly reports to end-December 1988 some 7,7 percent of South Africa's gold production is currently being produced at a loss while up to 17,6 percent is being produced on a very marginal basis.

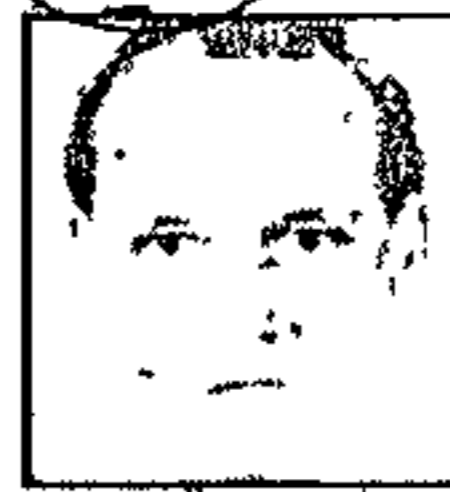
Gold mines producing at a loss (based on end-December 1988 figures are East Rand Property Mines, South Roodepoort, South East Rand Gold Mining Co., Cengold, West Rand Cons Mines, Western Areas, Durban Deep, Rand Leases and Modderfontein, Venters and Bracken (if capital expenditure is included).

According to Mike Brown, economist at Davis, Borkum and Hare, the 'crunch' emerges when large producers such as Harmony, Doornfontein, Loraine etc. reach the non-profitable stage — which is very close, based on the current rand-revenue compared with the working costs.

The implications on the labour front, in particular, are very serious. Last week marginal producer Grootvlei announced the lay-off of more than 1 500

Diagonal Street

MAGNUS HEYSTEK



workers, mainly black, due to falling profitability at the mine.

In the absence of any upsurge in the US dollar price of gold, the rand will have to take the strain. This year the fall in the rand has gone largely unnoticed due to the change in the way it is quoted, declining by more than 7 percent since the beginning of the year.

While this eventuality will, no doubt boost gold mining profits, it will add further to the inflationary spiral already entrenched in the economy.

That a further drop in the rand is already anticipated by local investors can be inferred from the behaviour of local gold shares vis a vis the financial rand.

The fall in the financial rand rate during the last three weeks, during which the JSE All Gold Index moved up sharply, indicates that the buying of gold shares was done by local investors, not overseas ones.

Other gold markets have not responded in a similar fashion, which indicates that a further, and perhaps sharp drop in the rand exchange rate is likely.

There are good reasons for believing that the commercial rand will fall from its present levels of around R2,57 to the US dollar (38,9 US cents). The SA economy is fundamentally not in great shape with the very fragile surplus on the current account on the balance of payments causing great concern in investment and government circles.

Already there is talk that additional restrictive measures might be introduced to cool down the reluctant economy further.

Gold can still bounce back

Star 31/3/87 (79)

LONDON — The price of gold could bounce back strongly from the current level of under \$390 but is unlikely to move above \$450 in the years to 1992, according to a study published today by the *Economist Intelligence Unit*.

It suggests bearish influences, reinforced by major forward sales by Australian and North American producers, will only temporarily overwhelm very robust demand for gold but could take the price down to between \$350 and \$300.

The study implies that today's sell-off of gold in the face of strong demand is analogous to the one which occurred in the mid-1970's.

Once that had run its course, prices rose strongly in response to the fundamentals. On this occasion too, the study argues, gold's price weakness reflects a widespread misreading of fundamentals which will reassert themselves to carry the price upwards again.

The study suggests that at prices below \$450 there should be a quick response from the jewellery industry, which is likely to absorb an extra 100 tons of gold for every \$50 fall in the price.

Below \$350 mine output would also be seriously affected. At a price of about \$325 the market in 1992 would balance without the need for any private investment offtake at all.

Only once in the past nine years, in 1981, has investment demand been

close to nil. If this is considered unlikely to happen again in the years to 1992, then it is equally unlikely that the floor of \$325 or so will be tested, the EIU points out.

The study argues that, a gold price near the 1987 average of \$446, is likely to lift mine production in the non-communist world to nearly 1 700 tons in 1992 compared with 1 373 tons in 1987.

This would represent an average annual increase from 1987 of 4.3 percent against 5.5 percent between 1982 and 1987. That prediction assumes that the recent decline in South African production will be moderated but not reversed and that the easy gains in gold production in Australia and North America have already been made.

The EIU believes total gold supply, including communist country sales and scrap generation, would rise rather more slowly than mine output but at 2 540 tonnes in 1992 would be more than 460 tons higher than in 1987.

On the demand side, the EIU study suggests that, at a price close to \$450, fabrication (mainly jewellery) demand and official purchases would together account for an extra 345 tons a year by 1992.

That implies a four percent annual average growth in fabrication demand, largely due to a 4.8 percent increase in offtake for gold jewellery. — *Financial Times*

Gold 'could fall to \$350 an ounce in short term'

CAPL Times
4/4/89 (79)

By AUDREY D'ANGELO
Financial Editor

THE rand could be worth R3 to the \$1 by the end of this year, and gold could fall to \$350 an ounce, Santam Insurance economist Roy Justus forecasts in his quarterly report.

Stressing the importance of savings to generate badly needed capital for economic growth, Justus says that the majority of the population now only have enough money for the purchase of essentials such as food.

Wealthy

He calls for incentives that will encourage the better-off to save, with a real rate of return.

"The country as a whole has to make more effective use of its capital and top priority should be given to encouraging individuals to save.

"The current ratio of personal saving to personal disposable income is far too low and in sharp contrast with the

economies of the rising nations in the Far East where savings are four or five times higher than in SA.

"In SA we need a savings ratio of at least 6% to 7% of disposable income to ensure some measure of real growth.

"Even the 4,5% or 5% savings ratio which was achieved in the first half of the 1980's would be more acceptable than the present situation."

Stressing that the prevailing mental attitude of spending instead of saving would have to be changed, Justus agreed that the only people who could spend less and save instead were those who could afford semi-luxury items.

"It is imperative that we persuade the relatively wealthy with discretionary disposable incomes to accept a realistic standard of living and save more. Incentives must be introduced to encourage these people to save.

"These could include tax-free incentives—not the old post office and

building society system which is falling away, but something superior. A way must also be found whereby the investor is assured of a real rate of return."

At present, with the inflation rate expected to reach 15% or more and tax at a marginal rate of 45% it was difficult to achieve an after-tax real rate of return from savings.

There had already been a move towards freeing the capital market with the announcement in the Budget speech that the need for financial institutions to hold prescribed assets was to be abolished.

Uncertain

There was, however, still considerable confusion regarding this since, subsequent to the Budget speech, the deputy registrar of financial institutions, Piet Badenhorst, issued a statement which implied that there would still be some form of control over the investment of funds by cer-

tain types of institutions.

"Uncertainty again inhibits decision-making all round."

Discussing the exchange rate and the gold price, Justus said the rand was likely to fall further.

Drifting

He expected the gold price to drift for several months, possibly falling to \$350 an ounce. "But I am optimistic in the longer term since the inflationary pressures throughout the world are still there. Within 18 months there could be a clear and definite swing around in the gold price."

However, he advised investors to look at mining houses or unit trusts rather than make direct investments in mines, and to make any such investments on a regular basis over a period of time rather than one lump sum investment.

On the share market, he urged caution "since prices are high."

Gold reserves hold steady at R5,1bn

B-Day 10/4/89

KAY TURVEY

RESERVE Bank gold and foreign exchange reserves for March held steady at R5,1bn, relatively unchanged from February.

Physical gold holdings rose significantly to 4,1-million ounces last month, from 3,64-million ounces in February, as banks and other institutions took advantage of the Bank's offer to buy Kruggerrands for cash on one-year repurchase contracts.

Market sources believed that, by means of this stratagem, the Bank acquired about 500-million coins, equivalent to 500 ounces of gold.

However, this figure could be an underestimate because the Bank's gold holdings increased to 4,10-million ounces from February's 3,64-million ounces after it probably disposed of some gold to top up the "collateral" provided for previous gold swaps. This was necessitated by the drop in the dollar price of the metal.

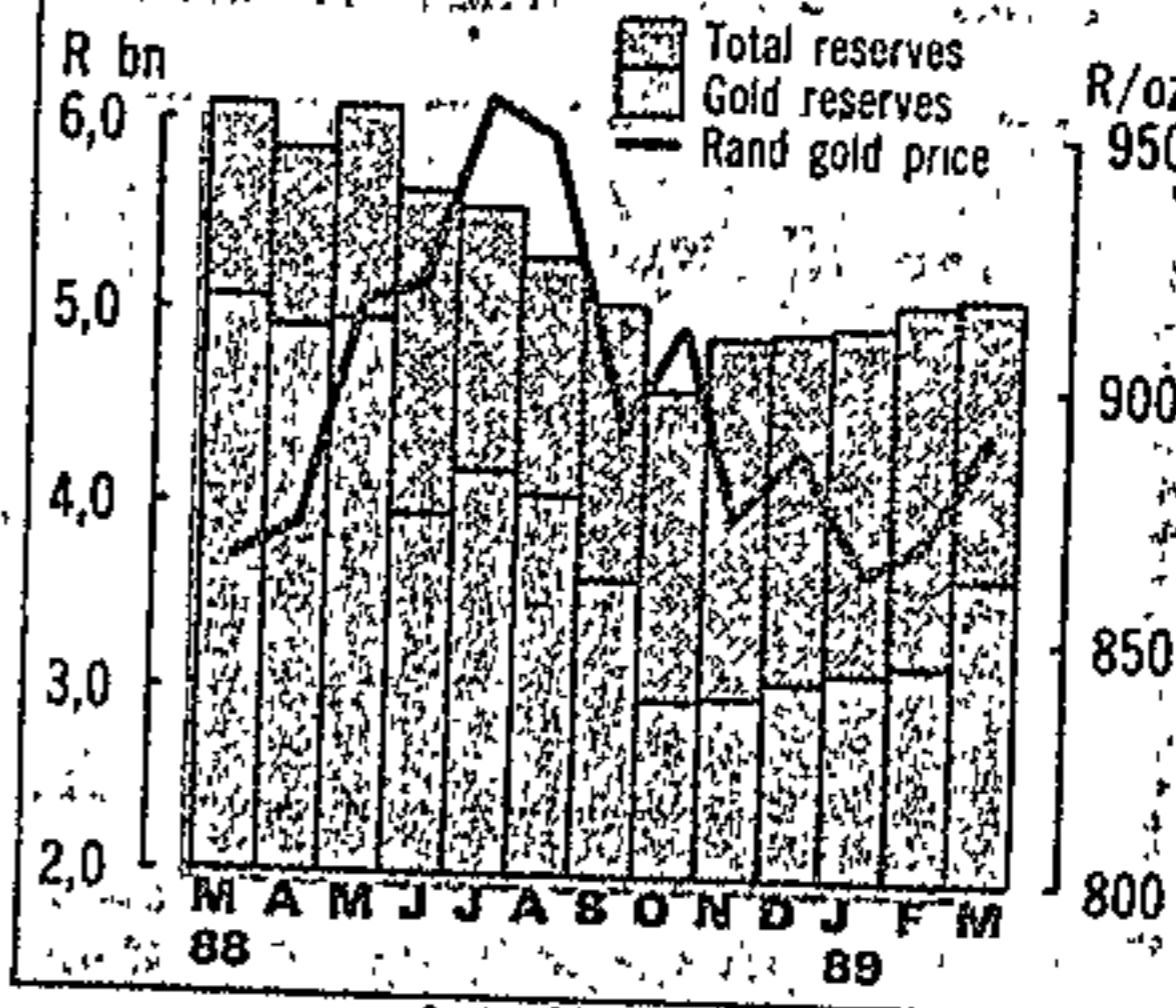
In rand terms, gold holdings climbed R500m to R3,7m with gold valued at a higher rand price of R892,36, compared with the valuation price of R870,80 in February.

The Bank's holdings of foreign currencies declined to R1,45bn from R1,78bn.

The gold component of the reserves is now 71%, having hovered around the 60% level since October last year.

The monetisation of the Kruggerrands

Gold and forex reserves



Graphic: FIONA KRUSCH Source: SA RESERVE BANK

could have been partly responsible for the sharp fall to R1,76bn from R2,68bn in bills discounted.

Trust Bank economist Ulrich Joubert said the state of the reserves was cause for concern as the underlying trade figures were disappointing and a better export performance was necessary to relieve pressure on the balance of payments.

He said domestic economic policy would still have to be carefully handled.

UAL economist Dennis Dykes said the purchase of Kruggerrands was of only temporary assistance as capital outflows continued to exceed trade income.

Gold hovering above \$380

CAPE TOWN 11/4/89
THE All Gold share index dropped another 28 points to 1528 yesterday on the Johannesburg Stock Exchange as gold hovered above the \$380 level.

Gold was fixed in London yesterday afternoon at \$381,50, down slightly from Friday's close of \$382,25.

Following Friday's trend, gold shares dropped with little or no interest being shown in the mar-

ket, said dealers. Consgold shares lost 560c and Minorco 100c after the announcement of the increased offer by Minorco to £15,50 for Consgold which dealers feared would not be accepted.

The Industrial Index closed 20 points lower in sympathy with the gold market and the Overall Index lost 24 points.

● Full report on page 10

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Lower gold price seen as no more than hiccup

The Star Bureau

LONDON — The weakness in the gold price last year and so far this year is not the beginning of a major cyclical downturn, says Goldman Sachs, the securities group.

It is an interruption in the rally that began in 1985 which should be expected to resume with vigour in the next few years," the firm says in its annual review of the gold market.

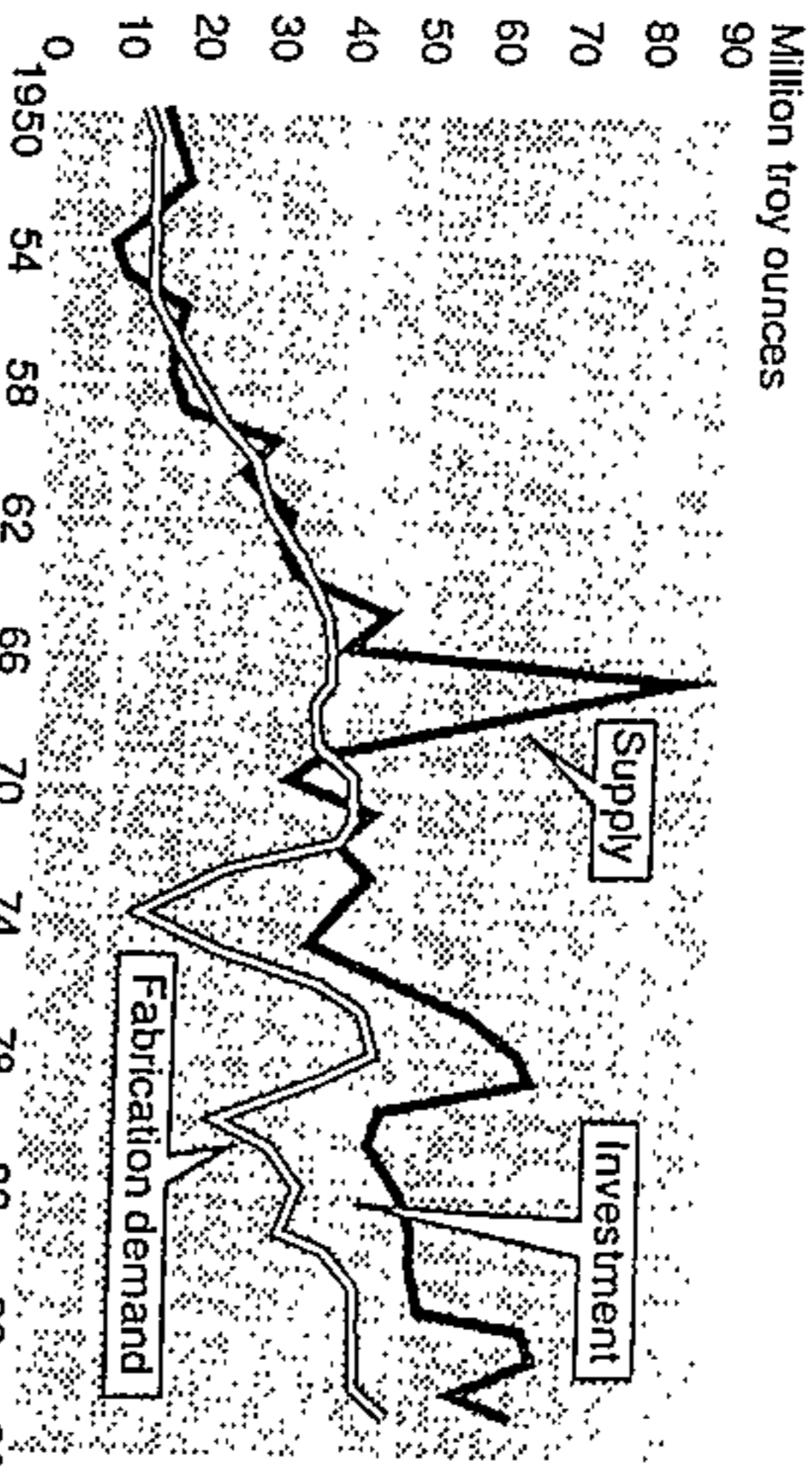
It says investor disenchantment with gold is behind the weakness, compounded by a fall in central-bank gold-buying, which supported the price last year in the absence of strong investor demand.

These factors could take the price down as far as \$335 to \$355 this year.

The annual average price might decline by 10 to 15 percent from the 1988 level to \$370 to \$395.

On an annual average basis, gold prices fell by 2.4 percent in 1988 to \$437 from \$447 in 1987.

The review says that total



Fabrication demand for gold has fallen behind supply in recent years, which means that investment demand has had to take up the difference.

gold supply was stable last year at 64 million ounces.

A 13 percent increase in mine production outside South Africa was offset by a decrease in secondary recovery.

Christian, Podleska, and van Musschenbroek (CPM), the precious metals research and consulting group, which produced the report and are Goldman Sachs' commodity market consultants, suggest total gold sup-

ply this year will rise by 5.5 percent to a record 67.5 million ounces.

The main propellant will be a 15 percent rise in non-South African production to 27.5 million ounces.

Mine production in South Africa is expected to rise slightly: two percent to 19.5 million ounces.

Fabrication demand for gold rose about 4.2 percent in 1988 to

45 million ounces, probably a record, according to the review. A further 6.8 percent increase to 48.1 million ounces is projected for this year.

CPM points out that the factors which stimulate investment demand have not been vanquished — inflationary pressures and expectations, higher interest rates, volatile currency markets, financial market and economic uncertainties.

These "have been postponed by the elongation of the world economic expansion, but should reappear in the next few years".

However, a rebound should not be expected until inflation and interest rates increase sufficiently to threaten US expansion, the review suggests.

It goes on to contest the idea that gold prices no longer react to political events.

"The fact is that gold prices have always been, and remain, sensitive to the political events that hold the potential of inflicting harm on gold investors, miners and others in the gold market."

ConsGold shares drop 58p

From IAN HOBBS

LONDON. — Minorco's epic £3.5bn bid for Consolidated Gold Fields (ConsGold) was left in legal suspense last night and in danger of being scuppered by the US Federal District Court in New York.

ConsGold shares dropped 58p to 1290p at the close in London yesterday after Federal Judge Michael Mukasey had refused Minorco's submissions in the court on Monday night to lift an injunction against the takeover.

Judge Mukasey last night again rejected Minorco's appeals for the injunction, which prevents them from owning more ConsGold shares, to be lifted or amended forthwith; and ConsGold shares are likely to fall further today.

In New York yesterday Minorco urgently renewed its submission but Judge Mukasey left the ConsGold injunction in place and postponed the hearings to Monday afternoon (April 24) — just two days before the April 26 expiry date for the bid.

ConsGold was delighted with the outcome with spokesmen hoping it would influence its shareholders to reject the Minorco bid in what seems certain to be a fight to the last moment of the most bitter takeover battle in years.

Gold seen to rise above \$400

9116 7m13 79
19/4/89

Financial Editor

THE gold price is likely to be above \$400 an ounce for most of this year, as a result of rising world inflation and lower real interest rates overseas, Southern Life economist Mike Daly predicted yesterday.

Presenting his April Economic Review, Daly said that although overseas perceptions of SA were improving he thought it unlikely that there would be any lightening in the load of foreign debt repayments and that this would make 1990 a tough year.

He warned that if gold fell while spending carried on at its present levels drastic action would have to be taken after the election.

"Things are looking very like a repeat of the 1984 miniboom."

But, commenting on the improved outlook for the balance of payments, Daly said that non-gold export prices were rising. The outlook was good for commodity prices.

And even if these came down SA commodity exporters would be cushioned because they had entered into long-term contracts at favourable prices.

The manufacturing industry was working overtime and had become more export-orientated.

In the review, Daly said optimism among manufacturers was high and was reflected in a commitment to raise output by way of increased investment in fixed plant and equipment.

The sector was positioning itself for "what it sees as a solid year for aggregate demand growth and import-replacement and export opportunities".

Inventories would probably be built up again "at least in the first half of the year, since absolute levels of stocks are unlikely to be seen as too high as yet."

"This should help to keep a fairly strong momentum in economic growth intact in the first half of 1989."

It was likely that the projected 1% growth in real gross domestic expenditure (GDE) this year would mean a decline of only 3% in import volumes.

Imports currently remained at unaffordable levels relative to gold and foreign exchange reserves.

Daly said inflation would move gradually higher in the year, mainly due to imported prices where it had already breached the 14% level.

International gold glut beginning to diminish

Star 24/4/89

By Neil Behrmann
TOKYO — The glut of gold is diminishing, say Japanese dealers.

Depressed prices are discouraging producers from selling and physical supplies of the metal have dwindled over the past month.

Gold supplies surged last year because of rising output, bullion borrowings dumped on the spot market and large-scale forward sales.

Precious metals executives of Sumitomo, however, say the trend is changing.

Australian producers, the most active in the forward markets, are estimated to have sold about one year's production, either through gold loans or forward transactions.

Mining companies

Some mining companies around the world have sold up to three years' production forward.

Since supplies are falling and demand is buoyant in Japan and the rest of the Far East, the gold price is beginning to bottom out, say Japanese dealers.

Statistics back this analysis.

Last year, total supplies, including Western production, communist bloc sales and scrap totalled 2 100 tons, according to Eastern and Western estimates.

Industrial and jewellery fabrication demand was 1 600 tons. Coin sales were 100 tons and central bank purchases, mainly from Taiwan, totalled 225 tons.

This left only 125 tons for investment and hoarding, so the market was virtually in balance.

But long-term forward sales and gold borrowings by producers effectively raised supplies by an estimated 400 tons.

So investors had to absorb a much higher surplus last year. With world interest rates high and the dollar firmer, it is hardly surprising that gold has been weak.

In recent weeks, however, producers have borrowed less gold and have refrained from selling on the market at low prices.

The result is that supplies are lower.

Although Western and Japanese investors are tending to ignore gold, jewellery demand at 1 350 tons last year is the highest figure for 30 years, said Tim Green, a consultant to Consgold at a recent conference.

Last year, Far Eastern demand at 1 300 tons accounted for over 60 percent of 1988 world supplies.

Hong Kong's net imports soared 192 percent to 460 tons, Japan imported about 300 tons, Taiwan 220 tons, Singapore 190 and India 157 tons.

In general, Far Eastern demand remains strong this year.

The economies of Japan, Hong Kong, Taiwan and Thailand are still booming and official restrictions on gold have been lifted in India.

Even though Taiwan's central bank has refrained from buying this year, private sector imports

are running at an annual rate of 200 tons.

Japan is still buying at an annual rate of 300 tons and jewellery purchases from the rest of South East Asia continue at a rapid pace.

From time to time, Hong Kong's internal price is at a premium to international prices. Considering that Hong Kong is now a major force in the world jewellery industry, this is hardly surprising.

Hoarders are active in the Far and Middle East, now that oil prices are rising and inflation is accelerating.

Sumitomo and other Japanese gold firms are reluctant to make short-term forecasts.

Regardless of Far Eastern demand, gold could still come under pressure, they warn.

If the dollar suddenly breaks into higher ground and world interest rates rise further, it is possible the price could tumble to \$350.

On the other hand, if the dollar slides or adverse economic events precipitate investment demand, gold will rise sharply.

But in the long run, say Japanese dealers, gold is forming a base for an upsurge to much higher levels over the next three years.

The Japanese believe gold is cheap at its current price.

An ounce of gold costing 52 000 yen, including three percent sales tax, is below the cost of an average suit of clothes.

Consumer resistance to gold

generally begins at 2 000 yen a gram or higher. Even so the fully taxed platinum price is currently 2 300 a gram and purchases of the white metal remain at a high level.

Japanese jewellery consumption is expected to increase. Yet jewellery demand is not only governed by price.

Growing numbers of Japanese women are becoming business executives. Their disposable incomes are rising.

Since the average Japanese men and women dress smartly and are fashion conscious, gold necklaces, bracelets, chains, rings and tie pins have become fashionable.

Mature market

Japanese gold imports, however could plateau at 300 tons in the next few years because the market is mature.

But physical purchases are only one factor in their market.

Japanese investors and speculators are sophisticated and play the currency and stock markets.

Like American and European investors, they buy and sell gold via futures and options.

If the gold market takes off, Japanese speculators are likely to play a major role in pushing prices upwards.

Japanese gold imports are worth 500 billion yen, a fraction of the 250 trillion yen capitalisation of the Tokyo Stock Exchange and the 20 trillion yen assets of leading life insurer, Nippon.

Markets Round-Up

Gold at \$386.45

Business Staff

McG's 25/4/89 79
GOLD opened at \$386.45 an ounce in London today up from its late fixing of \$384.75 there yesterday but down from its \$387 close in New York last night.

The rand opened at R2.54 (\$0.3937) to the dollar in Johannesburg today against R2.5363 (\$0.3942) at its close yesterday.

In Tokyo the US dollar opened higher against the Japanese yen today while share prices on the Tokyo Stock Exchange rebounded sharply despite news reports that Prime Minister Noboru Takeshita was expected to announce his intention to resign.

Takeshita has chosen to resign because of low support ratings in opinion polls led by a widening political scandal and an unpopular new sales tax, the reports said.

The Nikkei Stock Average of 225 selected issues, which shed 223.89 points the previous day, regained 212.32 points, or 0.65 percent, to move to 33 018.24 within the first 15 minutes of morning trading.

The US dollar started trading at 131.65 yen, up 0.27 yen from Monday's 131.38-yen close.

The dollar also rose against major European currencies on Monday, helped by a weaker West German mark.

Foreign exchange dealers said the mark dropped amid uncertainty about where it is going, as a result of last week's Bonn government reshuffle.

But the decline of the mark could be reversed by an expected government announcement of suspension of the 10 percent withholding tax on income from interest.

Foreign ownership of mining shares declines

By Sven Lünsche

Foreign investors are continuing to divest their holdings in South Africa's mining shares in the wake of the weaker gold price and continuing political pressure.

A report by stockbrokers Davis Borkum Hare shows that total foreign ownership of mining shares has fallen from 23 percent at the end of December 1987 to 21 percent at the end of last year.

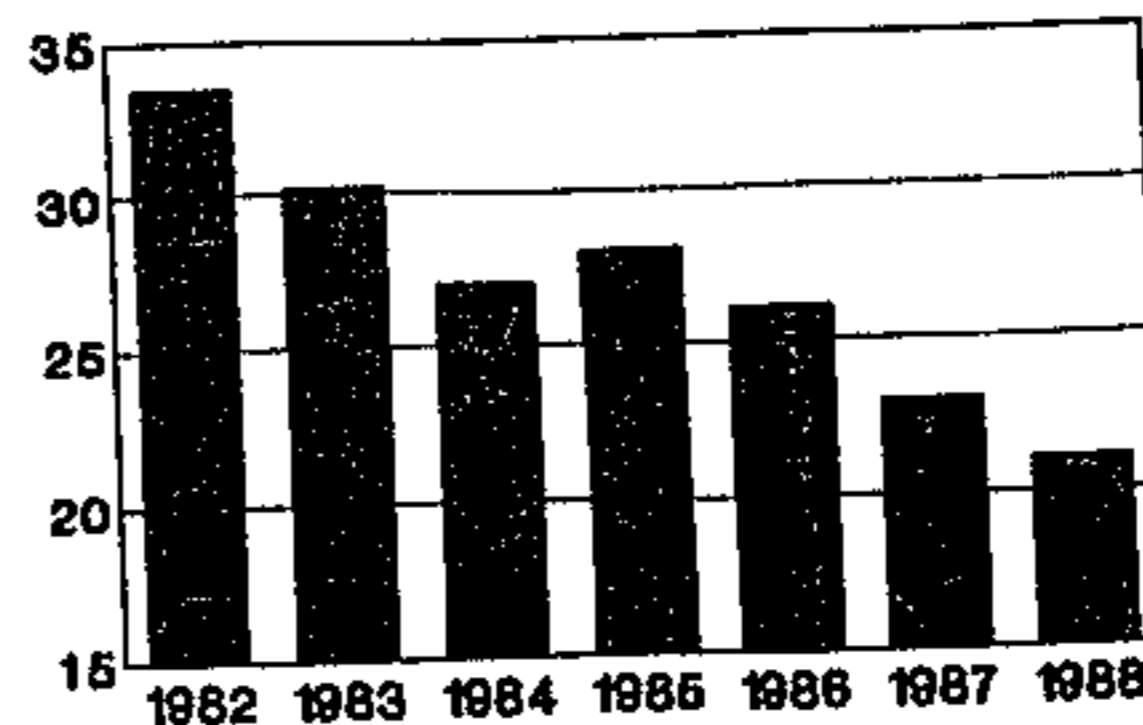
The total number of mining shares held in non-resident accounts fell by 37 million, or 5,75 percent, during the course of 1988.

The foreign percentage of mining shares was mostly diluted as a result of the new issue of 40 million gold mining shares and 73 million platinum shares on the JSE during 1988 and the relatively small take-up of this additional share capital by foreigners.

"The major declines in percentage foreign ownership have, concomitant with the increase in issued share capital, occurred in gold and platinum counters.

"Foreign holdings of gold shares fell from 25,2 percent to 23,6 percent of issued share capital, a percentage drop of 6,4 percent, while the number of gold mining shares in non-resident hands fell by 5,5 percent to 23,5 million, illustrating the dilution effect of new shares issued.

"Similarly, the number of South African platinum shares owned by foreign investors actually increased marginally during 1988, but as a percentage of total issued capital fell from 9,1 percent to



Foreign ownership of SA mining shares (percentage of shares in issue).

7,6 percent over the course of the year," the stockbrokers write.

US ownership in mining stocks showed the largest decline during 1988 falling from 11,5 to 10,4 percent but the report points out that US citizens are ostensibly still the dominant non-resident shareholders in the mining industry, despite sanctions and disinvestment pressures placed on them by Congress and other parties.

UK ownership fell from 7,7 to seven percent, but against the trend, other European holdings improved slightly from two to 2,2 percent.

Other factors influencing the decline in holdings included:

- The disappointing performance of South African gold shares.
- The revival of the gold mining industry in North America and Australia,
- The deterioration in the value of the rand has imparted a currency risk to South African equity investments.

79

13 mines at risk as gold price falls again

Star 195189
By Derek Tommey

The latest slide in the gold price entered its fifth day today with the metal falling a further \$3 in early trading to \$368 an ounce in Zurich.

Since last Friday the gold price has fallen by \$9. This has made South Africa somewhat poorer and intensified the crisis facing the gold mining industry.

The price has fallen some \$35 since the start of the year which could cost South Africa and the gold mining industry almost \$700 million in a full year.

The Government has been cushioning the immediate effects of the lower gold price on the gold mining industry by allowing the rand to fall against the dollar. This has helped to maintain the domestic gold price at around R1 000 an ounce.

But letting the rand drop in this way is highly inflationary. So while the mines may not have to face a lower gold price, they have to face a 12 to 15 per cent annual escalation in costs which in the long run is just as bad for the industry.

VULNERABLE

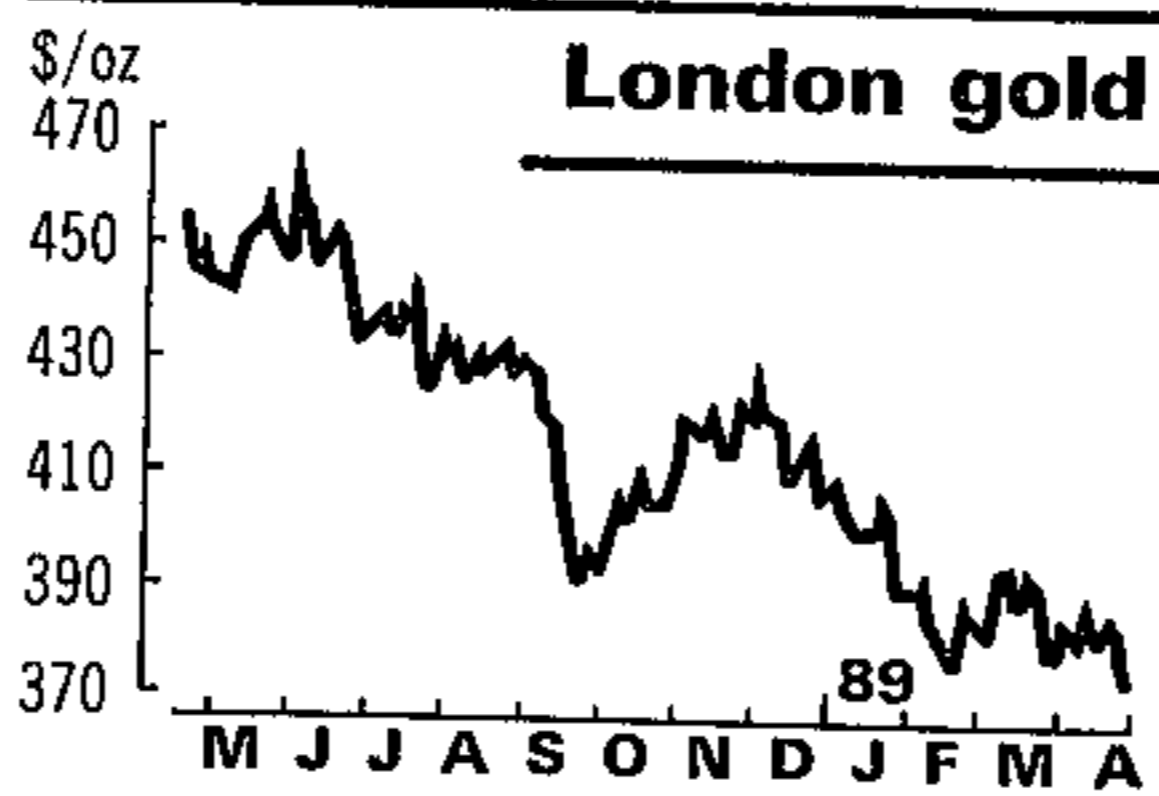
At the moment about 13 mines are regarded as marginal and vulnerable to a lower gold price or increased inflation.

While strenuous efforts are expected to be made to keep these mines going, this will probably require major cost cutting, including lay-offs and a reduction in operations.

The next 12 months look like being difficult ones for the gold mining industry and also for the already hard-pressed South African economy.

Dealers reported this morning that central bank pressure late yesterday and overnight had resulted in the dollar giving up some of its gains against other currencies. But it was still strong this morning at 1.9663 German marks and 138.50 Japanese yen.

The rand was expected to trade at near last night's closing rate R2,7045 to the dollar.



Graphic: FIONA KRISCH Source: REUTERS

Gold dips to new three-year lows

LESLEY LAMBERT

GOLD bullion prices reached their lowest levels in almost three years yesterday, trading at between \$374 and \$377,50 on the international markets that were open.

In Hong Kong, gold closed at \$375,50 in quiet trading. The metal came under pressure from sales by Australian investors and a firmer US dollar after falling below key support levels last week.

The metal traded at between \$375,50 and \$377,50 in New York.

On Friday, gold closed at \$378 in London, moving down from the opening of \$383,75 and breaking the market out of its recent \$380/\$395 range. Initially the downturn reflected a weak silver market, but the decline appeared to gather momentum as New York moved lower.

SA's marginal gold mines, which have already suffered enormously from the low gold price, would need to see a substantial deterioration in the value of the rand to offset declines in the dollar price.

But, a falling rate would mean more expensive imports and higher inflation — unpopular options ahead of an election.

Tougher action to curb domestic spending likely

By Sven Lünsche

The decline in the gold price to three-year lows at the weekend could accelerate further action by the authorities to curb domestic expenditure.

Gold accounts for about 40 percent of South Africa's export earnings and its decline since the beginning of the year has put huge pressure on the country's currency reserves.

Last year, the London gold price averaged about \$437. Taking the weekend's fall to around \$375 into account, the

average for 1989 is now recorded at just above \$380.

If this trend were to be maintained for the remainder of the year, the average price would drop by about \$50, translating into a R2,5 billion loss in foreign currency earnings.

Given this estimated loss, the Reserve Bank is likely to curb domestic spending on imports to ease the other major pressures on the foreign reserves.

● Gold recovered slightly to an opening of \$378,80 in Hong Kong today.

Gold hits ^{Apr 1975} ^{3/5/89} 32-month low ⁽⁷⁹⁾

LONDON. — Gold bullion ended the day extremely dull, closing at \$377.50/\$378 after a hitting a 32-month low of \$376.90 at yesterday morning's fix.

The close compared with the opening of \$377.80/\$378.30 and Friday's close of \$377.80/\$378.20.

Dealers said gold prices drifted lower in a lacklustre range throughout the day, tracking the firmer dollar with no fresh influences evident.

Market sentiment remains bearish with the dollar holding firm in spite of concerted central bank intervention. Support and resistance for gold are seen at \$374 and \$378, they added.

Platinum closed at \$535/\$536 an ounce compared with its afternoon fix of \$535 against Friday's closing level of \$530/\$531.

● In New York, gold closed lower at \$377.25/\$377.75. — Reuter

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ster (79)

Golds pull JSE index lower

Finance Staff

Gold shares were hit on the Johannesburg Stock Exchange yesterday as bullion continues to hover around three-year lows on international metal markets.

The crucial JSE all-gold index fell by 40 points to 1461, pushing down the overall index by 38 points to 2556, although the drop was somewhat cushioned by a weaker financial rand.

Gold closed in London at \$377,75, after hitting a three-year low of \$375 on Monday.

In Hong Kong this morning bullion opened more than \$2 lower at \$376,60 in the wake of a stronger US dollar and continued sales by Australian investors.

Gold slips to \$371.50, rand still pressured

Finance Staff

Gold fell to a new 30-month low of \$371.50 in Hong Kong today. This follows a modest recovery in New York last night when it rose to \$373.20 after trading at \$371.90 in London earlier in the day.

Foreign exchange dealers in Johannesburg said they expected the rand to trade at around R2,685 to the dollar this morning, a slight improvement on last night's closing rate of R2,69.

The surge in the dollar, which has been rising strongly against all currencies, has been triggered by the sharp improvement in America's foreign trade figures. The March trade deficit dropped to \$8.6 billion, some \$2 billion less than expected.

Opposing views on gold price

Financial Editor

THE gold price may be on the point of soaring when the dollar weakens — or it may be on its way down to \$320 an ounce.

These opposing views were given to members of the Institute of Life and Pension Advisers (Ilpa) yesterday by economist Mike Daly and stockbroker Doug Cleland.

Both agreed that industrial shares were overvalued at present and this was the time to sell — except for certain selected shares — and to take advantage of the present high interest rates.

But Daly said at the Ilpa convention in the Cape Sun yesterday that he thought gold shares under-valued.

"If the dollar would only come down there would be no safer bet than gold at the moment."

Pointing out that sentiment could change against the dollar overnight, he said that if the US trade deficit widened again and the dollar moved downwards gold would probably rise.

In those circumstances, once it passed the \$400 an ounce mark "you wouldn't believe what gold is going to do".

Cleland said he agreed with Daly that it was time to approach the JSE with caution.

But he continued: "It looks to me as if for the rest of the year gold will do nothing but go down — possibly to between \$360 and \$320 an ounce."

Cleland said it seemed "as though the rest of the world is starting to believe that inflation is no longer a problem, which doesn't look too good for gold."

The dollar at present was showing a tendency to improve rather than fall. Gold was expensive in relation to the price of oil, and it was on a well established downward trend against the hard currencies.

He thought gold shares were better than industrials at present — "but who wants to lose money more slowly in gold than in industrials?"

Cleland continued: "Gold shares in SA are expensive and the only reason to buy them today is if you think the dollar is going to fall and gold takes off. In my opinion it isn't."

Anyone who wanted to buy gold shares should wait until later.

Meanwhile, he advised investors to stay liquid and keep in touch with their stockbrokers "who will have more time now to talk to you."

"Go back to the equity market early next year in the expectation that we are living in a long-term inflationary environment."

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Call for West German system for workers

B10 am 15/1/57
A WEST German-style system of worker participation in the management of business enterprises in a future SA has been called for by Cosatu's Amalgamated Clothing and Textile Workers' Union (Actwusa).

The latest Actwusa Worker News said the proposals formed part of a resolution which was passed at a recent union congress to encourage debate on a "worker charter".

The resolution said while the Freedom Charter was an historic document raising many fundamental issues, it was "no substitute for clearly spelt out protections of minimum worker rights which ought to be included in any genu-

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ALAN FINE

inely democratic constitution for SA".

It said worker participation in the management of enterprises should be set out in law. It proposed that in publicly owned enterprises at least half the management board should be elected by the workforce.

It was less specific regarding numbers in the case of private firms, but said delegates elected by workers should sit on management boards and be entitled to attend all management meetings where decisions affecting workers were made.

Another point regarded as an important facet of a worker charter was that all social welfare funds, such as those for unemployment insurance and workers' compensation, should be controlled by the trade union movement.

Also, no laws governing conditions of work should be made without prior negotiation with the union movement.

The proposals encompassed the right to strike, including strikers' right to protection from dismissal and to picket.

They also covered matters such as freedom of association, recognition of majority unions in plants and protection from unfair dismissal.

3 1/2-year low
Star 16/5/87
for rand and
big losses in
gold shares

By Sven Lünsche

The rand has plunged to its lowest level against the US dollar in 3 1/2 years in a day of hectic trading. It fell yesterday by 2,25 percent.

Gold was also a casualty of the booming dollar. In Hong Kong gold dropped by \$2 to open at \$375 today. In London yesterday, bullion fell by about \$4 to close at \$374.

The nervousness in the currency and metal markets spilt over to the Johannesburg Stock Exchange, where hectic trading saw gold shares in particular suffer heavy losses.

The crucial all-gold index dropped by 48 points to 1490, pushing down the overall index by 36 points to 2483. The industrial index was 21 points lower at 2522.

INTERVENTION

Fuelled by fears of American intervention in Panama, the surging US dollar swept to new two-year highs against most currencies, rising by 2,3 percent against the Deutsche mark and by just over 2 percent against the Japanese yen.

The rand's decrease against the American currency was fuelled by the declining gold price.

At one stage, the rand had fallen to 37,4 US cents, before recovering slightly to a close of 37,5 US cents. On Friday the rand closed at 38,5 US cents.

Currency dealers said the Reserve Bank did not intervene in the markets, as the low gold price would not have supported any firm action.

● See Page 15.

Bulls trample gold price lower

79

Dollar buying sends rand reeling to low

B (Day 16/5) 89

BEARISH sentiment gripped financial markets yesterday as frenzied dollar buying knocked the gold price and sent the rand reeling to its lowest level in three years.

The JSE overall index slumped 36 points to 2 483 and capital market rates rose five points as markets grew nervous. Mounting inflation fears are aggravated by talk of another fuel price hike looming closer.

Gold was the worst casualty of the international bull run on the US currency, with the metal shedding \$3,50 between its Friday afternoon fixing in London and yesterday's fixing of \$373,80.

Intervention

It closed slightly higher at \$374,00 but analysts said the gold price had pierced the vital \$375,00 resistance level. Chartists are talking of it heading for \$360.

The weak gold price aided the rand's fall, plunging against the dollar, in line with all currencies. It slid 2,6% to close at R2,6648 to the dollar from Friday's R2,5983. It nosedived in early trading and touched a low of \$0,3745 before the Reserve Bank intervened. Dealers described the action as low-profile and calculated to prevent a free-fall.

On the crosses, too, the rand was losing ground. It was quoted at DM0,7265 yesterday morning compared with Friday's DM0,7320. Central bank intervention pushed the rate back to the DM0,7300 level.

Dealers said the rand's weakness was largely the result of the international bull run on the dollar, which was defying economic fundamentals and persistent central bank intervention. The dollar's strength

GRETA STEYN and MERVYN HARRIS

had knocked sentiment on gold, further affecting the rand.

With the rand gold price still below the critical R1 000 an ounce level, the rand could only depreciate further.

Bearish sentiment on the rand and gold spilled into the JSE and gilts market. Share prices across the board came under pressure with the JSE overall index shedding 36 points to 2 483 on a 48-point decline in the all gold index to 1 442, and a 21-point fall in the industrial index to 2 501.

Dealers said the turnaround in sentiment could herald the start of a short-term bear market with some technical charts indicating gold's next major resistance level as low as \$345.

On the capital market the weak rand sparked inflationary fears and pushed the rates on Eskom's Loan 168 above 17,40% from Friday's 17,36% close. This can be seen as a tentative indication the market is discounting a possible hike in Bank rate. However, rates did not move substantially as there were buyers at above 17,40%.

Economists said rand depreciation was a necessary link in the adjustment process because of beneficial spin-offs for the balance of payments. However, the exchange rate could not carry the burden alone — appropriate monetary and fiscal policies had to remain in place.

Trust Bank economist Nick Barnardt said: "The Reserve Bank indicated earlier this year it would like to see a weaker rand once there are clear signs the economy is cooling. A slow-down in demand means there is less pressure on inflation from the demand side."

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Rampant dollar ⁷⁹ batters gold, rand

GRETA STEYN

GOLD took a battering yesterday, sparking interest rate fears, pushing the rand closer to its record low and knocking JSE share prices across the board.

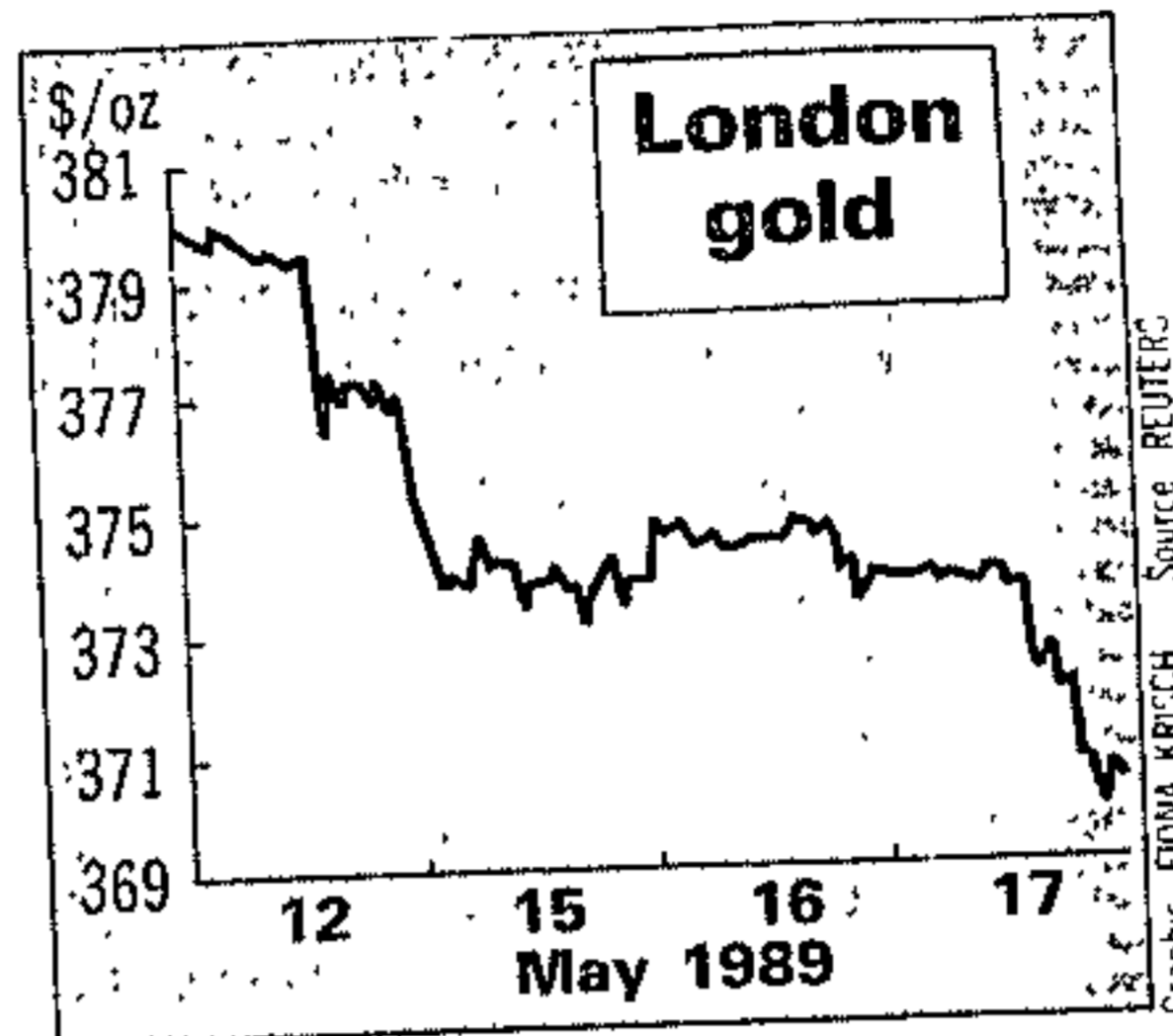
News of a 10% decline in the US trade deficit to \$8,86bn in March propelled the dollar to new heights of above DM1,9600. As a result, gold briefly dipped below \$370, causing extreme tension on local markets.

In the capital market, the rate on Eskom's Loan 168 shot up 6 points to 17,46%. Rates easily broke through previous resistance levels of 17,41% and 17,44%. However, trading was thin as nervous dealers chose to sit on the sidelines.

Discount House of SA economist Chris Greyling said: "The sharp movement in the capital market rates shows the market is by no means certain we have seen the last increase in Bank rate. The mood in the money market is also growing more pessimistic."

The money market is already nervous about interest rates as the Reserve Bank is putting the squeeze on banks in an effort to curb credit growth. The Bank yesterday sucked R500m out of the market by selling special short-dated Treasury Bills.

In the currency markets, the dollar is proving unstoppable. It gained more than a pfennig on the trade figures, sending the rand to its lowest close in almost four years. The local unit closed at R2,6908 to the dollar, shrugging off Reserve Bank intervention at R2,6850. However, its de-



preciation on the crosses was less intense with the currency at DM0,7290, only a touch below the DM0,73 level favoured by the central bank.

Dealers have been expecting a correction on the dollar, but more market participants are now seeing the US currency heading towards DM2,00 — which will be more bad news for gold, the rand and interest rates.

MERVYN HARRIS reports despondency deepened on the JSE with the negative sentiment on gold flowing over to other precious metals and industrials. The overall index eased 20 points to 2 457. The trade data eclipsed activity in Anglo-related shares, which had dominated trade in the morning after Minorco's failure to gain control of ConsGold. Dealers reported a lot of stock coming out of London.

CMF-TINKS 19/5/89

Gold drops below \$370⁻⁷⁹ in New York

NEW YORK. — Gold dropped below the \$470-barrier here, closing at \$367,70/\$368,20 against Wednesday's close of \$371,75/\$372,25.

In London gold ended the day trading quietly, edging above new 32-month lows and tracking dollar moves. Platinum also pared its earlier large losses.

Gold closed around \$1 above its low at \$370,50/\$371, little changed from its afternoon fix of \$370 and Wednesday's \$370,25/\$370,75 close.

Platinum also edged off its highs after dropping sharply to 7½-month lows of around \$491 yesterday afternoon and closed at \$498/\$500.

Gold was hit as the US dollar moved higher against several major currencies in Europe yesterday afternoon, in spite of a co-ordinated move by central banks to reverse the currency's recent strong advance.

The dollar rose against the West German mark and the Swiss and French francs after the concerted intervention. It fell against the Japanese yen and the British pound.

The central banks of France, Italy, Austria and Switzerland confirmed that they sold dollars, primarily against West German marks, and some confirmed it was a concerted effort.

The Bank of England also participated, dealers said.

Other participants reportedly included the US Federal Reserve Board and the West German Bundesbank.

In London, the British pound cost \$1,6170 after the intervention, more expensive than \$1,6155 at mid-morning, and compared with \$1,6140 late on Wednesday. — Reuter

Gold touches 32-month lows

NY Times, 16/5/89, 79

LONDON. — Gold bullion closed quietly at \$373,75/\$374,25, off 32-month lows set earlier yesterday, as operators tried to match dollar fluctuations. This compares with its Friday's close of \$377/\$377,50.

Dealers said gold was dominated by the fortunes of the dollar throughout the day and found little impetus to recover significantly from its 32-month low of around \$373.

Other precious metals followed gold's lead, they added.

Platinum closed at \$522/\$523 an ounce, against an afternoon fix of \$519,90 and Friday's close of \$533,50/\$534,50.

Dealers said platinum touched a near four-month low of \$516/\$518 after breaking the support level of \$531 established last week.

It drifted down in yesterday's session in line with Nymex, moving through chart stops of \$528, \$526 and \$524 respectively.

However, operators suggested short-term support around the \$520 area.

● In New York, gold closed at \$374,25/\$374,75. — Reuter

Austerity measures beginning to work

79)
~~1988~~
~~1989~~

STW 19/1/89

By Magnus Heystek
Finance Editor

With credit demand falling off and every sign that the economy is beginning to cool off, no additional austerity measures are being contemplated at present, says Dr Gerhard de Kock, Governor of the SA Reserve Bank.

But the sharp drop in the gold price, together with the decline in the rand against the US dollar is "definitely hurting the country, and we will just have to sit it out", he said in an interview last night.

Speaking from Cape Town, where he was busy preparing for a presentation before the Economic Advisory Council, scheduled to take place today, he said that the latest economic data all point to a slow-down in the economy.

"It seems to me that consumers in particular have heeded the message and have started to curtail their consumption expenditure. The main bulk of credit is now being taken up by major corporations who cannot overnight rein in their capital expenditure programmes," he said.

Dr de Kock said that the drop in the gold price, from an average of \$437 an ounce last year to its present levels, is costing the

country hundreds of millions of rands in foreign exchange.

"We will just have to sweat it out until the dollar starts to weaken again."

The weak performance of the gold price rules out any possibility of monetary policy being relaxed.

Every drop of \$50 an ounce in the gold price represents a loss of about \$1 billion in foreign exchange reserves to the country, already under severe pressure to make payments of about \$2 billion to foreign creditor banks in terms of the 1985/86 debt reschedule agreement.

Forex reserves

Dr de Kock added that the Reserve Bank has sufficient foreign exchange reserves to make the payment and that this factor should not place the rand under further pressure.

Commenting on the sharp drop in the rand against the dollar, he said that there was "absolutely nothing" that the Reserve Bank could do to protect the rand against the surging dollar.

"Not even massive central bank intervention by major international countries is able to

arrest the rise. In less than one year the US dollar has risen from DM1,70 to DM1,97 and looks set to go higher, despite unchanged economic fundamentals in that country."

Confirmation that the growth in demand for credit from both consumers and the corporate sector has started to show a decline, comes from Nedfin in its analysis of the latest BA 9 returns by banks.

The figures show that the rate of increase in instalment and credit sales has declined from 8 percent in the September 1988 quarter to 5,2 percent in the first quarter of this year.

Nedfin's managing director Ron Rundle stated that private consumer demand for credit started to taper off during the last quarter of 1988 while corporate demand remained strong.

However, this also showed a decline by March and he expected the decline to continue during the next six months.

Mr Rundle pointed out that commitments in the corporate sector tended to be spread over three to six months because of delivery times.

He said this trend had been helped during the first quarter by buying in anticipation of higher interest rates, increased

prices and the weaker rand.

Mr Rundle said he expected demand for hard asset financing will decline slowly, except in the field of transport where continued delivery delays are being experienced.

Another factor that would keep demand from the transport industry high was the fact that 43 per cent of heavy road vehicles are over 10 years old and replacements are long overdue.

Bank credit

Total credit granted by South Africa's banking industry at March 31 stood at a record R20 billion.

Mr Rundle said that during the last year the additional credit granted by banks by way of credit and lease agreements climbed by R4,4 billion. Lease agreements grew by 30,8 per cent during the period and instalment sales by 28,1 per cent.

The rise in the rate of credit granted is matched by a decline in the savings rate. This grew by only 0,5 per cent in the March quarter and by 12,8 per cent during the past year. At the end of the last quarter total savings with the banks stood at R8,4 billion.— Sapa.

Chaos on JSE as gold continues to plummet

3/20/87

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MAGNUS HEYSTEK, Finance Editor

SHARE prices on the Johannesburg Stock Exchange fell with the gold price in near-panic selling yesterday.

Gold dropped to a three-year low of \$366,60 an ounce in London yesterday afternoon.

After the fix, it declined even further and was trading between \$365,50 and \$366 an ounce.

Gold has now dropped by about \$130 an ounce since its peak of just more than \$500 in October 1987, representing a loss of about \$2 billion (more than R5 billion) in foreign exchange.

The industrial sector came under intense selling with the Industrial Index staging one of its biggest declines of recent times.

Since April 27, the Overall Index has declined by more than 10 percent, reducing the market capitalisation from just under R400 billion to about R360 billion, a loss of more than R40 billion.

The massive sell-off was triggered by the sharp drop in the gold price.

And the already negative sentiment was given further impetus by the suspension of two of South Africa's oldest mines, East Rand Propriety Limited (ERPM) and Durban Roadport Deep (DRD). Rumours that the mines were to be closed unless they received additional assistance from the State.

When the Saturday Star tried to contact the President of the JSE, Mr Tony Norton, for comment on yesterday's events it was told he was on board a flight to Cape Town and could not be contacted.

According to gold mining analysts at least 19 South African gold mines are, at the current gold price, operating at a loss. Without a sustained improvement in the gold price, or conversely a further drop in the rand exchange rate against the US dollar, several of

● TO PAGE 2.

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Listing of two mines suspended

224 391 Jan 20/5/57

ALTHOUGH two of South Africa's oldest gold mines are under threat of closure as a result of the falling gold price, other marginal gold mines, while affected by the low price of the metal, are in no immediate danger of ceasing operations.

The struggling ERPM and Durban Roodepoort Deep gold mines, both controlled by the Rand Mines group, have been hard hit by the gold price which has shed some \$35 since the beginning of the year to reach the \$366 level yesterday. Speculation is that the mines could be closed soon.

A joint statement issued by the two companies and Rand Mines said that both the mines were incurring substantial losses and that representations have been made to the Government for further financial assistance.

Although alternative strategies to avoid further losses have been evaluated, at projected prices none of these is viable, the statement says.

At their request the listing of the two companies were suspended on the Johannesburg Stock

Exchange, the International Stock Exchange, London, and the Paris Bourse with effect from the opening of business yesterday.

While mines of other groups are obviously affected by the lower gold price, no mine is affected to the extent that closure is being considered.

Anglovaal spokesman said costs are being controlled at Loraine mine, but there have been no dismissals and that there was no question of closure.

Gold Fields said that while all the group's mines were affected by the present gold price, none of the marginal mines have been affected to the extent that they were threatened with closure. There were also no plans for retrenchment of mine-workers.

Gencor has taken no decision in its marginal mines. Closure is not an issue for JCI at this stage and no closure of mines are foreseen for Anglo American mines.— Sapa.

Gold loses another \$4 rand slide continues

By TOM HOOD, Business Editor

GOLD lost another \$4 today to open at \$361,15 an ounce in London, the lowest price since early August 1986.

The rand also slipped as the American dollar continued to surge on Far East foreign exchange markets and was quoted in Johannesburg at 33,36 US cents, down from Friday's 36,92 cents.

Since the beginning of the year, when the rand was worth more than 42 US cents, the local currency has lost 14 percent of its value against the dollar.

The low gold price means that 15 of the country's 36 gold mines are in danger of making losses as their costs are higher than R350 a ounce — several report working costs above R400 an ounce.

The mines, however, could get some protection from the falling rand, which has maintained the rand price of gold. Mines receive rands for their gold above R1 000 an ounce. Today gold was worth R1 082 an ounce.

Rand Mines, which is seeking government aid to stave off closing two loss-making mines, said today if the mines, Durban Deep and ERPM, had to cease mining operations, the group had adequate reserves to write off its investment in them.

Share prices eased again on the Johannesburg Stock Exchange, where more than R14,5-billion was wiped off the value of shares in last week's downturn.

The JSE overall index of share prices lost another 14 points this morning to 2337 after losing 165 last week.

The possibility of another hike in interest rates was signalled today when a key money market rate — the 90-day bankers acceptance rate — climbed to 17,60 percent.

● See page 2.

Rand now at four-year low

By Magnus Heystek, Finance Editor

The gold price continued to hover at its three-year low of around \$360 an ounce today as the United States dollar maintained its strong performance on world financial markets.

The rand weakened sharply and ended trading at a four-year low of R2,78 (35,9 US cents).

The US dollar easily soared through the 2 Deutschmark level on currency markets, and was fast approaching the 145-yen level against the Japanese currency in Tokyo today.

Despite the continued weakness in the rand exchange rate, which normally would act as a buffer for gold and rand-hedge stocks on the Johannesburg Stock Exchange, the sentiment remained very bearish and the overall index plunged by a further 66 points after shedding 165 last week.

The JSE has now shed about 8 percent in just more than a week as the longer-term implications of a lower gold price continue to depress investor sentiment. Panic selling by small investors gave a further twist to the falling trend.

The sharp decline in the gold price, if sustained, has major implications for the South African gold

industry, the largest employer in the formal sector.

At the current gold price, and faced with upward cost pressures, at least seven gold mines, apart from suspended ERPM and Durban Roodepoort Deep, face closure if the gold price does not recover or the Government does not announce some new scheme of state aid.

The seven mines are Western Areas, WR Cons, Wit Nigel, South Roodepoort, Grootvlei, Bracken and Harmony.

The Cabinet met yesterday to discuss the possibility of state aid for ERPM and DRD, but at the time of going to press no announcement had been made.

Mr Mike Brown, gold mining analyst at stock-broking firm Davis, Borkum Hare, said it was probable that the Government would soon announce some form of state aid for troubled mines.

"If it can come to the rescue of the farmers, I see no reason why it should not devise some aid scheme for the gold mining industry," he added.

● See Pages 11 and 13.

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[scribble]

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● See Pages 11 and 13.

Market gets interest rate jitters

De Kock: no need to panic over gold fall

B/Dwy 23/5709

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AS INTEREST rate jitters intensified on SA markets yesterday, Reserve Bank Governor Gerhard de Kock said there was no need for panic about the slump in the gold price.

He said: "The low gold price is obviously bad news for SA. But the big question is — how long will it stay this low? While I am not sanguine about the situation, there is clearly no need for more restrictive measures at the moment."

Gold was fixed at \$359,75 an ounce in London and the rand tested R2,80 to the dollar in yet another day of tension caused by the US currency.

Gold's slump raised the spectre of an imminent increase in Bank rate to protect the balance of payments. As a result, the BA rate jumped to 17,60% from 17,40% and long-term interest rates in the capital market continued their uptrend.

However, De Kock said there was no clear indication a shift in policy stance was necessary. "We implemented a strict package earlier this month and it must be given a chance to work."

Signs were emerging that the economy was slowing down and latest figures for

GRETA STEYN

bank credit and motor car sales supported that view.

The business community appeared to have responded to the message that spending had to be curbed.

De Kock said: "We want a soft landing for the economy but there is obviously no chance that our policy stance will be relaxed while the gold price is under pressure."

"Developments on the international markets vindicate our decision to tighten policy earlier this month."

On the rand/dollar exchange rate, it was in SA's best interests that the rand depreciated when the price of gold was dropping.

De Kock rejected suggestions the Bank had wasted reserves to defend the rand, saying Bank action in the forex market had been aimed at smoothing the SA currency's descent. With gold weak, it would be foolish to keep the rand strong.

"But the disadvantage of the rand's decline against the dollar is upward pressure on the inflation rate. We might find that latest developments will keep inflation

□ To Page 2

Gold's fall

high for a longer period than anticipated earlier this year"

Economists said they expected the Bank to follow a wait-and-see monetary policy to avoid an overkill situation. But tension grew on the markets as the dollar crashed through important barriers, eventually surging beyond DM2,00 for the first time since 1986.

Discount House of SA economist Chris Greyling said "Right now the markets are uncertain about the future of the economy. There is a growing fear that international developments might outweigh what is happening to domestic demand."

"Even if spending is slowing down, it might not be enough to avoid a balance of payments squeeze because of gold."

□ KAY TURVEY reports the dip in the gold price to below \$360 saw the rand also lose ground against other currencies.

□ From Page 1

The rand fell from a close of R4,3830 on Friday to R4,3895 against sterling and from 0,7250 to 0,7225 to the DM

It ended at R2,7782 to the dollar after touching R2,7880 before Bank intervention, down from Friday's close at R2,7075

The dollar, which traded at above the DM2,00 levels, could not be checked by strong central bank intervention.

Dealers said sentiment for the dollar remained bullish given the interest rate differential between the US and its major trading partners as well as the political turmoil in China

However, the meteoric rise in the dollar during the past week has confused economists, who have read the underlying economic fundamentals and held that the US balance of payments situation could not support such a strong dollar or the need to finance the budget deficit

Page 3

12/04/73/1787



RESERVE BANK TO GRANT MORE AUTONOMY IN SALE OF GOLD

ANDREW BUDDEN

IN A hesitant step towards relaxation of its tight control over SA gold sales, the Reserve Bank will probably grant SA producers greater autonomy in the sale and delivery of their own gold.

If successful, negotiations between the bank and major mining houses will soon delegate the Reserve Bank from its position of financial intermediary in hedging transactions to that of agent.

The changes proposed are small. They will allow gold mines to effect delivery of a small portion of their gold production to foreign markets.

Nevertheless, success will give mines further access to international finance through so-called gold loans, which use the mine's future gold production as security.

Industry sources say the change will precipitate a move from the old "SA mining house" mentality to a more "finance house" one.

The scheme will also change the way mines hedge against the risk of falling gold prices.

Current regulations dictate that SA gold producers sell their entire gold output to the Reserve Bank. Within 30 days of smelting, they must deliver their raw gold bars to the Rand Refinery for refining into the familiar 99.95% purity bullion bars.

Rand Refinery delivers the refined bars to the Reserve Bank for export.

Offset

The current state of the gold market places producers squarely in a potential risk situation — trying to meet historic, rising working costs with uncertain future gold revenues.

Exchange control permits those who wish to offset this risk to hedge by selling a portion of their future production to foreign customers at a fixed price decided today.

The hedging programme is strictly controlled by exchange control, which reviews its permission annually.

Until now, the Reserve Bank has not allowed mines to effect delivery of bullion sold against the hedge contracts, and contracts have had to be reversed prior to maturity (usually two days before).

Producers would do this by buying gold back from bullion dealers at the prevailing spot rate, which might in the intervening period have declined below the price stipulated in the futures contract.

This gold was immediately sold in "counter contracts" to the Reserve Bank at the same spot rate.

By now allowing producers to deliver some gold on their own account, the Bank will make them entirely responsible for their own hedging programme.

The break will not be complete. Mines will still have to get permission to hedge from exchange control and will continue to deal through the Reserve Bank.

Strongest likely to survive, says Liebenberg

Falling gold price could affect 17 marginal mines

IF THE gold price continued to fall and costs were not contained, the 17 marginal gold mines affiliated to the Chamber of Mines would be in trouble, Chamber of Mines GM Johan Liebenberg said yesterday.

"No-one is saying that all 17 mines will close. But we are going to have to be extremely cautious," he said.

Liebenberg said the 17 mines employed 296 000 people. They included the largest, Freegold, which has a 105 000-strong workforce. However, according to March quarter production costs, Freegold's production was more efficient than the other marginal mines.

Liebenberg said in spite of the crisis facing marginal mines, the chamber's 11% across-the-board wage offer to the National Union of Mineworkers (NUM) had not differentiated between the marginal mines and others.

Liebenberg said the industry had to remain competitive in the marketplace for labour, and had to take into account the effects of inflation on employees' pay packets.

He declined to speculate on whether this stance might change as the 1989 wage talks proceeded. He also said he could estimate the hypothetical effect

ALAN FINE

of wage increases similar to last year's 13,5% to 16,5%.

A NUM spokesman, referring to the possible closure of ERPM and Durban Roodepoort Deep, said yesterday the union saw no point in subsidising mines which had reached the end of their natural lives.

However, he criticised Rand Mines management for failing to anticipate well in advance the problems facing the two mines.

Rand Mines personnel manager Don King said the group had previously made provision for transferring workers to new positions while the gold price remained stable. More than 95% of the thousands retrenched from the two mines in the past two years had been relocated elsewhere.

However, he said, no-one could have foreseen the drop in the gold price in the

past two to three weeks, and this had unbalanced projections

He said he was nevertheless hopeful that government intervention would allow the mines to continue operating.

GERALD REILLY reports that DP finance spokesman Harry Schwarz said last night a strong case could be made out to assist marginal gold mines to survive the current troubles

The gold price would not continue indefinitely on the downward course.

"We must hold tight until the mines which can be rescued become productive and viable again. It is imperative a plan be made to keep them operational."

Witwatersrand Chamber of Commerce and Industry chief executive Marius de Jager said the impact the closing of gold mines would have on business confidence, on the economy on the Witwatersrand, on unemployment, were reasons for serious concern.

The current serious unemployment problem would be aggravated by the extent of any closedown.

Seriously affected too would be support industries supplying equipment and requisites for the mining industry.



LIEBENBERG

279 79

BIDAM 23/1/89

Gold slides, then...

Cape Times 23/5/87 (77)

Financial Staff

INTEREST rate jitters intensified on South African markets yesterday as the gold price continued to slump.

Late yesterday gold made a partial recovery to close in London at \$360,50 an ounce and in New York at \$361,75 — after plunging below the psychological \$359 level.

Last night the governor of the Reserve Bank, Dr Gerhard de Kock, denied an immediate need for an interest rate hike and said a slowing down in the rate of growth of the money supply made it unnecessary to cool down the economy any further.

• The rand dropped to a close of R2,7785 against the dollar in Jo-

R50 for a chicken —

Political Correspondent

A SMALL car will cost R150 000 and a "very modest" house R500 000 by the year 2 000 if the inflation rate continued to rise by 15% annually, Democratic Party co-leader Dr Zach de Beer said last night.

Speaking at the Democratic Future Fund's launch rally in Cape Town, Dr De Beer said the government's own estimates of inflation would produce price increases in the coming years that were "frightening".

The price of 1kg of chicken — R4 in 1987 — would increase six-fold to R24,60 by 2000 if inflation increased by 15% annually. (An average chicken of 2kg would cost about R50.)

Dr De Beer said there had been marked increases in retail prices over the past decade.

Medical care and health services had increased by 223% between 1979 and 1987.

• Pensioners protest — Page 2

hannesburg yesterday compared with R2,7085 on Friday.

• Gold shares dropped on stock markets all round the world.

• On the Johannesburg Stock Exchange industrial shares fell too.

The all-gold index dropped by 44 points and the industrial index by 66.

The dollar continued to rise as the central banks of seven countries tried to force it down. A statement from the

White House expressed concern about the dollar's rise and said it could undermine efforts to correct international trade imbalances.

Economists have speculated that the government may decide to let

the price of gold rise... a significant... low... gold... land... who... to... of...

Dr De Kock... the business... appeared to... ed to the... that spending... be curbed.

"We want... land- ing for the... but there is... no chance that... policy stance will... relaxed while the... price... under..."

On the... the ex- change... and it was... the... interests... would pro- ceed... the... of gold...

JSE rebounds ^{as} gold price firms ⁷⁴

Finance Staff

In a dramatic reversal of fortunes, the JSE yesterday recovered most of the previous day's losses, as analysts said the market had completely overreacted to Monday's sharp fall in the gold price.

Brokers said major institutions were back in the market as buyers, but focussed their attention on blue-chip and rand-hedge stocks, which had also received a battering on Monday after a wave of selling by smaller investors.

But gold shares also recouped most of their losses, as bullion rose by about \$4 in London to a close of \$464.50.

The gold index rebounded 58 points to 1368, while the industrial index rose 60 points to 2341.

The overall index soared 62 points to 2344, after the index plunged by 66 points on Monday.

The firmer gold price also helped the rand to regain about 1c to close at R2,77, but dealers said the currency could drop again, if the dollar re-

sumed its recent strong performance and with no visible support from gold.

In Far East trading today the dollar firmed slightly to 143,15 yen and to just over 2 Deutsch mark, as political problems in Japan and West Germany are fuelling the dollar's rise against foreign currencies and putting pressure on George Bush's administration to restrain the soaring greenback.

The White House on Monday took the unusual step of issuing a statement encouraging intervention by central banks to drive down the dollar's value abroad, AP reports.

The step was taken in conjunction with a sell-off of dollars by the US Federal Reserve, the Bank of Japan and several European central banks.

The decision to issue a statement was propelled by Bush administration fears that too high a rise in the dollar against other major currencies will erase recent improvements in the US foreign trade deficit.

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Gold price steadies and rand improves

star 24/5/84

The gold price has steadied and the rand has also recovered about a cent against the United States dollar following the upheavals of the past few days.

Gold, boosted by a weaker dollar, rose by about \$2 to an opening of \$362 in Hong Kong today. The rand closed yesterday at \$2,77.

These developments followed the statement in Cape Town yesterday by Finance Minister Mr Barend du Plessis that no further restrictive economic measures would be imposed now to counter the effect of the falling rand and gold price.

The fall in the dollar price of gold was a "very adverse development for South Africa", he said.

"Gold's average price last year was \$437 per fine ounce.

"If the fall of over \$70, to today's price, was sustained for a year, it would reduce South Africa's earnings from this source by \$1,5 billion.

STRENGTH

"At this stage it is difficult to say whether the dollar will for long be able to maintain its strength in the markets or the gold price stay at the present level," Mr du Plessis said.

Speaking at the annual Cape Town symposium of the South African Federal Chamber of Industries, he said he did not think it necessary to impose further restrictive economic measures. Latest data showed the growth in domestic demand was faltering — and the effects of the measures announced on May 5 had still to be felt.

His statement was given a boost by a generally improved performance by South Africa's major financial indicators. The Star's financial staff reports.

Boosted by a \$4 rise in the gold price to a close of \$364,50 in London yesterday, share prices rose sharply on the Johannesburg Stock Exchange. The overall index gained 62 points.

See Page 12

Relief as rand, gold recover

(79) CMC Times 24/5/89

Own Correspondents

JOHANNESBURG. — Dealers on local financial markets breathed more easily yesterday after days of battling to survive the dollar's onslaught.

The rand firmed slightly, the gold price rose, interest rate fears receded and the JSE rebounded as relative calm descended on the markets.

The Minister of Finance, Mr Barend du Plessis, maintained that there was no need panic over the recent slump in the gold price.

Mr Du Plessis said it was unnecessary to impose further restrictive measures to cool down the economy, as the latest information showed that growth in domestic expenditure was already faltering and the recent package of measures introduced had still to demonstrate its effect.

Share prices on the JSE yesterday regained most of their losses recorded

on Monday, following the sudden turnaround in the gold price, and helped by the weakening of the finrand which gave an upward thrust to currency-linked stocks on the JSE.

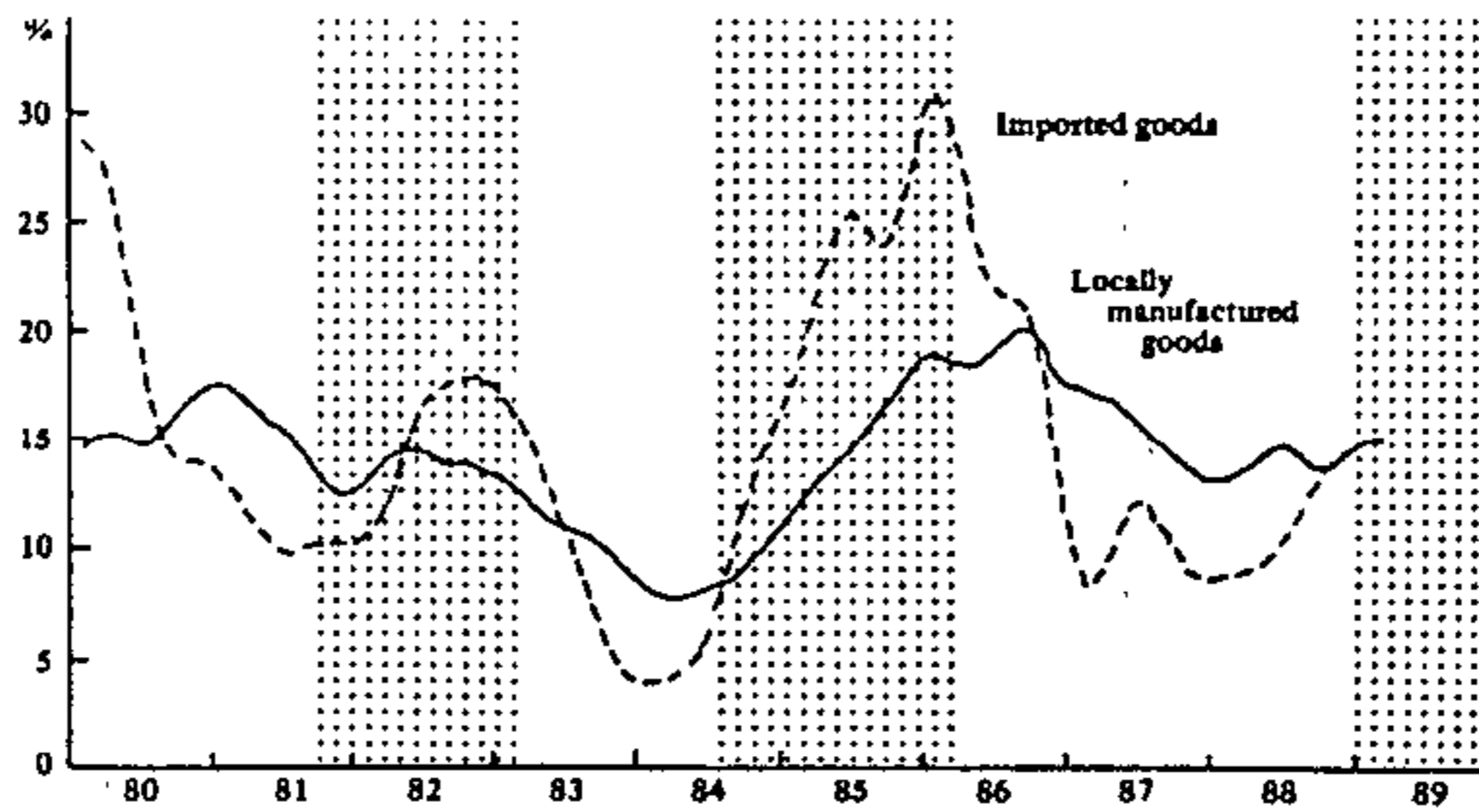
The overall index rose 2,7% to 2 350 while the gold index rose 4,4% to 1 371. Rand hedge stocks came to the fore on a lively industrial board and the index jumped 2,6% to 2 347.

Gold closed in London at \$364,50, and sagged slightly with its later New York close of \$362,25.

Reuter reports that a White House statement saying the dollar was too strong caused a drop to below DM2,00. It returned to that level where it stuck for most of the day, helping to keep gold well above the crucial \$360 level.

The rand strengthened marginally to close at R2,7678 from Monday's four-year low of R2,7783.

● Full market report — See page 10



Monthly percentage change in the Production Price Index as against the same month a year ago, seasonally adjusted. Shaded areas indicate downturns in the economy. Source Central Statistical Services.

Rand continues to lose ground

Finance Staff

The rand fell to a new low yesterday in hectic trading pressured by the lower gold price and the higher US dollar.

The rand closed at a mid-rate of R2,7908 to the dollar, weaker than its opening level of R2,7823. At one stage the rand fell to R2,795 and the Reserve Bank intervened.

A dealer said the Reserve Bank had offered dollars directly to commercial banks to halt the decline.

The rand is expected to remain under pressure as support for the US dollar shows no sign of disappearing and the outlook for the gold price is very bearish.

The financial rand also closed weaker. The unit finished at a mid-rate of R4,22 to the dollar, sharply weaker than Tuesday's close of R4,16.

The US dollar was stronger against most foreign currencies in active European trading, reports Sapa-Reuter. Gold prices

fell.

Dealers said the dollar remains well-supported above the Dm2,00 level, despite concerted central bank intervention yesterday and overnight dollar sales by the Bank of Japan.

The dollar rose 1,05 yen to a closing 143 yen, a 19-month high.

In London, the pound rose after the Bank of England signalled a one percentage point increase in base lending rates to 14 percent.

Sterling has weakened in the past 24 hours because of the dollar's strength, an annual inflation rate of eight percent and the likelihood that trade figures due today will be poor.

Shortly after the London financial markets opened, the Bank of England intervened to defend sterling, buying pounds for dollars.

The pound stood around \$1,56 and Dm3,14 before the rate rise. Soon afterwards it moved to around \$1,57 and Dm3,16.

Handwritten notes in circles: ~~22/11~~, 29, ~~22/11~~, and a scribble.

Gold neglect

SDM 257, 1989



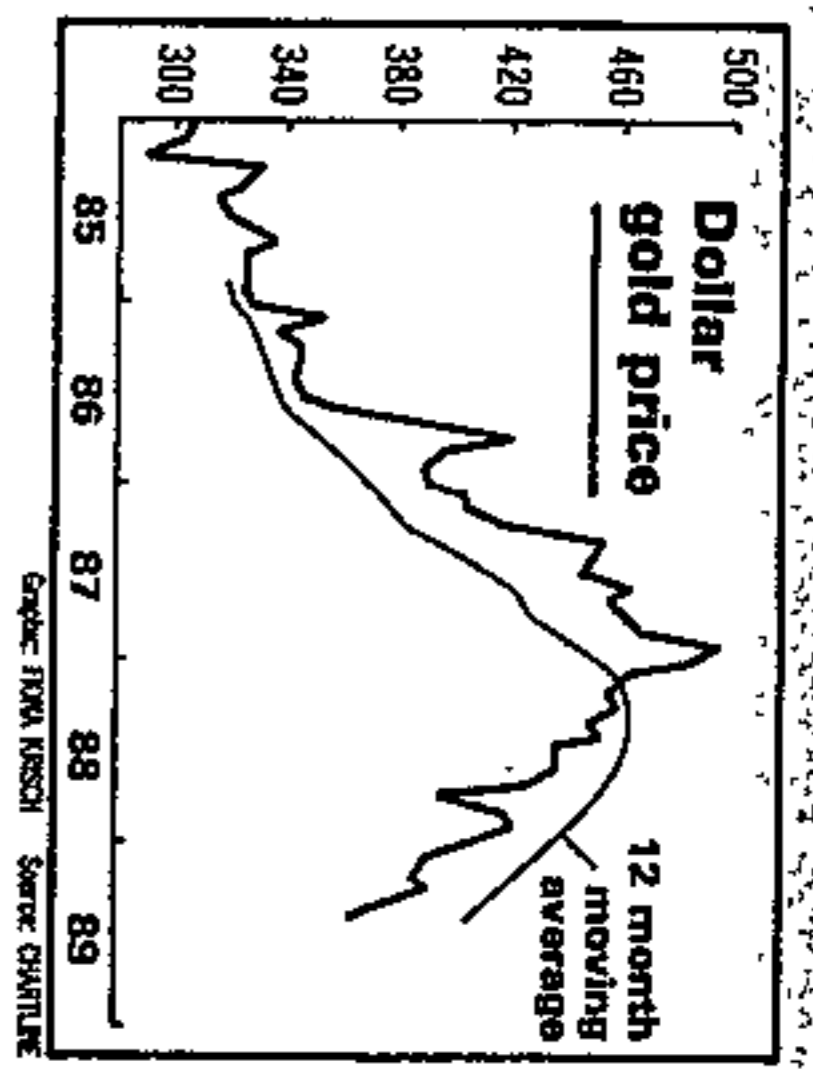
ALAS, THERE IS not much excitement being a gold bull these days. Whatever supportive reasons may be offered to justify an imminent upturn in the gold price, it just keeps on falling. This is disappointing for SA, but it is a fact that must be faced. The gold price cannot just keep going up — like every other price, it must be subject to cyclical fluctuations.

With the US dollar soaring through a number of significant chart points to set it confidently into its long-term cyclical upturn, it would be wishful thinking to expect the gold price to rise as well. Not that we should completely dismiss this possibility; it has been known to happen. However, this occurrence has never been a long-term trend and has always been fully justified by external reasons.

Right now there is an outside possibility that we could still see a

short-term rise in the gold price, lifting it back into the US\$380 area. This will be no big deal. But we will all be excited, having forgotten how miserable we felt when it fell to that level just a few weeks earlier. Ah, how short is the memory of the optimist. If we do indeed see such a rise we should treat it with caution. The trend will remain downwards unless we see a really massive boost in the price to beyond the resistance level at US\$400 at least.

Meanwhile, we should rather set our sights on the support levels, which suggest still further declines. The possible lower turning point is to be found at US\$320 per ounce. We may see lower prices, but these are unlikely to be sustained. I do not mean to suggest that we must expect that kind of price the day after tomorrow. It may actually take months to get there. The point is that it would be foolhardy to take anything other than a continued bearish outlook on gold. After all, the price has been falling for 18 months. Thus far I have concentrated only on the dollar price of the metal. In other currency terms, we are likely to have a very different picture. Against the rand, for example, we have already seen a rise in the price as the dollar price fell. This appreciation should continue for some while at least, until the cost/price pressure on the gold mines has



ended. This suggests, as I pointed out last week, that we must expect further weakness in the rand/dollar exchange rate. Priced in terms of the other major currencies, gold has languished at relatively low levels for almost four years — almost the full duration of the dollar's cyclical downturn. We could, and should, expect the gold price to rise in terms of the DM,

Japanese yen and possibly also sterling as the metal once again becomes a hedge for these currencies. Certainly is almost impossible with regard to the future. We will therefore no doubt find that some will prefer to hold gold rather than dollars. In effect, we will see the depreciation of gold against the dollar occurring at a lower rate than the appreciation of the dollar against the major currencies of the world. This once again supports the contention discussed last week that, while the rand will continue to fall against the dollar, it will remain steady to slightly firmer against the currencies of its other trading partners. The local unit will, of course, tend to track gold rather than the dollar in terms of the day-to-day market determination of its price. Actually, there is much excitement being a bear ...

REVIEW

SA gold shares could be coming back in favour

Star 26/5/89
79

LONDON — Dropping like lead, gold has fallen from almost \$500 an ounce in November 1987 to around \$370 now. One of the main reasons has been the proliferation of gold loans in the past three or four years.

In these deals, a gold mine borrows the yellow stuff from a commercial bank which is holding it on behalf of an investor or central bank. The goldminer then sells the borrowed metal for cash, which is used to develop a new mine.

The idea is that production from the new mine is used to repay the bank in gold when the loan falls due in three or four years' time. The advantage for the mine is that gold loans carry a low, fixed interest rate (up to three percent), payable in either cash or gold. Last year more than 20 companies arranged gold loans worth at least \$5 billion.

Gold bugs argue that the depressing effect of gold loans on the metal's price will not last.

Many gold mines took out the loans and mortgaged around 90 percent of their future production thus limiting the amount that will, in future, spill on to the open market. The gold miners' heavy mortgaging of future production has also left them vulnerable to engineering and geological problems.

Smaller and more speculative gold mines are notorious in North America for over-estimating the amount of gold they have either found or can extract. Even large mines are prone to do this.

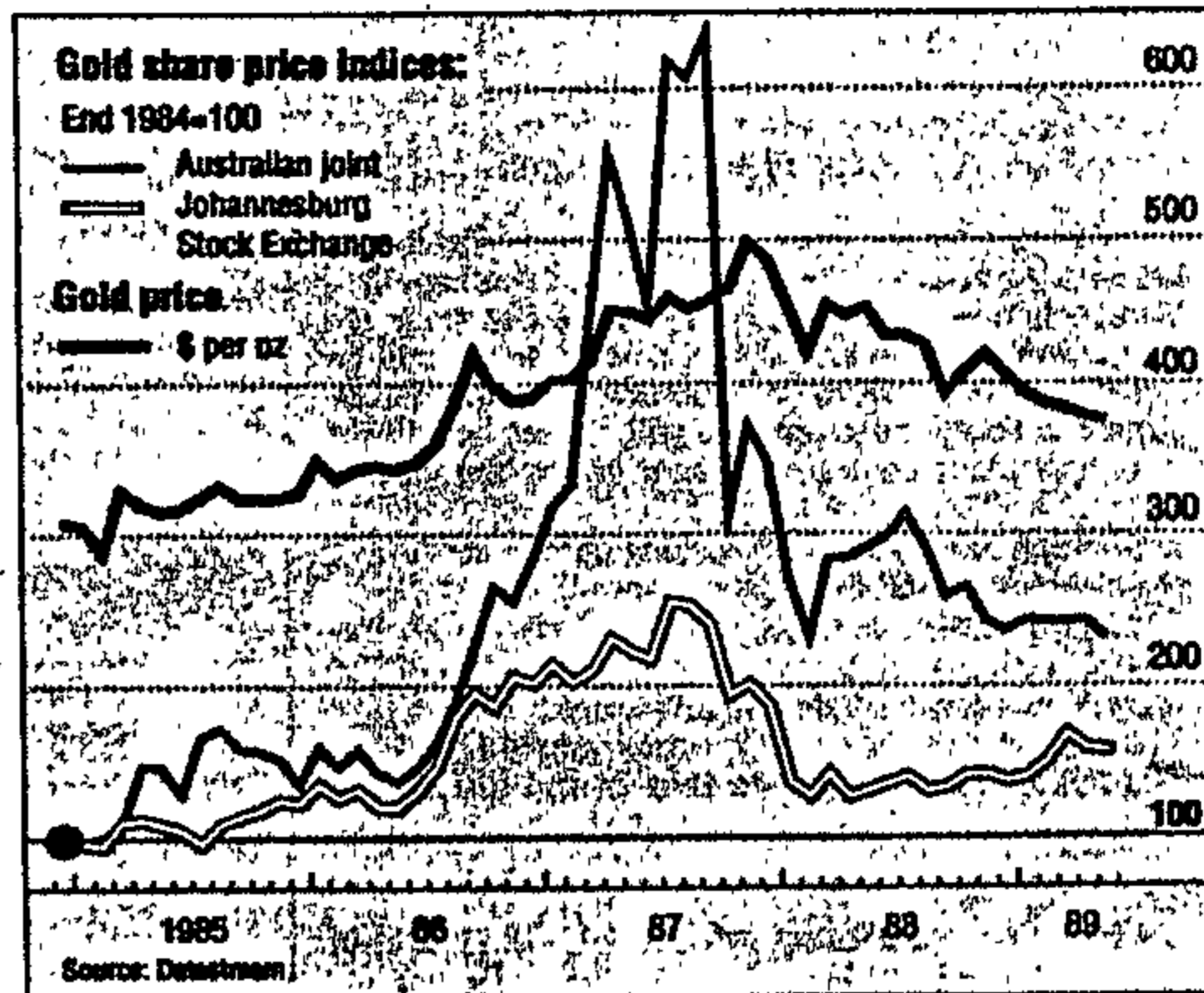
So far this over-optimism has resulted in the default of only one gold loan — an \$8 million Lloyds Bank deal for the Ketz River mine in the Yukon in Canada. But bankers are bracing themselves for more defaults. Canadian and North American deals look most likely to come unstuck.

Bonuses

That could help the gold market in two ways. Since the banks themselves have usually borrowed gold to lend to a duff mine, they will want to replace it by buying gold from the market to restore it to its original owner.

Another bonus from problems with gold loans will take longer to come through. The more defaults on the loans, the harder it will be for smaller North American mine companies to finance exploration and development of new gold mines.

Their other main source of finance — speculative issues of shares on smaller stockmarkets such as Vancouver or Denver, usually aimed at private and gull-



ible investors — has effectively been closed to them since the stockmarket crash in October 1987.

The other reason that problems with gold loans could help the metal's price is more technical. The companies that have taken out such loans may choose to repay them early. For example, Newmont Mining borrowed and sold forward one million ounces of gold last year when the price was close to \$450 an ounce.

By buying gold in the market now and using it to repay the loan, Newmont could lock in a profit of over \$80 an ounce. If the price of gold continues to fall, the temptation for Newmont and others to do so will be even stronger.

Overvalued

In the short term, many analysts think that the gold price will fall another \$50 or so before bouncing back towards \$400 again. Even at that price, shares in a lot of the newer producers in North America such as Homestake and Battle Mountain would look overvalued.

Although these companies can produce gold for less than \$400 an ounce, they will still not give investors a reasonable return. If the price of gold falls, to say, \$320 an ounce, these mines are barely covering their costs. To make, say, a six percent return on their investment, the gold price would need to rise to (and stay at around) \$1 000 an ounce.

The most tempting gold shares appear to be the long-out-of-favour South African stocks. American institutional investors who are

susceptible to pressure from trustees have dumped these shares.

As South Africa withdraws from Namibia and appears to be more conciliatory, these investors are beginning to look at Johannesburg's mining shares again.

Since the stockmarket crash in October 1987 some South African shares have fallen by almost 70 percent. Until late last year these companies had been bailed out by the fall in the rand against the dollar. Since their costs were in rands, any fall in the South African currency offset the lower price their gold fetched on the world market.

Cost cutting

That is changing as the rand steadies against the dollar — but that is forcing companies to cut costs. The mines' heaviest cost is labour. Often South African mines provide subsidised accommodation, medical care and meals for their workers. The cuts mean that companies such as Gencor are making conditions bleaker for the black workers just as South Africa's reputation in America is beginning to improve.

The longer-term prospects for the gold price look duller. Barring a crisis, either financial or political, in the next couple of years which sends panic-stricken investors into gold. The price is unlikely to push much above \$400.

The trouble with gold is that it is never consumed. Higher prices and shortages tempt Joe (and Josephine) Public to flog their cufflinks and jewellery. The habit won't change. — The Economist

Govt refuses Rand Mines request for assistance

By BRUCE WILLAN

THE decision by the Ministry of Finance to refuse Rand Mines's request for assistance for the JPM and Durban Deep indicates the government's attitude towards the private sector taxpayers.



Diagonal Digest
By BRUCE WILLAN

However, the government has always seen it fit to take more and more from taxpayers, companies and traders when it has over-extended its budget.

But, when part of the income source starts failing due to circumstances beyond its control — in this case the lower price of gold and escalating costs — the authorities are not prepared to dip into their pockets to lend a helping hand.

While I am sympathetic towards the crisis the government faces right now in terms of the debt standstill, diminishing reserves and a declining currency, Finance Minister Barend du Plessis made a provision in his Budget of some R1bn in a contingency fund for emergencies.

It would be prudent of the authorities, especially in an election year, to assist both these mines, preventing possible closure and leaving many people without jobs.

Understandably, a major percentage of these miners have no vote under the current system, but what of those who do. Not only are ERP and Durban Deep facing this threat but there are several other mines as well.

I doubt very much if there are enough jobs available in the industry to take care of those who might be retrenched. Added to this, investor confidence in the SA economy would be diminished quite considerably not only by local investors but also European (the French have long favoured ERP even though it has remained close to going under for some time).

Rand Mines has another route it can take to alleviate the problem — a rights issue which is very unlikely or it can borrow money.

The latter will place a greater strain on the mine in the long term and investors will wait some time before any return is realized.

Also, why should marginal mines suffer when farmers (they also are in business to make profits) can claim against tax for a multitude of items and get assistance from the government at the same time due to droughts and natural disasters.

Is it a case of double standards being applied? THE latest rally in the gold price may just surprise us and stay around for some time — enough to push gold shares higher.

But, my feeling is that the US economy has just started to crack and the latest GNP figures show that credit inflation is beginning to rear its ugly head.

Already Japan and the UK have raised interest rates to stem the outflow of capital caused by the strong dollar.

Both countries have indicated there is a chance that further increases are possible and could even be initiated as early as next week.

This leaves Germany, France and Switzerland to follow.

In broad terms when interest rates begin to go up, gold and shares are neglected and drift down, a sure indication to sell and hold interest bearing investments such as government bonds or quasi-government stocks.

But, this being an election year for SA, our rates have already gone up and according to analysts it is unlikely that interest rates will be raised before the outcome is known.

It is more than likely, should things work out as planned, there may even be a lowering of rates just before the election.

However, I do not subscribe to this as the rate of inflation creeps up and the rand falls the situation becomes worse for all of us.

As for the share market, no clear trend has developed over the past few weeks and it would be difficult to forecast what could happen over the short term.

Clearly the long-term trend of gold in rand terms is down, yet overall the returns on investment on the JSE continue to outstrip inflation.

The best philosophy, to my mind, would be to concentrate investments in sectors which are non-cyclical such as food, bearing in mind the debt structure of such companies and looking towards the more sanctioned and diversified companies.

Also there are a few groups which are growing into well-structured companies with clearly defined marked areas of interest. One such company is Tollgate.

However, a measure of caution should be added when looking at these diversified groups.

Take careful note of the various interests under its control, are they relatively sanction free, not affected by internal boycotts, what sort of debt equity ratios does the group have, is it involved in growth areas.

These are just a few pointers which may indicate whether a company is likely to survive a severe economic downturn which seems to be around the corner.

FINANCE

R3bn bonds change hands

Day 29 | 5 | 89

CHURNOVER was good for the winners but painful for the losers in last week's bond market, which recorded deals on the JSE floor amounting to about R3bn.

All the elements were present to give the punters plenty to play with. Soothing words about the economy came from the Reserve Bank Governor who said there was no reason to panic about the gold price. But the gold price did not respond to the governor's exhortation. It continued to droop until central bankers attacked the US dollar.

Offsetting the gold price panic were the better money supply figures. But the drooping rand undermined confidence gen-

19

HAROLD ERIDJHON

erated by the money aggregates.

Dealers switched from bearishness to bullishness at the drop in a yield point. Then back again, almost hour by hour, with profits — and losses — accruing on one or two point movements.

On balance, the Eskom 168 moved from a 17,62% high (with the bears dominant) to a 17,40% low when the bulls emerged, forcing the bears to cover. Some dealers said the drop in yields was a much-needed technical correction. Perhaps the only technicality involved was covering open positions.

(79)

Agriculture compensates for gold price

B/Dan | GERALD REILLY 30/1/57

PRETORIA — Foreign exchange earnings from the most bountiful agricultural season for years will help substantially to compensate for lower gold earnings because of the metal's depressed price

SA Agricultural Union economist Koos du Toit said last year's agricultural exports earned the country about R2,2bn. This was less than half of this year's expectation of about R4,5bn.

He said yesterday that without the great performance of the farming industry SA's balance of payments problem would have intensified, as would repaying the country's international debt. Grain exports alone this year would earn R2bn.

Guaranteed

The Maize Board estimates earnings of R1,5bn from the export of just over five-million tons, and Wheat Board GM Ivan Hemingway said the 1,1-million tons of wheat to be exported this year would earn in excess of R400m, depending on conditions on world markets.

Hemingway said about 600 000 tons of the record 3,5-million ton harvest would be carried over into the new season starting in October. This was about three months' supply and was a guarantee against late deliveries of the new crop.

Du Toit expects big earnings, too, from the export of sugar, deciduous fruit and wool. Wool's earnings, if current conditions continue, could exceed R800m.

The Reserve Bank said gold last year earned R19,6bn and the average price worked out at \$437,09 an ounce.

In the first quarter of this year, the price averaged \$394,06 an ounce, and since then the price has continued to sag to yesterday's level of about \$361.

Economists say there is little likelihood of a spectacular increase in the gold price, and gold earnings will be well down on last year.

World's gold operations under whip

By Neil Behrmann

LONDON — Gold mine operations worldwide are under pressure after the collapse in precious metals prices to their lowest levels in several years.

"We have been more optimistic about the gold market than others because Far Eastern and jewellery demand has remained strong," says Neil Buxton of Shearson Lehman Hutton. "But in the short term the price could fall further."

A rally could then take place in the second half of the year, if and when the dollar depreciates, he says.

Mining analysts estimate that at current prices, about 20 percent of Western production — about 300 tons — could be lost on account of closures. The bulk of that output would be South African.

So it is hardly surprising that the rand is depreciating to counter the loss of dollar revenue.

In response to weaker gold prices, two high-cost producers, Durban Deep and ERPM, have said they would be forced to shut down if they did not receive state assistance.

Most Australian and North American producers were sufficiently wise to "hedge" or insure their future production through gold loans and long-term forward sales.

Prices negotiated were mainly \$390 to \$500. So on an international basis, the Australian and North American gold producers are in a relatively strong position.

But only a small proportion of South African gold mines have sold forward or borrowed gold.

If gold remains depressed, however, longer-term Australian and North American projects come into question.

Companies will be forced to scrap new developments and exploration schemes will be put on ice.

According to Shearson Lehman, about 100 tons of Australian production is mined at under \$250 and a further fifty at under \$300. For the remaining 50 tons, costs rise above \$350.

Cost curves of the US and Canada are similar, but 200 tons of South African production will be wiped out at costs above \$350, estimates Shearson.

Gold analysts contend that when the price settles down, many mines may decide to cover at least part of their hedge positions.

The profit on their hedge positions will be substantial and could be used to finance mines.

Purchases by these producers, therefore, could well cause a rally. If profit-taking pushes the dollar lower, the rally could be swift and steep.

But at current levels, it will be extremely difficult for gold to run up to \$400 again, particularly since international interest rates are high.

A mistaken view of gold

Star 1/6/89
79
The drop in the dollar gold price since the beginning of the year has cast gloom over many investors.

They tend to see it as a sign of a shrinking demand for gold which will lead to lower gold-mining profits and a declining trend in gold shares.

But while this may have been the case in the past, this time they are mistaken.

An analysis shows the lower dollar gold price is due entirely to the rise in the exchange rate of the dollar. And far from demand for gold falling, it is possible that there has been a slight increase recently in consumer purchases.

Since February the dollar gold price has fallen by 4,4 percent.

But in terms of Swiss francs, it has risen by 7,7 percent, in Japanese yen by 8,9 percent, in sterling by 8,2 percent, in German marks by 4,8 percent and in rands by 7,2 percent.

Current prices of an ounce of gold in various currencies, with the February 3 price in parenthesis, are: dollar 362,35 (379), Swiss franc 636 (591), German marks 728 (695), Japanese yen 51 852 (47 610), sterling 231,46 (214), rands 1 010 (942)

Risen or fallen

So whether the gold price has risen or fallen depends on where you look.

Of considerable interest is the difference between the 4,4 percent drop in the dollar price and the eight percent increase in the Japanese and Swiss price.

It shows that the dollar gold price has not declined in line with the increase in the exchange rate of the dollar. It indicates that the gold price has shown some resistance to the exchange rate changes, suggesting that there has been an increase in buying.

Diagonal Street

DEREK TOMMEY



It is far too early to say whether this is the start of a bull trend. In any event, SA investors will be slow to know what is happening as long as they continue to concentrate on the dollar gold price and dollar/rand exchange rate, and ignore what is happening elsewhere.

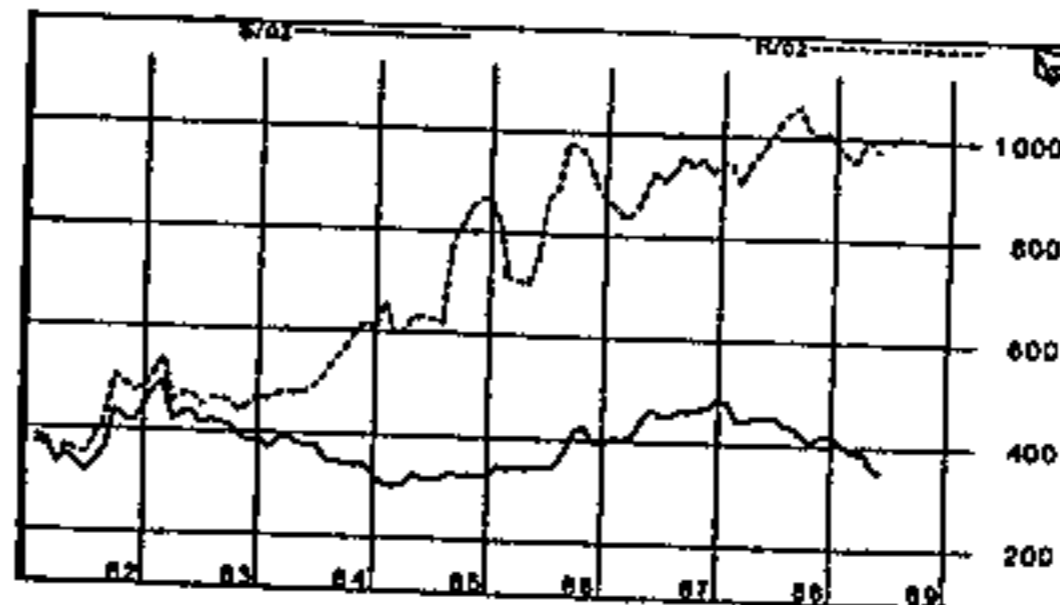
Local currencies

The fact is that most gold these days is bought in the Far East — and what matters to the buyers there is not the dollar price of gold, but what they have to pay in their local currencies — the yen and the Hong Kong and Taiwanese dollars.

So we should not pay too much attention to fluctuations in the dollar gold price caused by a firmer dollar, as is the case at present.

Instead we should keep a closer watch on what the Far East is doing.

It is the people there who are making the market in gold, and therefore it is what they do that determines what price South Africa receives for its major export.



London gold price, monthly average

Gold drifts in narrow range

LONDON. ^{CAH Trick 2/6/89 (79)} Gold bullion ended a quiet day slightly lower than Wednesday after trading in a narrow range throughout the session.

Gold ended at session highs of \$362/\$362,50 but this was down from the previous close of \$363,50/\$364.

Dealers said a quiet day for the dollar gave gold a chance to consolidate in a range between \$360 and \$365. Trading was routine and featureless, they said.

But they added that US May employment figures due today could enliven the market if the

data have an impact on the dollar.

Platinum softened in

Closing gold prices

(In \$ an ounce)

LONDON:

362,00—362,50

Fixing am: 360,80

Fixing pm: 361,40

ZURICH:

360,00—363,00

(360,00—363,00)

NEW YORK:

362,25/362,75

line with declines in New York futures to close at \$498/\$499 an ounce, after Wednesday's close of \$503,50/\$504,50.

● In Zurich, gold drifted to an easier finish in quiet trading as limited professional buying brought prices off their lows.

Gold closed at \$361,30/80, down from \$362,50/\$363 at Wednesday's close and \$0,45 below the opening, but up from lows of around \$359,75/\$360,25.

● In New York, gold closed at \$362,25/\$362,75.

— Reuter

Anglo's earnings rise by 46,2%

Gavin Relly bullish on gold's future

CHE Times 2/6/89

From REINIE BOOYSEN

JOHANNESBURG. — Anglo American's equity accounted earnings rose by 46,2% to R2,64bn (R1,80bn) in the year to March, after a substantial increase in income from its 32,5% stake in diamond associate De Beers which more than offset static earnings from gold.

Earnings a share (equity accounted) were 1 148c (1988: 790c)

A final dividend of 200c a share has been declared, bringing total distribution to 270c — 20% more than last year's 225c.

Excluding the R1,39bn retained earnings of associated companies — which represent 52,6% of equity accounted earnings — the profit growth is less spectacular, at 20,9%.

Some 30 of the company's associates are equity accounted, the largest being De Beers, Minorco, Amic and JCI.

Retentions within the group have risen significantly from last year, when they were 42,7% of equity accounted earnings.

At a media conference on the results yesterday, chairman Gavin Relly said the rise in retentions reflected well on the group's long-term strength.

Besides the need of associates to retain a greater proportion of their earnings in times of high inflation, funds were earmarked for strategic capital expansions such as Highveld Steel and Vanadium's stainless steel project with Samancor.

Other projects under consideration were an additional pulp-line for Mondi, which would cost more than R1bn at current prices; and the establishment of a primary nickel mine in the eastern Transvaal.

While De Beers became the single most important contributor to equity accounted earnings (25,7% compared with 19,3% last year), the contribution of Anglo's gold mining associates declined from 21,7% to 14,8%. Equity accounted diamond earnings almost doubled to R679m (R350m).

Other segments managed sound improvements: coal, by 57% to R80m (R51m); Rustenburg Platinum, Samancor, CMI and Palabora, by 43% to R200m (R140m); industry and commerce (Amic, Samcor, Mondi and Highveld), by 70% to R498m (R293m); mining finance, by 51% to R604m (R399m); and banking, insurance and property, by 20% to R139m (R116m).

Relly said in spite of the "sloppy" gold price, gold remained "the heart" of Anglo, and alluded to the company's intensified gold drilling programme in SA, which ran up an additional R31m in prospecting costs, to R138m.

This figure — which included Anglo's mineral rights purchases — would amount to "about R170m to R180m" through 1989 to 1990, reflecting the company's "continuing faith in the future of gold".

The two major problems for the future of gold mining were coming to grips with fluctuations in the gold price and the technical difficulties associated with deep-level mining.

On the gold price, Relly took issue with the view that the future was negative in view of the waning threat of international nuclear conflict. Anglo could "hardly wish on the world the sort of political instability on which the gold price thrives", but predicted that "a great deal of instability may well emerge in eastern Europe".

Brighter side of the dollar-gold equation

S. Times 4/6/84 79

A PLUNGING gold price is not that at all.

It is the dollar that has been revalued against almost everything else.

Although Americans are better off than the rest of the world, the net effect on some other countries has been positive as well.

The many winners are those nations which primarily export commodities to dollar markets while buying their imports from non-dollar regions, such as Europe and the Far East.

South Africa's export bliss on account of the dollar must be qualified.

SERENE

The price of gold in non-dollar terms, such as the mark, yen and pound, has remained serenely stable in recent months, but its dollar price plunged as the US unit strengthened against all currencies.

However, the remaining two-thirds of our exports, such as diamonds, coal, platinum, base metals, paper, iron and steel and bulk chemicals, by and large continue to fetch the same dollar prices as before. Their export earnings have therefore gone up in non-dollar terms.

In contrast, our imports are to a limited extent from dollar markets — oil, for instance — and in far greater measure from European or Asian nations.

In terms of a simple calculation, the increased cost of the third of our imports coming from dollar regions is compensated for by the third of our exports earned in dollar markets.

The unchanged value of gold exports in non-dollar terms can be offset against a third of imports coming from non-dollar markets.

That leaves a third of exports earned in dollar markets having gained a benefit from the dollar's rise compared with the remaining third of imports being bought in non-dollar markets.

On balance, therefore, our trading position has gained slightly by the dollar's rise even though the dollar price of gold has been knocked.

Our foreign debt does not really change much because two-thirds of



it is dollar-denominated, nicely corresponding with the non-gold portion of our exports that have not suffered because of the dollar's rise.

As such, our foreign debt exposure has been insulated against any dollar strength.

However, one should not stop at the balance of payments.

This currency shift also has implications for the domestic economy. There are at present distinct areas in the economy experiencing a slowdown. They are receiving full attention. But there is little focus on the areas that are still winning.

If we take the building industry as being most interest-rate sensitive, and consumer durables, such as furniture, domestic appliances and luxury electrical goods, as being most sensitive to hire-purchase requirements and property market conditions, then we have isolated the larger part of the slowing sectors.

INSULATED

We may add new cars as having plateaued.

These sectors, with everything that goes into them, represent 11% of gross domestic product according to the national accounts for 1988: 5.5% for residential and non-residential building activity and another 5.5% for all consumer durable goods.

However, these pressured sectors of GDP must be contrasted with the ones that are still enjoying exceptional stimulus.

When one allows half of mining to be non-gold and representing 6% of GDP, we have a sector whose output goes mainly abroad — except for the greater part of coal production.

This sector is enjoying buoyant sales conditions in volume terms.

It has now raked up a 25% increase in its rand prices compared with a year ago, purely because of exchange-rate changes. If the dollar were to strengthen further, an even greater rand bonanza awaits these exporters.

This must be seen in addition to actual dollar price increases still being enjoyed by most of those commodities.

FARMING

Another gainer is agriculture, whose 5% contribution to GDP this year also stands to gain much because of recent favourable climatic conditions.

In the remaining 80% of the economy, of which public and private services comprise more than 50%, sectoral analysis can identify more winners and losers.

Some destocking is going on in the distribution pipeline of most manufacturers, wholesalers and retailers.

However, such destocking is not huge and will not last, even while final demand in most of these sectors continues strongly, especially when connected with basic consumer spending on semi-durables and non-durables.

Gold-mining output continues, but cost cutting is under way in terms of the profit squeeze experienced by the mines and which is having a feedback to their supply industries.

For the overall economy to flat-

ten out, it will be necessary for such final demand on the part of consumers, and company spending on fixed investment to peter out.

For that to happen, Government spending must slow down, seasonally adjusted, corporate fixed investment spending must go into reverse and consumers must get a sufficient fright from an easing job market, increasing bankruptcies and insolvencies, and lower wage settlements to tighten their belts.

BUOYANT

The assumption can be made that as the leading sectors ease, so they start undermining the forward momentum in the sectors that are still buoyant.

That at least has been the intention of the policy action seen so far, aimed at causing a "headwind" counter to the economy's general forward drive.

To be successful in forcing the economy to a standstill, the so-called soft landing, or to even dip it lightly into recession, it is necessary for these recessionary forces to get the upper hand.

However, we may underestimate the stimulative strength still forthcoming from non-gold mining and agriculture, Government spending and industrial fixed investment, and then the consumer's position generally.

HEADY

Although the economy is no longer accelerating at its heady 1988 pace, it is the extent of any deceleration currently under way that is proving so difficult to pin down.

The authorities hope to reduce the pace of an annualised 6% growth in total domestic spending in the first quarter to 1% for the year as a whole.

Given the still considerable growth forces on the loose, it will take more brakes to get there.

Gold rises after Beijing

The gold price rose by almost \$8 at the weekend as the bloodshed in Beijing sent prices on Hong Kong's stock market into a 22 percent freefall today.

Gold is a traditional haven for investors in times of international turmoil and, in the wake of the news from China, many investors sold their shares and put their money in safer securities, including gold.

Bullion opened in Hong Kong at \$369.40 after it closed in London on Friday at just over \$361. Johannesburg Stock Exchange share prices are expected to rally today in the wake of the firmer gold price.

The Hang Seng index of the Hong Kong stock market plunged by over 22 percent or 590.09 points in the morning trading session to 2 085.29, and few brokers would predict how far it would plunge.

Since 1983 when the government pegged the Hong Kong dollar to its US counterpart, Hong Kong's stock market has borne the full brunt of political fears. — Finance Staff-Reuter. *Stw \$16189*

Minimal increase in reserves ^{Star 7/6/89} ₇₉₇

South Africa's gold and foreign exchange reserves last month again showed only a marginal increase.

The latest Reserve Bank figures show that after rising by 0,8 per cent in April the figure for May was 0,9 per-

cent at R5,203 billion compared with R5,157 billion the previous month.

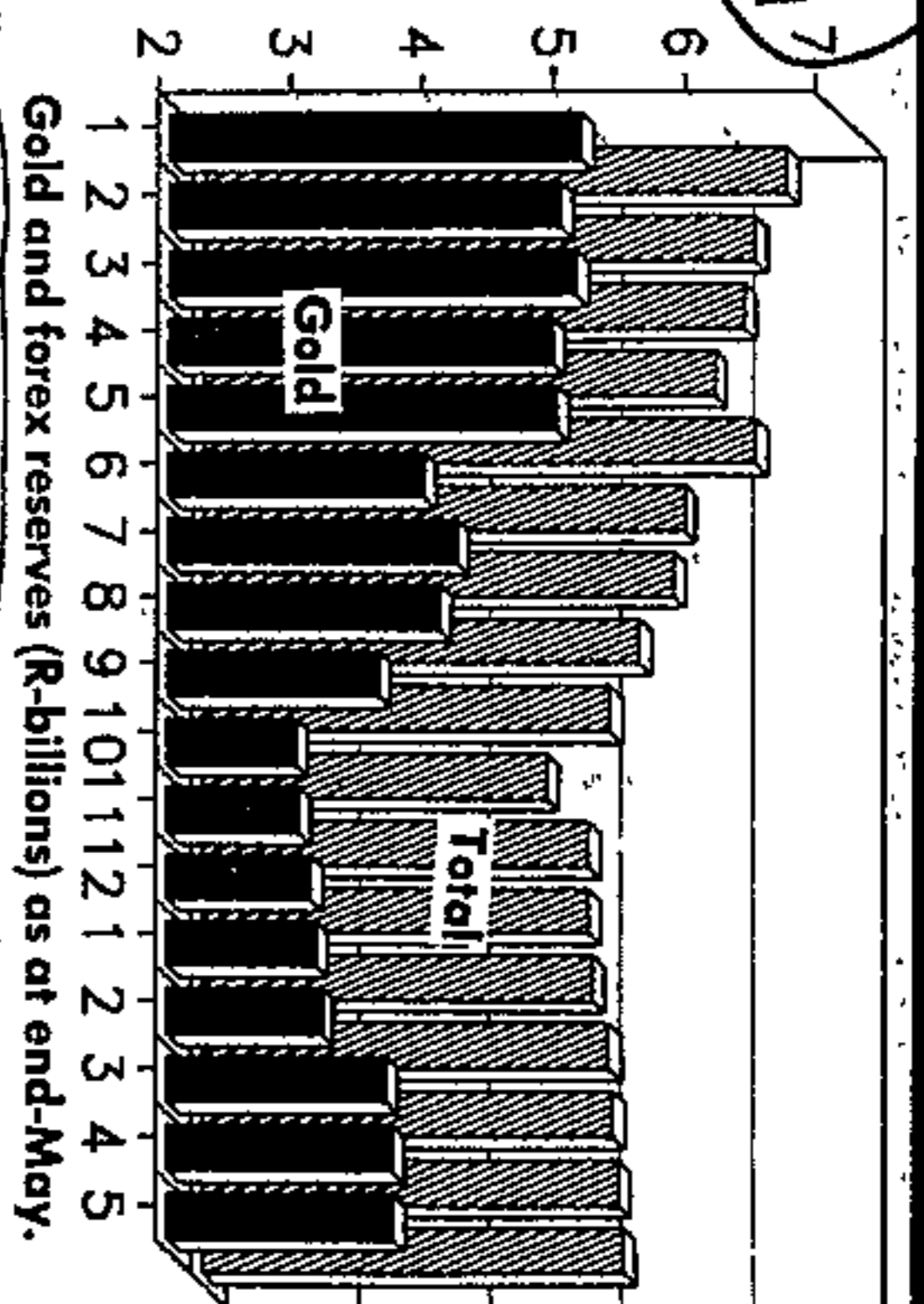
Total gold holdings rose fractionally by 0,5 per cent to R3,728 billion (April R3,707 billion). The rise in foreign

exchange holdings was minimal at 0,3 percent. The figure rose to R1,334 billion from R1,330 billion. During March the foreign reserves fell by 25,6 per cent.

The ratio of gold reserves to liabilities to

the public less foreign assets was ~~50,9~~ ^{72,8} percent.

The gold reserves at the end of May were valued at R912,84 an ounce compared with R882,96 an ounce at the end of April. — Sapa.



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Gold soars \$12 to four-week high

By Sven Lünsche

Gold prices have soared to four-week highs as investors, reacting to the continuing political turmoil in China, flocked to buy the precious metal.

The dramatic \$12,40 recovery in New York, to a close of \$377,75, comes at a crucial time for South African marginal gold mines, which have been under threat from the falling bullion price since the metal hit three-year lows just two weeks ago.

The higher gold price and a lower rand exchange rate — the rand closed slightly lower at R2,78 against the dollar yesterday — pushed the rand price of gold to a year's high of around R1 050.

Gold mines receive their payments in rands, so the latest rise will certainly ease the immediate pressure at about 10 gold mines, which are making serious losses when the gold price falls to levels of under \$370.

However, it is doubtful that it will help the two mines under the most immediate threat — East Rand Proprietary and Durban Roodepoort Deep. They will be closed by its owner, Rand Mines, unless Government assistance is forthcoming.

Gold's recovery followed a decline in the US dollar yesterday.

● See Page 14.

GOLD SOARS ⁷⁹

CAM Times 7/6/89
GOLD prices soared to three-week highs in New York yesterday in reaction to violence in China.

The metal closed at \$377.75 compared to the London close of \$365. On the New York Commodity Exchange, August gold gained \$10 to \$380.80.

"The first round affect of the upheaval in China was a rally in the US dollar and it looks like the reaction is setting into gold," said Mr Jeffrey Nichols of American Precious Metals Advisors.

Analysts believe that the gold market may be looking forward to renewed gold purchases by the Chinese.

● Gold soars — Page 9

● China bullish for gold — Page 11

Tianarmen troops 'given stimulants'

From IAN BALL

NEW YORK. — Chinese People's Army soldiers who were ordered to use force to clear Tiananmen Square of protesters at the weekend were given injections of stimulants before they moved in, Cable News Network said.

Correspondent Mike Chinoy said traces of drugs had been detected in blood and urine tests taken at civilian hospitals where wounded soldiers were taken for treatment.

The report said some of the soldiers treated at civilian hospitals spoke of being given injections just before going into action.

Gold puts up a spirited show, but it's still a gamble

(79)
Star 8/6/89

Things are moving very fast indeed in gold's sphere of interest. Some impressive speculative profits have already been made this week by investors who have gambled on marginal gold shares.

Although the price of bullion has tumbled in dollar terms because of the rising strength of the dollar, in terms of other world currencies it has remained relatively stable.

Fundamentals favouring the metal have been building up steadily. Other than war and the threat of war, rising inflation or the fear of rising inflation is the closest ally of a rising gold price. Throughout Europe and North America the inflation indices have been rising very strongly.

Adding to the inflationary pressures has been a recent strong rise in the international oil price as Opec nations seem to have found new agreement on restricting sales volumes.

The weekend death of the Ayatollah Khomeini and the uncertainty that logically follows such an event poses further short-term questions over the oil supply from the Middle East and further exacerbates the inflation equation.

Fortuitously for gold, the civil war in China erupted at the same time.

Diagonal Street

RICHARD CLUVER

It would, however, be wrong to be over optimistic about gold at this stage of the game. The rising trend will have to be evident for several days more before anyone would be prepared to seriously gamble upon it. But there are certainly quick trading profits to be made if the price continues to rise for the next day or so.

For those prepared to gamble, the biggest trading profits are likely to be made at present from investments in Loraine, Blyvoor, Leslie, Grootvlei, and Vlaktefontein.

For the more cautious, the best options are Dries Consolidated and Deelkraal.

If this is indeed the beginning of the long-awaited gold price recovery then the world could be looking at the most explosive upward price surge that gold has ever made.

The reason is the existence of massive leveraged forward contracts that have been taken out in the world's futures markets.

Numerous gold mining companies, sensing the likelihood of a medium-term gold price slide,

began a year or so ago borrowing bullion from the banks and selling it into the physical markets against undertaking to repay it from their newly mined production in the months which have followed.

They have scored handsomely by doing so, but, many have been unable to produce enough of the metal to replace all that they borrowed. As these replacement contracts have fallen due they have thus been obliged to buy the metal on the open market. That has, with the price down low, not been a problem.

Clearly, however, should the price begin to soar these producers will have to protect themselves by buying contracts in a probably very overheated futures market.

It is very early days yet and one should not gamble unless one can really afford to do so.

For a South Africa which is presently facing a new crisis of her own, the development might well have come in the nick of time.

With our Reserve Bank holdings of gold and foreign exchange now down to approximately \$1.87 billion and a \$600 million foreign loan due for repayment this month, our economy needs all the help it can get.

Is gold heading up a bull market?

216
79

It is only two weeks ago, on Friday May 26, with the gold price at \$360, that I wrote in this column that the metal had run into a very important resistance point.

A reversal pattern known as a wedge was forming and "the potential for a turn in the fortunes of the gold price existed".

The timing of the article could not have been more fortuitous. Bullion suddenly began to take off, first to \$360 on June 2, in response to the lowering of interest rates by some US banks, and then to \$377 on June 6 in response to the political turmoil in China.

At the same time or writing, the gold price at \$375 is only \$15 above the \$360 low which is certainly no big deal, and the

Diagonal Street

ISSY BACHER



question to be answered is whether this is merely a rally in a bear market or the beginning of the real thing.

Gold shares have risen remarkably in the past two days. Is this a flash in the pan and could the positive trend abort soon, as it has in the past?

To answer this we must look elsewhere for clues. Experience has shown that North American gold mines and ASA Ltd, the only quoted stock on the New York Stock Exchange that holds South African gold shares in its portfolio, have the ability to re-

flect the turning points in the gold market ahead of gold itself.

These two bellwether indicators are also especially reliable as they are not clouded by the fortunes of the financial and commercial rand, which have marked influences on SA mining stocks traded overseas.

The top graph, of the Toronto Gold Index, illustrates a classical reversal pattern known as a "double bottom".

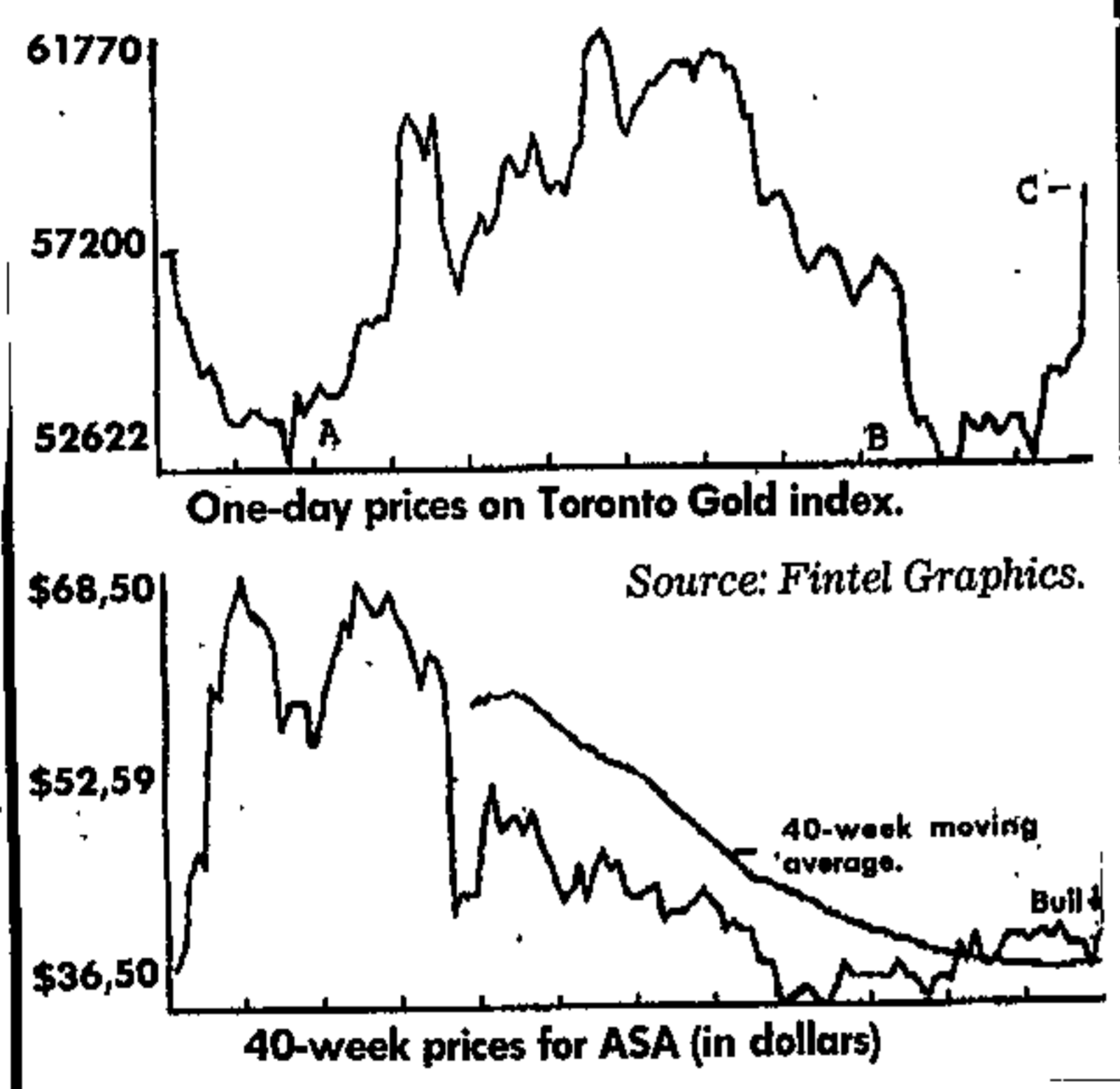
Note point "A" on the graph, the level that the Toronto Gold Index fell to when the gold price reached a low of \$383 on April 26. Point "B" is the level that Toronto Gold reached when the gold price sank to a new 18-month low of \$360 but note that the index at "B" was exactly the same level as at "A", and had refused to fall in line with the

new low of the gold price.

"A" and "B" have thus taken a "double bottom" pattern which usually signals the end of a bear market. The recent powerful rise of the Toronto Gold Index to 5836 at point "C" confirms the start of a new bull market.

ASA, in the second graph, has been stronger than Toronto. In fact it has been rising steadily in the face of the declining gold price and is above its 40-week moving average. This separates bull from bear territory and therefore, according to this theory, ASA is in a bull market.

CONCLUSION: Technical evidence points to the end of the bear market in both bullion and gold shares on the JSE. A gold price above \$380 is needed to confirm this fact.



Gold shares have topsy-turvy week

GOLD share prices ran ahead this week, slowed down to a skip, and then turned down in line with fluctuations in the dollar gold price.

The JSE Gold index started the week at 1390, moved to a high of 1516 before retreating to 1485 yesterday. The about-turn came about as the promising firmness in the dollar gold price turned out to be a false alarm.

The London gold price rose to above \$374 an ounce on Wednesday and Thursday before backing off to drop to \$363,75 yesterday.

Trading has been quiet dull for most of the week and the JSE Overall index declined by 12 points to 2531. The JSE gold index fell by 31 points to 1485, and the Industrial index by 3 points to 2514.

Many gold shares eased following the drop in the gold price, but there was no evidence of panic selling. However, the worsening US inflation rate has not affected gold yet.

Zandpan dropped from 425c to 415c yesterday. Beatrix and Joel were unchanged but Loraine dropped 10c and Deelkraal 40c. Wit Nigel put in a pleasing performance, its price soaring by 47 percent to 99c.

Coal shares, benefiting from the weakening rand, remained firm. A feature in this sector was GF Coal. This has moved up more than 100c in little more than a week to 820c. Brokers point out that it is on a dividend yield of 11,5 percent and if bought now shareholders would qualify for a dividend in both June and December.

Insurance share Santam, which is still cumdiv, was steady and has been trading on dividend yield of 9,5 percent.

LYNNE PEACH

Brokers believe the share has been neglected. HCI has also been neglected and should also benefit from what has happened at IGI.

Printing share Clegg, which was unsuccessfully listed some time ago, was actively traded at 27c suggesting that many of the shares overhanging the market have now been taken up.

The underwriters were left with a substantial quantity of shares at 60c each.

Cashworths' share price remains weak in spite of talk of an attractive cash offer of well above 48 cents. Brokers say that it has sold off all its assets and is now a mere cash shell with the cash alone providing a net asset value of between 70c and 80c compared with the latest disclosed amount of 6c.

Cashworths is believed to be moving to a different field and that an announcement will be made in the next two weeks. There is talk of an offer of 65c to 70c which could be made to the minorities.

Drivotech is said to be about to take over a major portion of Tollgate's assets which could affect its price.

Barlows has been strong this week as has Hunts (now 1050c) while Amic has jumped R5. This is attributed to institutional support which has remained strong in spite of reports that they were taking a cautious view of the market.

Recently listed Digogo is looking rather sick. It was listed at 60c but has collapsed to 20c with buyers offering 15c.

Gold price ^{star 12/6/87} strengthens after plunge

Finance Staff (79)

The gold price rallied slightly in Hong Kong today after falling to its lowest level in almost three years on Friday in New York, closing at \$357.25.

Gold opened at \$359.90 in Hong Kong today, but analysts predict a continued slide in the metal.

The latest plunge will again put pressure on South Africa's marginal mines, which depend on a higher gold price and a weaker rand for profitability.

In addition, it will once more increase pressure on the Government to announce whether it will assist mines in danger of closure, particularly ERPM and Durban Roodepoort Deep.

The latest collapse started in New York on Friday after a surge in the dollar above the crucial 2 Deutsche mark level saw the price decline by about \$16 on the New York Commodity Exchange.

● See Page 11

Gold slides despite higher US inflation

79
Star * 12/6/59

Finance Staff, Reuter and AP
The gold price hit a three year low in New York on Friday when it closed at \$357.25, after a surge in the dollar saw the price decline by about \$16 on the New York Commodity Exchange in hectic trading.

It rose slightly in Hong Kong this morning to open at \$359.95.

Gold recorded its previous low on May 22 in London, when the metal was fixed at at \$359.75.

Investors were caught totally unawares by the price collapse — particularly since earlier last week, political ferment in China breathed new life into flagging gold futures as investors rushed to put money in tangible investments, sending gold prices to four-week highs and lifting the spirits of metals traders.

Wholesale inflation

Friday's selloff came despite what should have been good news in the form of sharply higher US wholesale inflation last month.

The US producer price index (PPI) climbed by 0.9 percent in May, higher than had been expected.

But gold, traditionally regarded as the ultimate inflation hedge, took what one New York analyst described as "a wrong turn".

When prices failed to rally on the inflation news, speculative selling took over and the metal began to tumble, taking other metals with it.

"The inflation rate was more than twice April's 0.4 percent and gold went flat," said a trader in New York.

Gold's failure to scale new heights on the producer price news was described as an emotional let-down by another disappointed trader.

Instead of being greeted by a rise in precious metal prices, the US inflation news pushed the dollar steeply higher against all the major currencies — it once again scaled the D-mark 2 level.

The higher inflation rate is unlikely to see a further easing of US interest rates, which makes dollar-related investments more attractive.

Market players reacted to the higher dollar by taking profits on the earlier gains of precious metals.

However, there is some consolation in the news that the turmoil in China has brought a sudden rush for gold in Taiwan.

"Our sales of gold bars have risen two to three times," Judy Yeh, assistant vice president of the China Trust Precious Metals Corporation, Taiwan's leading bullion importer, said on Friday.

She said her company was doubling gold imports from Switzerland to meet growing demand, but declined to give figures.

"I believe the current shopping spree for gold will continue at least for the next two weeks," she said.

Taiwan's gold imports in May plunged to 12.01 tons worth \$149 million from 17.58 tons valued at \$223 million in April and 38.01 tons worth \$546 million a year ago, according to the finance ministry.

A ministry official said the decline was mainly due to a suspension of imports by the central bank, which had not bought gold since last July.

The government stopped buying gold from the US after criticism from Washington that the imports were Taipei's way of artificially reducing its huge trade surplus with the US.

Rush to buy

The rush to buy gold, mostly by individuals, in Taiwan is expected to push June gold imports higher, dealers said.

"We expect the June imports to rise possibly to 20 tons," Ms Yeh said.

A Japanese dealer said the rush for gold was owing to expectations of price increases as a result of the chaos in China.

The Finance Ministry official said about 50 percent of gold imports in May came from Hong Kong, with the rest from Switzerland, Britain and other countries.

Last year, Taiwan overtook Japan as the world's largest gold importer, with imports, excluding coins, totalling 351 tons, against Japan's 297.09 tons.

Price revival will not rescue marginal mines

B/Dun 12/6/89

79 REINIE BOOYSEN ()

THE brief revival of the gold price last week to around \$378 had no effect on negotiations between Rand Mines and government to save marginal mines ERPM and Durban Roodepoort Deep, director Clive Knobbs said yesterday.

"One really has to watch the rand gold price, which has been fluctuating between R32 200 and R33 200 a kilogram," he said. This range was lower than the R34 000 average gold price assumed in the ERPM rescue plan announced in February.

Knobbs said a gold price revival was usually associated with a strengthening of the rand, which tended to negate the dollar gold price improvement.

He said the brief revival of the gold price was an anomaly associated with the troubles in China. "It was really quite ephemeral. The fundamentals for gold are still not good, although I am more optimistic than three months ago. But we could see the gold price knocking at around \$400 before the end of the year.

"There are indications that gold production in Australia and the USA may not meet forecasts. Some estimates are that US gold production this year may fall as much as 25% short of the forecast 200 tons. This could have quite a lively effect on the gold price, although other factors like real interest rates and the strength of the dollar must be considered."

Another mining house official said the brief revival in New York was provoked by speculators who "rode the gold price up, and then bailed out when they realised that the gold price would not go much higher".

He said the market was vulnerable because it had recently relied heavily on demand from Japan, Taiwan and Hong Kong, which offset divestment in the West. But demand from the Far East was declining.

The Chinese troubles had not sparked a significant increase in gold buying in Hong Kong, and tightening of border controls could restrict the illegal trafficking of gold to the mainland.

□ Rand Mines was hoping to hear early this week whether government would provide financial assistance to prolong the life of ERPM and Durban Roodepoort Deep, said Knobbs.

... out

Shaky opening forecast for JSE

8/Day
12/6/89

Gold plunges in stampede for dollars



AN INTERNATIONAL stampede into the US dollar and US bond market sank gold and platinum in chaotic currency and bullion markets on Friday.

SA's short-lived euphoria after the gold price surge on Wednesday last week, which sent gold leaders and marginals climbing, turned into dismay on Friday afternoon when gold sank below \$370 to \$368,25 at the London afternoon fix.

But the JSE closed before gold plunged \$15 to \$357 in New York on Friday as the dollar soared, depressing key West German currency above the DM2 level again.

Platinum, with its huge demand potential on the EC adoption of US-style pollution norms for new car models in 1992, recorded a drop of \$17,40 to \$485,70 for July contracts.

Although the Hong Kong gold price improved slightly to \$360,50 on Saturday, general opinion was that the metal faced a battle against a surging dollar this week.

In general, brokers predicted a shaky opening on the JSE gold board today and great volatility in the gold price and gold

LIZ ROUSE

shares this week as the dollar appeared to be set on its upswing.

Gold's decline came as no surprise to seasoned Johannesburg brokers and analysts because of its failure to follow through on last Wednesday's \$374 level. Overseas analysts expressed doubt that the metal's surge was caused by turmoil in China.

In fact the Far East, Japan in particular, opted for US securities and bullion operators promptly cashed in their profits after the brief gold surge.

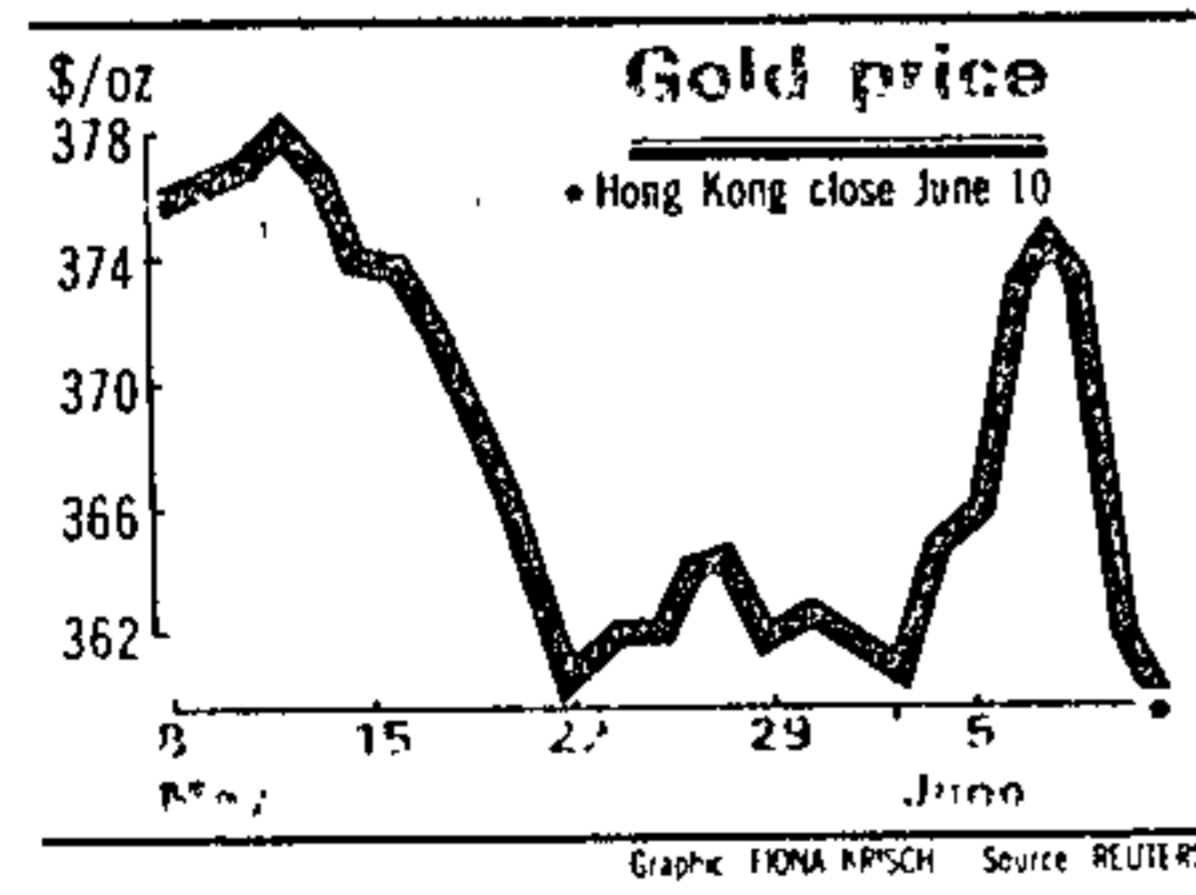
A leading Johannesburg broker said the metal could fall back to the \$340/\$320 range, leaving SA's marginal mines exposed to the possibility of closure and bringing the country's balance of payments under pressure.

Prognosis

SA's loss in export earnings was calculated at R2,2bn if gold stayed below \$370 for the rest of the year. The possibility of a decline to the \$340/\$320 range has even more serious implications of recession and higher interest rates.

But continued turmoil in China, where the situation cannot be quantified by Western observers, an ineffective performance by Japan's new prime minister Sosuke Uno, added to the changes in Poland and violence in parts of the USSR — involving a quarter of the world's population — could change the prognosis for gold.

A broker pointed out physical offtake of gold was usually poor between May and August and the metal was being crunched in the jaws of the mighty dollar at the worst time.



Rampant dollar skittles the rand

Stew 13/6/89

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Finance Staff
A soaring US dollar and the tumbling gold price sent the rand skittling to a three-year low of R2,8340 (35,08 US cents) on the local money markets yesterday as importers rushed in to cover their forward positions.

Currency dealers said last night that the rand could soon drop to as low as R3,00 (33,3 US cents) if the gold price did not recover soon.

The gold price tumbled below the critically important level of \$360 yesterday for the second time in less than two weeks as world financial markets witnessed an unprecedented flight into the dollar, a role normally assumed by the precious metal.

As gold slipped to an opening of just over \$357 in London yesterday the rand immediately fell to its lowest level since August 1986 in early trading, when it was being quoted at R2,85.

However, some of the lost ground was regained towards midday when the currency was quoted at R2,83 to the dollar a level it held until the close of trade, supported by a slight rise

in the gold price.

Gold eventually closed at \$359,50 in London and this morning in Hong Kong opened up almost \$2 higher at \$361,85.

In the week ahead dealers are nevertheless predicting a slight decline in the rand with Volkas forecasting that the currency will trade within a range of R2,81 to R2,86 against the dollar.

More pressure could be exerted on the currency towards the end of the week when a large slice of South Africa's debt repayment will have to go through.

The financial rand yesterday held steady at R4,21 against the American currency and the rand was also holding its levels against other major Western currencies, a continuation of the trend evident since the beginning of the year.

While the rand has already fallen by about 20 percent against the dollar it has eased by only five percent against the Deutsche mark.

This is also reflected in the rand basket of currencies to which the dollar contributes only about 35 percent — the annual

decline in the effective currency basket is slowing down from a peak of about 17 percent in November last year to about 10 percent at present.

On the JSE gold share prices were holding steady at their sharply lower morning levels at noon yesterday in thin and nervous trading, as the market awaited the next move in the bullion price.

The all-gold index was down by 57 points to 1428, while the overall index closed the day at its midday rate of 2431, 40 points down on the day. The industrial index eased 22 points to 2514.

The dollar powered ahead to close at a 30-month high in Europe on growing confidence that US interest rates would stay high for the time being, dealers said.

The dollar closed in London at Dm2,0260 and 148,88 yen after ending on Friday at Dm2,0055 and 146,30 yen, Reuter reports.

In early Tokyo trading today the dollar was holding steady at 148,90 yen and Dm2,0233.

Even concerted Central Bank intervention could not stop the rise.

Dealers said if US economic statistics due out later this week were reasonably favourable, the dollar had the potential to reach Dm2,05 or even Dm2,07.

Economists expect the US trade deficit for April, due on Thursday, to be \$8,6 billion after \$8,9 billion in March.

But some dealers in Frankfurt said there was a feeling in the market that the deficit could be smaller and perhaps even as low as \$6 to \$7 billion.

"If the figure really was that good, we'd go to Dm2,07," a dealer said.

3-year ⁷⁹ *CPL 12/13/89* gold low

THE gold price fell to its lowest level in three years on international markets yesterday.

This, and a rampant dollar, drove the rand to a record low and foreign exchange dealers in Johannesburg believe the currency could soon reach R3 to the dollar.

Gold at one stage touched a low of \$357 an ounce, before recovering marginally to \$359,90 in London. In New York it closed on \$361,25.

Gold shares on the Johannesburg Stock Exchange closed above the day's lows, although some fell by as much as R11 each.

An ominous sign for gold was that oil prices slumped by as much as 50c a barrel, calming fears of rising world inflation.

● See Page 8

Dollar's surge drives gold price even lower

Star 13/6/89

Finance Staff

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The gold price yesterday tumbled to below \$360 an ounce for the second time in less than two weeks as world financial markets witnessed an unprecedented flight of money to the US dollar.

The metal recovered about \$2 in Hong Kong this morning to open at \$361.80, but economists are predicting a further slide in the gold price in the wake of a continued surge in the US currency.

Gold was fixed at \$359.90 an ounce during the afternoon session in London.

HIGHS

The dollar, which yesterday surged to 30-month highs on international currency markets, also sent the rand to its lowest levels in nearly three years.

The rand closed at R2,8340 (35,08 US cents) on the local money markets yesterday as importers rushed in to cover their forward positions.

Currency dealers said last night that the rand could soon drop to as low as R3,00 (33,3 US cents).

The Johannesburg Stock Exchange initially came under severe selling pressure from the lower gold price, but recovered slightly in the afternoon.

The Overall index declined by 40 points to 2491 while the All Gold Index dropped by 57 points to 1428.

Industrial shares fell in sympathy with golds and recorded a decline of 22 points to 2492.

● See Page 9.

U.C. AIRERO

Forex reserves set to improve - star 14/6/59.

By Sven Lünsche

Despite the weak gold price and dwindling foreign exchange reserves, the country has been able to meet this week's \$250 million debt repayment without resorting to gold swaps.

The Governor of the Reserve Bank Dr Gerhard de Kock said yesterday the debt repayment due tomorrow had been met and he was optimistic that the country's foreign exchange reserves would improve over the next few months.

However, he did not rule out the use of loans against gold to meet part of the dividend and interest payments due at the end of June.

Economists have been expressing concern over the recent disappointing performance of the gold price and foreign exchange position, believing it would force the Reserve Bank to use gold swaps to finance the repayment due this month.

The total value of the reserves in May rose only one percent from end-April to a level of R5,2 billion, but the rand value of the reserves has once again been artificially inflated by the weakening rand/dollar exchange rate.

The dollar value of the reserves actually fell to about \$1,87 billion, the lowest in seven months and 10 percent lower than at the beginning of the year, mainly reflecting the lower dollar value of the gold reserves.

Trust Bank economist Nick Barnardt warned in a recent economic

report: "The concerning aspect of the disappointing foreign reserve performance is that foreign debt and related interest payments of about R1,4 billion in June, exceed the forex component of the reserve holdings, which amounted to a mere R1,34 billion at the end of May.

"The debt payments will be successfully met — but only through some gold swaps, a drain on the forex reserves of the banking sector and further utilisation of short-term overseas credit facilities," Mr Barnardt said.

Gold swaps

But Dr de Kock, while admitting that earlier gold swaps are maturing this month at a substantial cost to the economy (given the recent decline in the gold price), said no swaps were necessary to finance the current \$250 million (R750 million) debt repayment.

In addition, he said, substantial repayments outside the net were made in previous months, "but we are now looking at a fairly quiet period until the next debt repayments inside the net are due in December."

Until then Dr de Kock is optimistic that the reserves can be built up to satisfactory levels.

"Imports are already slowing down. In real terms imports in the first quarter this year were down on the first quarter and the last quarter of 1988 and much of the current momentum derives from orders for

capital equipment which were made six to nine months ago

"Seasonal debt and dividend payments to outside shareholders could well result in a slight decline in the reserves this month, but the curbing effect of the austerity measures on imports should ensure that figures in July and August will look much healthier," Dr de Kock said.

He admitted, however, that the latest plunge in the gold price, coupled with the higher US dollar and rising overseas interest rates, were a matter of concern and "dispel any thoughts of relaxing our monetary policy".

"For the moment there are no plans to tighten monetary policy, but if gold falls further we will have to take another serious look at the situation," Dr de Kock said

Some relief could be forthcoming as most analysts predict that the rally in the dollar will not continue much longer given the renewed fall in the US current account.

The US government reported yesterday that the deficit in the current account jumped seven percent in the first quarter after falling the two previous quarters. The current account covers merchandise trade as well as trade in services

In response the dollar, aided by large scale Central Bank intervention, fell against all major currencies in New York yesterday and the Far East today, pushing gold up by \$1,35 to an opening of \$363,15 in Hong Kong.

Loans against gold for debt?

1-16-81 Finance Staff 79

South Africa may have to use loans against gold to repay dividend and interest on its foreign debt due this month.

This has been disclosed by Reserve Bank Governor Dr Gerhard de Kock, who said he did not rule out loans against gold to meet part of the amount.

Dr de Kock said all arrangements for the repayment had been made and there had not been any need to dig into the gold reserves of the country to meet the \$250 million (R750 million), which would be repaid tomorrow.

But Dr de Kock added that if gold continued to plunge, the authorities might have to tighten monetary policy again.

● See Page 10.

Gold bulls might still have their day

79
Stan
15/6/89

Diagonal Street

DEREK TOMMEY



The past 18 months have been hard ones for gold bulls.

The dollar price has dropped 28 percent from \$500 to \$360. And to further depress them, several analysts have been forecasting that the fall in the gold price has not yet ended.

Some are predicting a drop to \$320 and a few are talking of \$280 before a recovery.

However, some of the figures in Consolidated Gold Fields' recently survey of the gold market, Gold 1989, indicate that the outlook may not be as gloomy as some are suggesting.

The most encouraging fact is that demand for gold for jewellery rose last year by almost 30 percent from 1 152 tons to 1 484 tons.

The rising wealth of the hard-working and entrepreneurial people of Pacific rim countries played a major role in the higher jewellery off-take.

Gold 1989 says jewellery fabrication in the Far East rose by 80 percent.

However, demand elsewhere was also strong. Jewellery fabrication in Europe rose by 18 percent and by 17 percent in India. It remained stable in North and South America.

As a result of the increase, the world's jewellery offtake was equal to 96 percent of non-communist mine production and to 80 percent of total world production.

Gold for other uses showed smaller increases. The offtake for electronics rose from 125 tons to 134 tons. Dentists used 50 tons (48 tons in 1987). 'Other' industrial uses rose from 56 to 59 tons. Somewhat depressingly, gold used in medals and coins fell from 216 tons to 117 tons.

Nevertheless, total gold demand of

1844 tons, together with the hoarding of 474 tons of gold bars, led to total offtake exceeding supply by 468 tons.

This was met by light selling from investment holdings and a substantial increase in the volume of forward selling and gold-loan activity.

In the light of this, the supply-demand equation for gold would appear to have reached an interesting point.

It seems any further increase in demand or fall in supply could cause the market to tighten, resulting in a beneficial impact on the gold price.

It does seem possible that demand for gold for hoarding in Hong Kong, China, Taiwan and other Pacific rim countries could show a marked increase should unrest continue in China.

On the other side of the coin, South African authorities are hoping the country will start running a significant balance of payments surplus later this year when the curbs imposed in the past 12 months start to bite.

In the "good old days", SA as a matter of course used to retain 100 000 ounces of gold a month.

If the authorities are able to reintroduce such a policy, as they are obviously hoping to, the gold market could take a marked change for the better.

It should be noted that any improvement in the price could lead to SA entering a "virtuous circle" with increased earnings from gold reducing the need to sell gold.

Furthermore, any rise in the price could encourage speculators to buy gold and intensify the trend.

So while gold bugs might have to bite the bullet for a little while longer, it seems the outlook is not as bleak as many claim it to be.

Gold secret

Star 15/6/84

revealed in

stats error

LONDON — A statistical error in Brussels has revealed that South African exports to Britain are worth six times the official figure given by the Department of Trade and Industry, making Britain by far South Africa's biggest trading partner.

Secret imports of South African gold were included accidentally in the European trade figures published by the European Commission recently.

They reveal that, in 1988, Britain imported £37 billion-worth of "monetary" gold from South Africa, about threequarters of that year's gold production.

This makes the true figure of British imports from South Africa £45 billion, nearly six times the official DTI figure of £804 million.

Monetary gold is defined by the DTI as all gold not used for jewellery or in industry. It is mostly used by central and reserve banks. Movements of monetary gold are usually kept secret and not included in trade statistics.

The Bank of England has confirmed the figures.

"These statistics must be very embarrassing to the British government," said Mr Peter Robins of the World Gold Commission, a UN-funded research body. — The Independent.

Rand, gold improve as dollar takes a knock

ster 16/6/89 (79) ~~79~~

By Neil Behrmann
LONDON — Central banks knocked the stuffing out of currency speculators in hectic New York trading.

Such was the panic that the dollar plunged and gold rallied sharply from its lows after surging ahead of the release of the crucial US trade deficit figures.

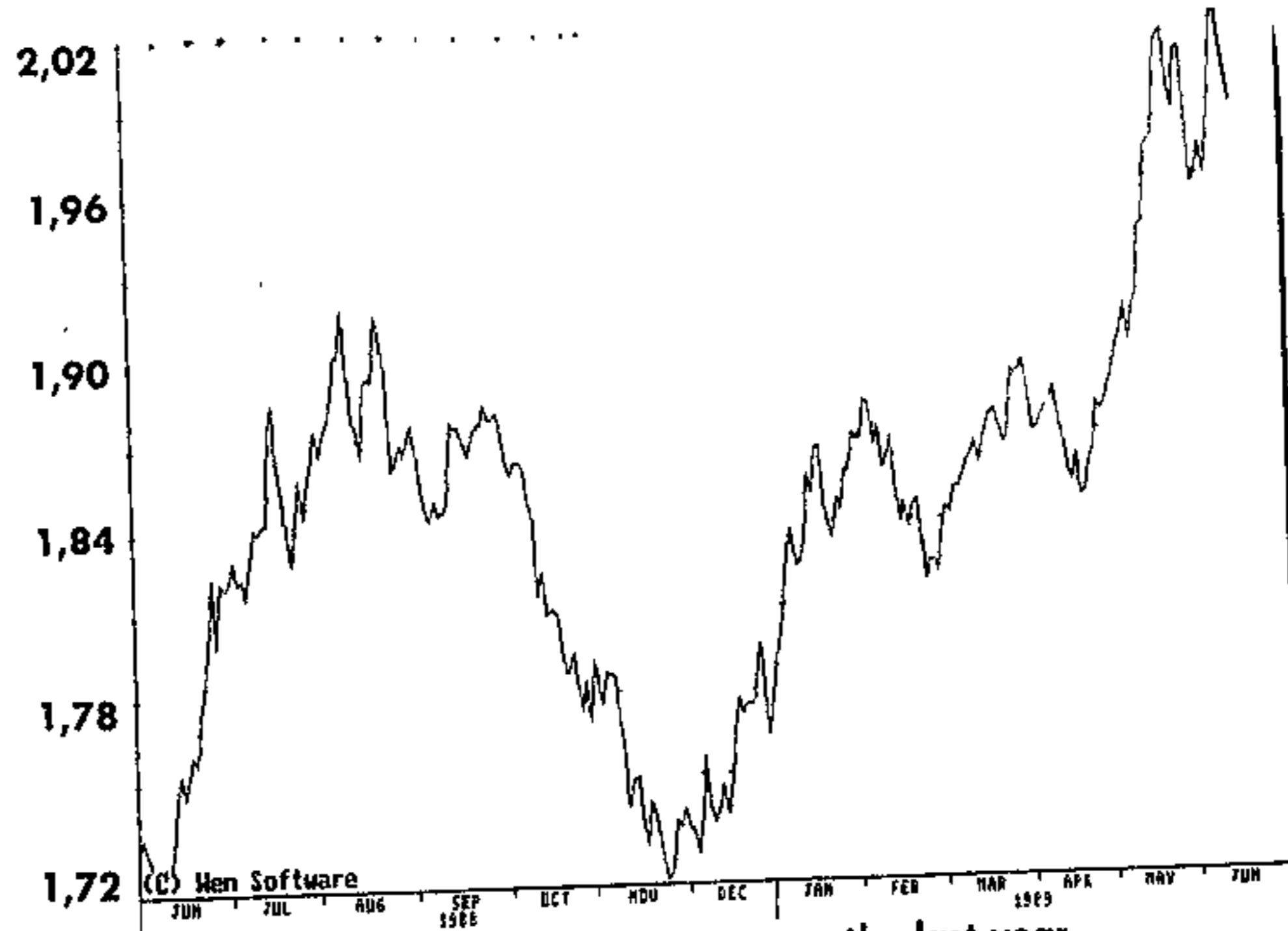
Gold rose two percent to close at \$367 in New York and volume on the Comex, the New York futures exchange, doubled while many dealers covered bear positions. Earlier the bullion market tried to push gold below the \$355 to \$360 range and failed.

The strong trend continued in the Far East today with gold opening \$5 up to an opening of \$367,16 in Hong Kong.

The rand should also benefit today from the lower dollar, after the US currency plunged some six yen and five pfennigs in New York on heavy intervention by the US Federal Reserve and profit-taking by investors.

The rand initially plunged to a new low of R2,885 to the dollar in morning trading yesterday, but the local currency rallied some strength in afternoon trading, supported by a steady gold price, to close the day slightly firmer at R2,865.

In Tokyo today the dollar opened at 146 yen and Dm 1,993



\$/Dm exchange rate over the last year

against 145,80 and Dm 1,985 at Thursday's New York close, but had dropped back to around 145 yen and 1,9885 marks by mid-morning.

Just before the announcement of the US trade deficit figures yesterday the dollar was trading at 30 months highs of 151,80 yen and Dm 2,047.

Following such extreme movements in the currency and precious metals markets, officials and economists alike are hoping that the fashion for dollars is over. Many dollar bulls have been badly burnt.

If the sell off is indeed a climax to the remarkable dollar bull market, a correction could follow in the next few months, reducing pressure for higher interest rates worldwide. Prices of precious metals and other commodities could then recover some of their steep losses. A more stable US currency and a fall in international real interest rates would help avert a steep international economic downturn.

Illustrating the casino mentality of the markets, nervous foreign exchange traders dumped dollars on publication of the best

possible news for the currency.

The US trade deficit narrowed to \$8,26 billion in April from a revised deficit of \$9,54 billion in March. This was way below the double figure monthly deficits that were seen during the past two years.

When the figures were released gold slipped to \$360 an ounce and platinum to \$473.

But exubance was soon followed by panic as a nervous currency market began to take profits sold the dollar and moved some assets into precious metals.

Seizing the opportunity, the Federal Reserve Bank of New York, the Bank of England and the Bank of Japan stepped up their sales and drove the currency down further.

Their timing could not have been better. The overwhelming majority of dealers had bought a surfeit of dollars in the hope that the currency would surge sharply after publication of the trade figures.

The market was thus vulnerable to a downturn and this occurred when the dollar rally was all too brief.

After being burnt so badly, few dealers will be keen to take on central banks in a hurry again.

Source: Stock Market Solutions

Gold slump slashes SA trade surplus

CM- 7144 19/6/89 79

Own Correspondent

JOHANNESBURG. — Gold's slump slashed SA's trade surplus to only R456m in May, putting severe pressure on the current account of the balance of payments (BoP).

The trade surplus is 44% down from April's R817m and is well below the average of about R1,1bn a month SA needs to achieve a comfortable surplus on the current account.

The weak current and capital accounts of the BoP in May dashed hopes of an improvement in SA's foreign exchange reserves.

Economists said a drop in earnings from gold exports seemed to have caused the sharp decline in the trade surplus. Customs and Excise's "unclassified category" of exports, which consists largely of gold and includes arms, dropped by 19,5% from April.

In the five months to May, unclassified exports rose by only 2,3% from the same period last year in spite of dramatic depreciation in the rand. The category accounts for 44% of SA's total exports so far this year.

Total exports were R4,36bn in May, down from April's R4,51bn. The non-gold component performed well with exports excluding the unclassified category rising by 9,96% from the previous month. Metals and minerals are the star performers.

In the first five months of this year, base metal exports were a massive 60% higher than last year (R3,65bn). Minerals other than gold were 29% higher than last year (R2,32bn).

Finance Director General Gerhard Croeser indicated at the weekend that no change in fiscal policy was being

contemplated to protect the BoP.

"We must be careful not to overkill the economy," he said.

Economists said if gold fell to below \$369 an ounce and stayed there, SA would be in trouble. But, also fearful of overkill, they are not yet calling for further action to protect the reserves. Gold was fixed at \$365,35 in London on Friday afternoon.

SAFTO economist Bruce Donald believes SA can still achieve a current account surplus in 1989 sufficient to meet its debt repayments and build up reserves.

The weak rand would play a major role in achieving this, as the falling rand was helping SA exporters keep ahead of rising production costs.

Imports, more expensive because of the weak rand, hit a new record of R3,9bn in May. Vehicles, aircraft and transport equipment are driving up the import bill. In the first five months of this year that category rose by 40,9%.

At the beginning of 1989, the Reserve Bank said it was hoping for a current account surplus of R4bn for the year. In the first quarter, SA was on target with a current account surplus of about R1bn.

It is hazardous to draw firm conclusions on the current account, based on monthly customs and excise figures, as the Bank often makes significant adjustments to these trade figures.

However, even if substantial adjustments are made to May's R456m surplus, the current account (the trade surplus less net service payments) was under pressure or in deficit in that month. Net service payments are estimated at about R800m a month

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Casino behaviour costs credibility

6/Dec 19/6/57.

THE bond market is fast losing credibility — if it has not lost it already by trading practices that produce yields far removed from economic realities.

It is reassuring that the Reserve Bank's awareness of the casino behaviour of the bond market could be leading to negotiations with the Bond Market Association to change the market's somewhat tarnished image

and guide it towards being a well-based and very necessary pillar in the country's financial structure.

The behaviour of the market last week illustrates its total unawareness or ignorance of the seriousness of SA's international financial position. The critical declines in the gold and foreign exchange reserves affecting the value of the rand, the

unhealthy balance of trade, the unsatisfactory gold price and the foreign debt overhang should send bond rates piercing the 18% level

But yields dropped from 17.41% to close at 17.23% because of a few dollars' movement in the gold price, which always triggers jobbers to take marginal profits on small moves in yields. — **Harold Fridjhon**

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Slowdown on equity exposure

CAPE TOWN — The signals are flying for investors to start reducing their exposure into equities — with the exception of gold counters — and to switch into fixed interest securities, says Frankel, Kruger stockbrokers' technical analyst Tony Henfrey.

His view stems from an over-riding conclusion that the US economy is heading into a major deflationary phase and SA's economy will certainly not be able to remain isolated from its effects.

Henfrey notes that commodity prices are beginning to peak, interest rates in the US appear set to come down, and that there are general expectations of a severe fall-off in corporate profits.

He suggests concern is now mounting

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CHRIS CAIRNCROSS

within the investment community over the resilience of the industrial market. Dividend yields are poised to decline, signalling that it is time to reduce any exposure in equities

The exception is gold, where expectations are that the price is to start strengthening in relation to the dollar.

"Gold is again being seen as real money rather than a commodity, and is once again changing its role. If it is capable of going through \$390 soon, it is capable of hitting \$500 early next year," Henfrey told clients in here last week.

Frankel, Kruger economic consultant Mike Brown notes SA's economy has entered a very delicate phase, facing the prospect of a balance of payments enforced stage of lower growth with the threat of deteriorating terms of trade.

Such circumstances, he says, will make it difficult to effect an improvement in export revenues without generating a major increase in export volumes.

"Unlike the 1985/6 adjustment phases, SA may have to face at least the early stages of the current balance of payments transition phase without the palliatives of rising gold prices and improved terms of trade."

Brown forecasts that aside from the deteriorating terms of trade, rising interest rates locally and internationally will push up the cost of trade financing.

SA's debt repayment commitments, disinvestment and the capital account "haemorrhage" of unrecorded transactions will inhibit the balance of payments affect of a rising surplus working through the domestic economy.

Brown forecasts that merchandise exports should rise by some 22% in real terms during 1989. He suggests nominal export growth will reduce to about 13% next year, due to the weaker growth outlook in the major nations, a less severely declining rand and possibly weaker prices in many commodities.

Gold slump hits SA's BoP account

B/D Day 19/6/89 (79) ~~78~~

GRETA STEYN

GOLD's slump slashed SA's trade surplus to only R456m in May, putting severe pressure on the current account of the balance of payments (BoP).

But Finance Director General Gerhard Croeser says no change in fiscal policy is being contemplated to protect the BoP.

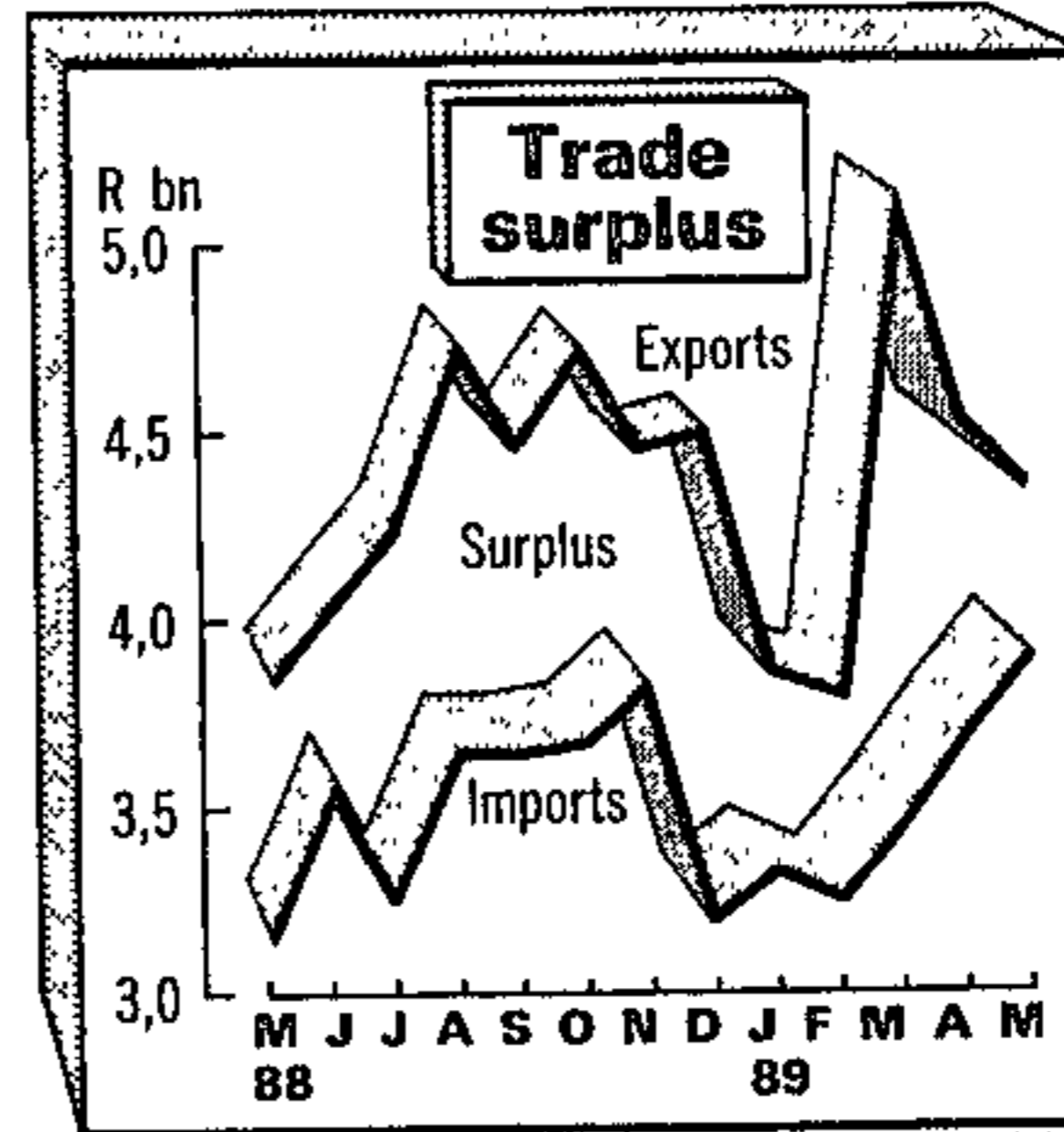
"We must be careful not to overkill the economy," he said.

The trade surplus is 44% down from April's R817m and is well below the average of about R1,1bn a month SA needs to achieve a comfortable surplus on the current account. The weak current and capital accounts of the BoP in May dashed hopes of an improvement in SA's foreign exchange reserves.

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Graphic FIONA KRISCH Source CUSTOMS & EXCISE

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□ To Page 2

BoP account

B/D Day 19/6/89 (79) ~~78~~

trouble But, also fearful of overkill, they are not yet calling for further action to protect the reserves. Gold was fixed at \$365.35 in London on Friday afternoon

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□ From Page 1

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However, even if substantial adjustments are made to May's R456m surplus, the current account (the trade surplus less net service payments) was under pressure or in deficit in that month. Net service payments are estimated at about R800m a month

Declining gold price. threatens more mines

By Magnus Heystek,
Finance Editor

About half of South Africa's gold mines could come under pressure in the next year or two if the gold price does not improve.

The warning was voiced by Mr Colin Fenton in his presidential address to the annual meeting of the Chamber of Mines yesterday.

"This nation's dependence on gold makes its continuing dollar decline a matter of concern for all.

"Already two of the oldest mines, employing nearly 25 000 people, are facing possible closure," he said.

Mr Fenton highlighted the sharp escalation in production costs on South African gold mines.

While the fall of the rand had countered the impact of weak dollar prices, he said, it also carried adverse implications for the economy as a whole.

It fuelled inflation and production costs at a time when the industry was having to mine poorer ore grades at deeper levels.

The average cost of gold produced, at R695 per ounce for the first quarter of 1989, was more than double the cost in 1985.

Further increases couldn't be effectively be contained as long as the inflationary spiral continued, he warned.

Mr Fenton said that whereas

until 1985 South Africa was the lowest-cost producer among the five major gold-producing countries, in 1987 it had become the highest. The situation continued in 1988.

Government policies had a major role to play in the inflation rate, he said.

"The vital contribution of this industry to the economy of the sub-continent will be retarded unless the Government shows greater resolve than it has done so far to bring inflation under control and more in line with the rates of our trading partners.

"It is common cause that the economy demands tighter budget control and management of the money supply and of unproductive public-sector spending and deficit financing, especially on a bureaucracy we cannot afford.

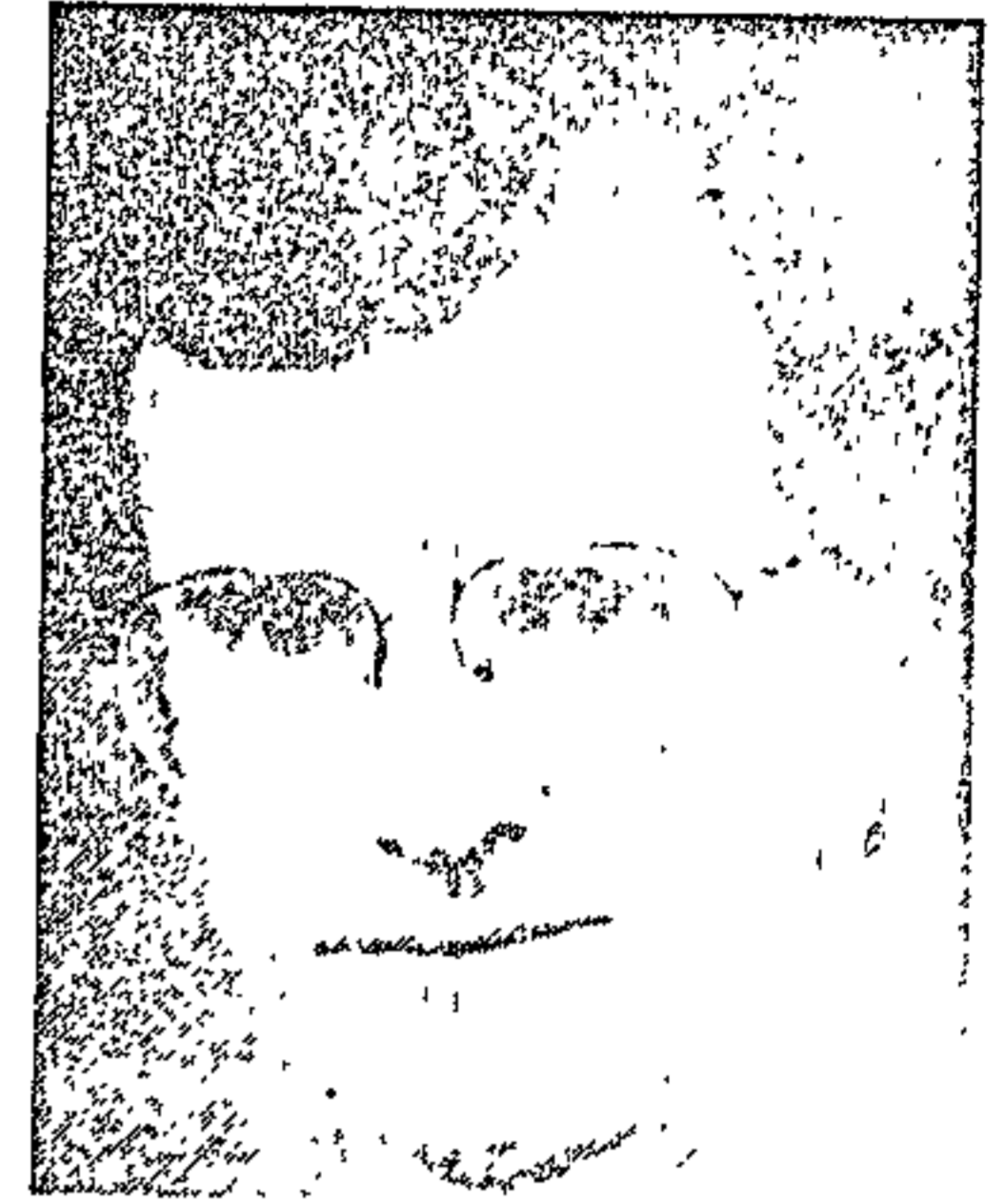
"The tax burden, which even the Finance Minister says is too high, should be eased as an incentive to private sector investment, wealth creation and employment."

Gold sales in 1988 rose by 12,5 percent to R19,7 billion, while total mineral sales rose to a record R33,4 billion.

The recovery was boosted by the strong performance of the coal sector where earnings reached a record of R5,7 billion, despite sanctions.



Colin Fenton . . . outgoing



Kennedy Maxwell . . . incoming

Capital expenditure rose by 17 percent to R5,8 billion, which Mr Fenton considered a mark of confidence in the future of mining.

On the gold price, Mr Fenton said it was clearly locked in a bear market as a result of "the unexpected continued strength of the dollar, combined with universally high real interest rates", which had weakened investment demand.

But, he said, the continued growth in demand for fabrication purposes, particularly in the East, showed that fundamentals were secure.

Moreover, there were signs that investor sentiment could alter

quite quickly.

Budget deficits and trade imbalances remained problematical, despite recent corrections, while inflation was rising in many major industrial countries, Mr Fenton said.

"These factors encourage me to believe in the long-term strength of gold, despite current short-term problems"

Mr Fenton's successor as president of the Chamber will be Johannesburg Consolidated Investment's executive director Kennedy Maxwell, who has already served two years as vice-president of the Chamber of Mines

Gold soars as dollar falls

Star 23/6/89
The gold price soared by over \$12,80 in Hong Kong today as the US dollar continued its recent slide on international currency markets.

Gold opened in Hong Kong at \$384,40, after closing yesterday at \$371,60. Earlier the metal had closed at just over \$370 in New York.

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Traders said the dollar's drop in the Far East today followed its overnight plunge in New York, where it closed lower at 139,30 yen following a false rumour that US President George Bush was shot.
— Finance Staff.

Prospects of higher gold price lifts JSE

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Stav
27/6/89.

Finance Staff and Foreign Staff

Prospects for a higher gold price are generally getting the thumbs up from local and international economists.

This is the message coming through from a report by Sanlam economists, but is also the overriding opinion emerging from the *Financial Times* world gold conference in Lugano, Switzerland, which opened yesterday.

The prospect of higher bullion prices yesterday boosted industrial share prices on the stock market to new record highs and also saw shares on the mining board record substantial gains.

As gold added about \$5 yesterday the industrial index gained 49 points or two percent to close at an all-time high of 2 625. The all-gold index added 59 points to 1 482, boosting the overall index by 73 points to 2 573.

Shares in the Anglo American group make up a large portion of the mining indices and a strong performance from De Beers, Minorco and Anglo American certainly helped to lift the overall market indicators, but broad gains were recorded on all the major boards of the JSE, as investors expressed confidence

that the year-and-a-half long bull market for gold was near its bottom.

The downside potential for gold bullion is now generally seen as limited and a recovery in the gold price later this year looks very possible, according to Sanlam's chief economist Johan Louw.

Writing in the group's latest *Economic Survey*, he said the present weaker gold price was largely a reflection of the strength of the dollar.

Mr Louw said that while the firm trend in the US dollar may continue in the next few months, a stabilisation or weakening in the dollar could be expected later this year.

He said in the longer term, the general feeling was still that a renewed depreciation in the dollar together with a reduction in the budget deficit was necessary to reduce the United States' foreign trade deficit significantly, which would be beneficial for precious metal prices.

At the FT conference in Switzerland some analysts were even more optimistic.

Brian Marber, director of his own foreign exchange and precious metals consultancy in London, said that according to his

technical analysis of the market, gold's current bear phase would end on Friday if the London afternoon fix was above \$383 an ounce.

But that did not mean the price would immediately rise sharply, he said. He also found it hard to reconcile the possible end of the bear market with his bullish attitude to the dollar, especially against the Deutsche mark.

In the short term, the price was still below the moving one year average of just over \$400, and could still get stuck in the \$360 to \$375 narrow range.

George Milling-Stanley, senior gold analyst with Consolidated Gold Fields, said demand for gold was currently outstripping mine supply and that at current prices the potential for further falls was limited by continued high levels of demand from the Far East.

He predicted a range of \$350 to \$500 an ounce over the next two to three years.

Urs Seiler, senior vice president of the Union Bank of Switzerland, said it was unlikely that gold loans would continue at the same rate of growth as over the past two years.

In the short term, the loans had been and would continue to

be bearish on the gold price — but from a longer term perspective "the hedging and financing activity is not so bearish as the future production has already been largely absorbed by the market".

A call for central banks to take a more active role in the gold market was made by Robert Guy, director of NM Rothschild's treasury and bullion division.

Mr Guy, who is also chairman of the London Bullion Market Association, described the central banks as "indifferent" to gold.

"If central bankers were subject to the same discipline as commercial gold fund managers most of them would have been sacked by now. Their gold assets have been withering on the branch," he said.

He also called for lobbying of the EC to stop discriminating against gold as an investment, harder work on improving the efficiency and standards of the market place and realisation that most gold market participants had a vested interest in a higher price.

Mr Guy pointed out that 1992 would provide the opportunity for change — and the gold market must start now to lobby hard for the abolition of VAT on gold.

RICHARD ROFFE

in LUGANO and LONDON

THE paradox of the gold market for the past year has been the decline in its price in spite of the unprecedented strength of physical offtake in the East.

At this week's Financial Times gold conference, the main annual forum for gold producers and dealers, the mood was more positive than it has been for several years.

The sponge-like absorption of gold in the East gives strong grounds for hope that it will not collapse to \$280 or \$300 and fewer voices are making this prediction.

The expectation instead seems to be that gold's next move will be upwards. The only question is what will be the catalyst to spark it off.

Timothy Green, a veteran speaker at the conference, held this year in the Swiss city of Lugano and attended by a record SA contingent, says "Over the past 12 months, the story of Mr Green has helped prepare Cons Gold's annual review of the gold market every year since 1969, so he knows a bit about it.

He said this week "Current developments in the market remind me of the time when gold was trying to struggle up from \$35 20 years ago.

Last year, Hong Kong took 460 tons of gold, Japan 300, Taiwan 330, Singapore 158 and Dubai 157.

DORMANT

The significant point is that all this buying was not merely from Taiwan, which tended to hit the headlines. It was over a broad oriental front from the Persian Gulf to Japan.

Even the Middle East, dormant since the 1970s, has begun to revive as a gold mar-

Golden hopes lie in Eastern sponge

79

The chilling news for followers of gold earlier this year was that the Swiss had begun selling out of private investors' portfolios in spite of their traditional policy of holding 5% to 10% of assets in physical gold.

If the Swiss were to turn their backs on gold, the outlook would be bleak indeed.

LIQUIDATED

George Milling Stanley, Cons Gold's senior gold analyst, estimates that more than 60 tons were liquidated from this source.

Mr Green says these sales reflected disappointment with the performance of gold after 1987's Black Monday.

Subsequently, when it looked probable that gold would fall below \$400 last September, the Swiss sold

more.

Fredde Schneider, senior vice-president in charge of precious metals at the Swiss Bank Corp, says that part of the reason for the Swiss private gold sales was to take advantage of exceptionally attractive Swiss franc interest rates at the time — an opportunity no longer available.

Mr Green says that, based on his exhaustive discussions with Swiss private banks, "portfolio exposure to gold was at its lowest level ever. But now that phase of disinvestment is over."

Mr Schneider says: "Private banks are more likely to advise going back into gold."

By now, I imagine, readers will be thinking "I hear what you say, but when is the price going to pick up?"

The short answer is that nobody wants to commit himself — although control-

versial charist Brian Marber suggested in Lugano that if gold was fixed at \$383 or better by Friday, the bear market would definitely be over.

Tim Green summed up the prospects in what I thought was an illuminating way.

Early last year, Newmont arranged a million-ounce gold loan News of the loan — at the time the biggest ever — was splashed in the New York Times, driving gold down \$40 in a couple of days.

Mr Green says: "At present the situation is like the Newmont loan in reverse. At the time of the loan, the market was looking for an excuse to drive the gold price down. Now it is waiting for a reason to drive it up."

That reason could come any time, decisively ending the bear market when it does.

But all the pundits in Lugano warn that new gold loans and forward sales from producers will limit the upside in price.

The best bet, as Mr Milling Stanley says, is that "gold is probably near the bottom — and could range between \$350 to \$500 in the next two or three years."

If he is right — and his guess looks as good as any — it will not be cause to split out the champagne. But there will be audible relief in the SA gold industry.

BUTCHER

You might even call Imps a great British company in any event, Lord Hanson appears to have been every bit as courteous with Imps directors as he has been with Mr Agnew.

However, this did not prevent the Imps board from being frog-marched to the end of the gangplank when the

bid was over

Hanson then set about the break-up of Imps. It sold the Courage subsidiary, one of the UK's biggest brewers, for £1.4-billion.

Other disposals were Ross, the frozen-food group, Lea & Perrins of sauce fame and the Happy Eater restaurant chain, of no fame at all.

At the end of the process Hanson had raised £2.3-billion and still had the original cigarette businesses, including John Player.

The cigarettes cost Hanson £250-million. Today, two years on, they make £150-million of profits.

Cons Gold, like Imps, comes in pre-packed instant chicken pieces. All the butcher has to do is find buyers for the wings and legs — GFS, Rensson, Newmont.



The name of the game will be to keep the succulent breast — Cons Gold's ARC subsidiary — for the meat-packer himself.

Mr Agnew, according to reports, is telling Lord Hanson that ARC is worth far more than Hanson is paying. But I think that will only increase the noble lord's determination to have it at the current price.

To see what Rudolph Agnew and his mates in Cons Gold are up against in the bid from Hanson, I have been looking

Gold in row is 'too old' to bust sanctions

SOUTH AFRICAN gold that caused a "sanctions-busting" uproar this week was produced in the '70s — long before Australia imposed bans on bullion from South Africa.

This was revealed yesterday by the company accused of breaking international standards by melting down the SA gold and then restamping it as sourced in Australia.

"The handling of the shipment contravened neither accepted gold refining practice nor the spirit of the Australian Government's trade policy," a spokesman for the Perth mint, Mr Ron Barry, told the Sunday Times.

He denied claims that the mint, which is owned by the West Australian Government, used the SA gold to produce Australia's equivalent of the Krugerrand, the Australian Nugget.

Mr Barry said the mint had bought 40 000 ounces of gold bars, valued at over R42-million, from a Swiss bank which is a member of the London Bullion Market Association.

This was done because the mint temporarily lacked

NIC van OUDTSHOORN
Sydney

enough gold to meet demands. Mr Barry said the LBMA, which controls the world market in gold, insisted that "a buyer may not stipulate any particular brand when taking delivery".

"Consistent with this, we had no knowledge we would be receiving bars refined in South Africa until they had been freighted to us," he said.

"In any event, although the Rand Refinery remains to this day an accredited LBMA refiner, whose bars are traded around the world, the markings on the bars we received indicated they were manufactured in the '70s."

Mr Barry said the LBMA had no objections to bars being reprocessed by a buyer.

"What is frowned upon is melting bars and restamping them without checking weight and assay because the stamp of an accredited refiner is the guarantee of weight and purity."

This was done by the Perth mint after the SA bars were melted down and restamped.

CONSUMERS SEEN AS GOLD'S SAVIOUR

LONDON — Gold is no longer the safe haven for investors when the world suddenly seems in turmoil — it rose a paltry \$10 when Chinese troops brutally ended pro-democracy demonstrations in Peking's Tiananmen Square.

This was one conclusion drawn last week when the Who's Who of the gold industry met in Lugano, Switzerland, to discuss the outlook for what is one of mankind's oldest and best-loved investments.

But gold might still glitter in the marketplace if consumers

took up the slack left by investors and bought jewellery, delegates at the Financial Times World Gold Conference believed.

"If the 1970s were the era of the gold investor and the 1980s the era of the gold miner, then maybe the 1990s could become the era of the gold consumer," said Brian Parker, deputy manager of the World Gold Council's jewellery division.

Contrast the reaction of investors after the June 3 upheaval in Peking with January 1980 when the Soviet Union invaded Af-

ghanistan and the Iranians held US hostages in Tehran. Gold prices more than doubled to \$850 in a scramble for a safe investment.

There was a feverish demand for bullion unmatched in recent history.

But this month, when in China the government of one quarter of the world's population brutally snuffed out a movement for more democracy, gold rose just \$10, then slowly fell back.

Gold has fallen just under \$80 since June last year, standing at

\$373 at last Friday afternoon's fix by leading bullion houses.

One reason, the experts in Lugano believed, was the lure of relatively high US interest rates and good returns on American equities.

The fall has been fuelled by selling, resulting from gold loans whereby mining companies borrow gold against future production and sell on the spot market.

Interest rates on borrowed gold are traditionally lower

than on cash from banks, so the companies can quickly turn the borrowed metal into cash.

George Milling-Stanley of Consolidated Gold Fields (Consolidated Gold Fields (Consolidated Gold Fields) and one of the most respected analysts, said gold could oscillate in a band of \$350 to \$500 over the next three years, with real-term prices now at their lowest since 1979.

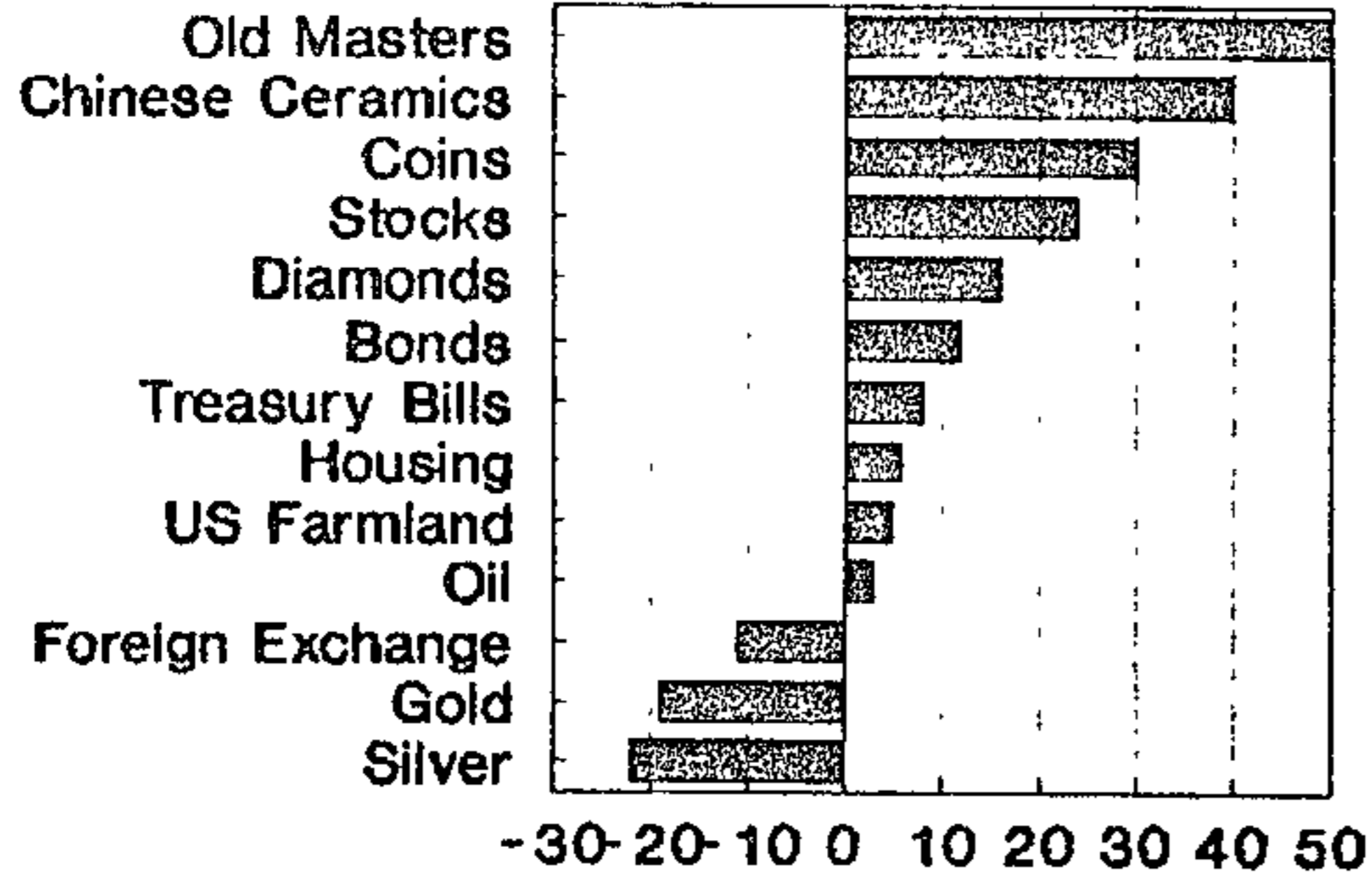
Demand has blossomed over the last 10 years and jewellery offtake was up by almost 30 percent in 1988 to 1 484 tons.

Total demand by manufacturers, as opposed to those hoarding the metal for investment,

was a record 1 844 tons, Cons gold says.

Jewellery is the key to gold's future, although marketing is essential, said Peter Munk, chairman and chief executive officer of producer American Barrick Resources Corporation.

Demand in the Far East, traditionally strong, was likely to remain buoyant as long as economic growth in the region remained sound, delegates said. In 1988, offtake from that region soared to 1 041 tons from 688 tons in 1987. Samuel Montag said in the firm's annual review — Sapa-Reuter



US percentage returns on assets for the year to June 1989

Collectables offer the best return on assets

By Sven Lünsche

Gold has lost much of its glamour over the past 12 months.

US investors who put their assets into it saw their investment actually declining by 10 percent.

They could only have done worse if at the beginning of June last year they had poured their money into another precious metal — silver.

According to the chart, which appears in this week's *Economist* and was compiled from data supplied by US stockbrokers Salomon Brothers, collectables provided by far the best returns on assets.

Paintings by old masters offered a staggering 50 percent return, with Chinese ceramics and coins providing returns of 40 and 30 percent respectively.

But, as the *Economist* says: "Investors should be wary of the art market. It is buoyed up by new wealth created in the stockmarkets and will collapse when those markets catch cold."

This is borne out by the figures because stocks still offered a return on assets of over 20 percent during the last 12

months.

Stocks have also been the best-performing assets of the 1980s, an indication that in times of low inflation, reduced tax rates and a relatively peaceful political climate, financial assets are the thing to own.

However, when times are bad investors like tangible assets — gold, silver, oil and farmland were all firm favourites in the 1970s.

When analysing annual returns of these investments over the last 20 years, gold does not shape too badly.

It offered dollar-based investors an average return of 11.5 percent per annum from June 1969 to June 1989.

This was only beaten by two items — coins and Chinese ceramics, which are less faddish than investments in the art market and which registered annual returns of 16.6 and 13.3 percent respectively.

Diamonds have increased by 10.4 percent in value every year since 1969, just beating the 10.3 percent annual return offered by US stocks.

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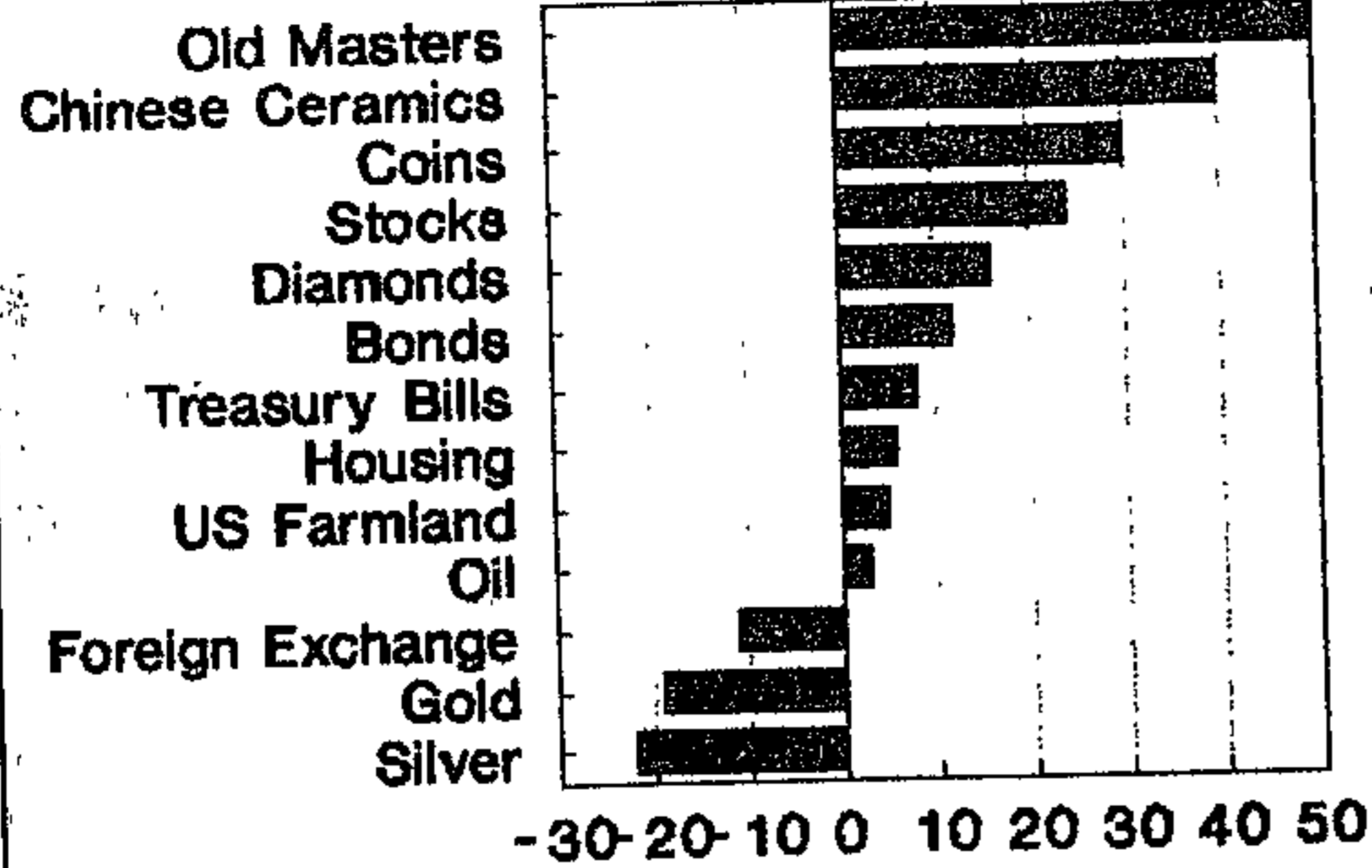
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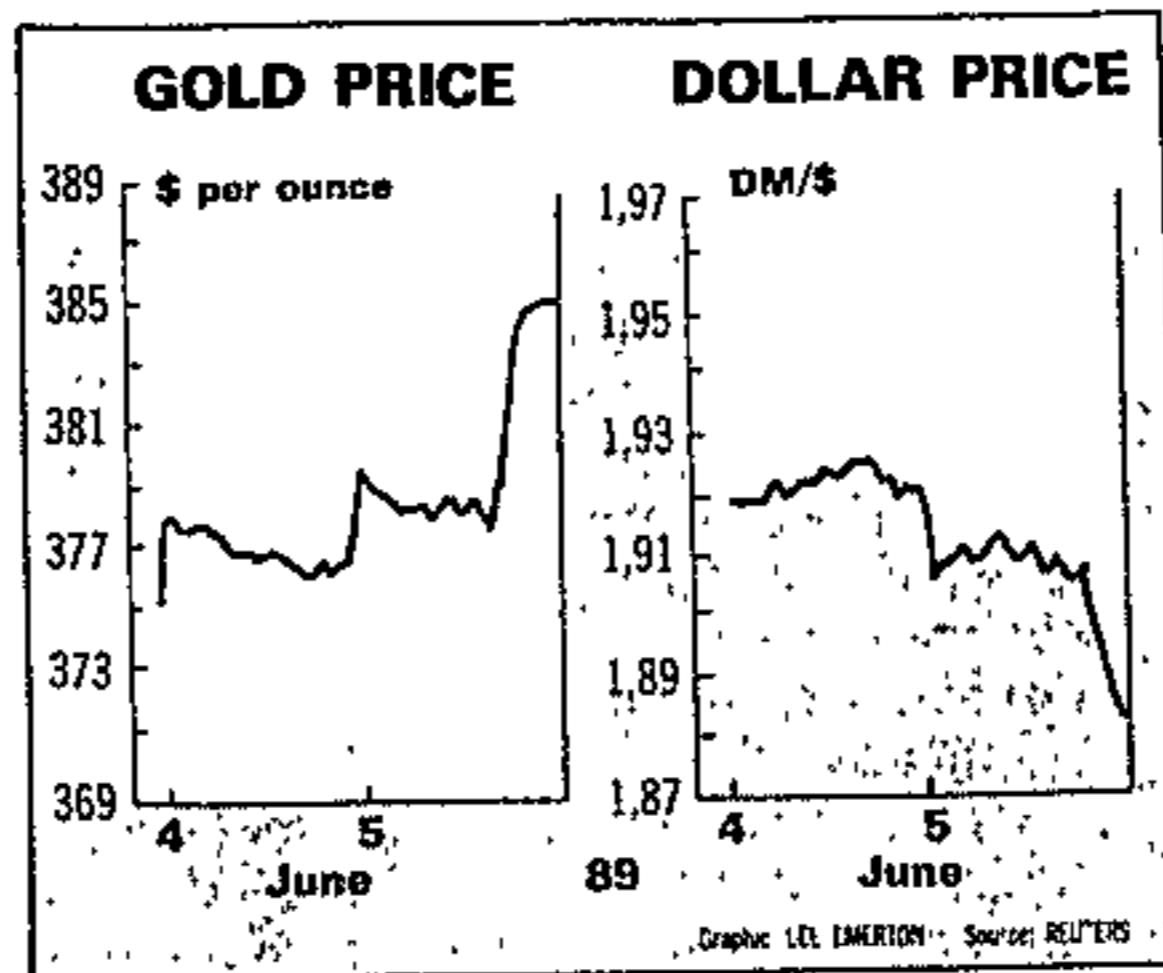
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Saviour

(79)



Gold surges as dollar tumbles

B/Dan
6/21/89 LIZ ROUSE 79

THE gold price broke through the \$380 resistance mark as the dollar pulled back yesterday on fears of an easier credit stance by the US Federal Reserve.

Gold shot up to \$384.60/\$385 in New York, after a higher afternoon fix in London at \$383.60 — \$7.10 up on Tuesday's afternoon fix.

The dollar tumbled from DM1,9150 yesterday morning to DM1,8850/60, while the rand rose to R2,7193 from Tuesday's R2,7428.

Platinum and silver followed gold as active dealing on the New York Comex drove bullion through the \$380 barrier.

Reasons for the sharp rise, besides the dollar's fall, were the technical breakthrough, stop-loss buying and news that Taiwan's central bank was resuming gold purchases, Reuters reported.

Some futures dealers were "really fired up" about buying gold, but metals analysts were more cautious about the surge, an AP/DJ report said.

Since June 19 the dollar has declined by 4.3% while gold has risen by 5.5% and the rand has improved by 2.7%.

Yesterday's jump in the gold price came too late to influence the JSE's gold board, but a buoyant reaction is expected today. Wall Street stocks fell sharply in early activity.

A New York dealer said a drop in the dollar below DM1,90 would likely produce a sell-off. The dollar was trading in thin volume as some US players remained on holiday after Tuesday's Independence Day and UK participants were affected by a public transport strike in London.

Federal Reserve policy-makers met yesterday and will meet again today. Market speculation was that a decision would be made to engineer a lower Federal funds rate, Reuter reported.

Market signals point to surge in gold price

Spencer M. G. 7/9

By Derek Tommey

A week ago the world's leading gold fundis gathered at Lugano, Switzerland, to discuss the future of gold.

Their deliberations must have been extremely productive. When the US gold market opened last night the gold price spurted \$11 to \$388, a three-month high, before falling back to \$386.

After a weekend of reflection on the proceedings of the conference it seems the fundis reached an important conclusion — gold was worth buying again.

This is also the view of Mike Brown of Frankel, Kruger, Vindesine, who was at the conference.

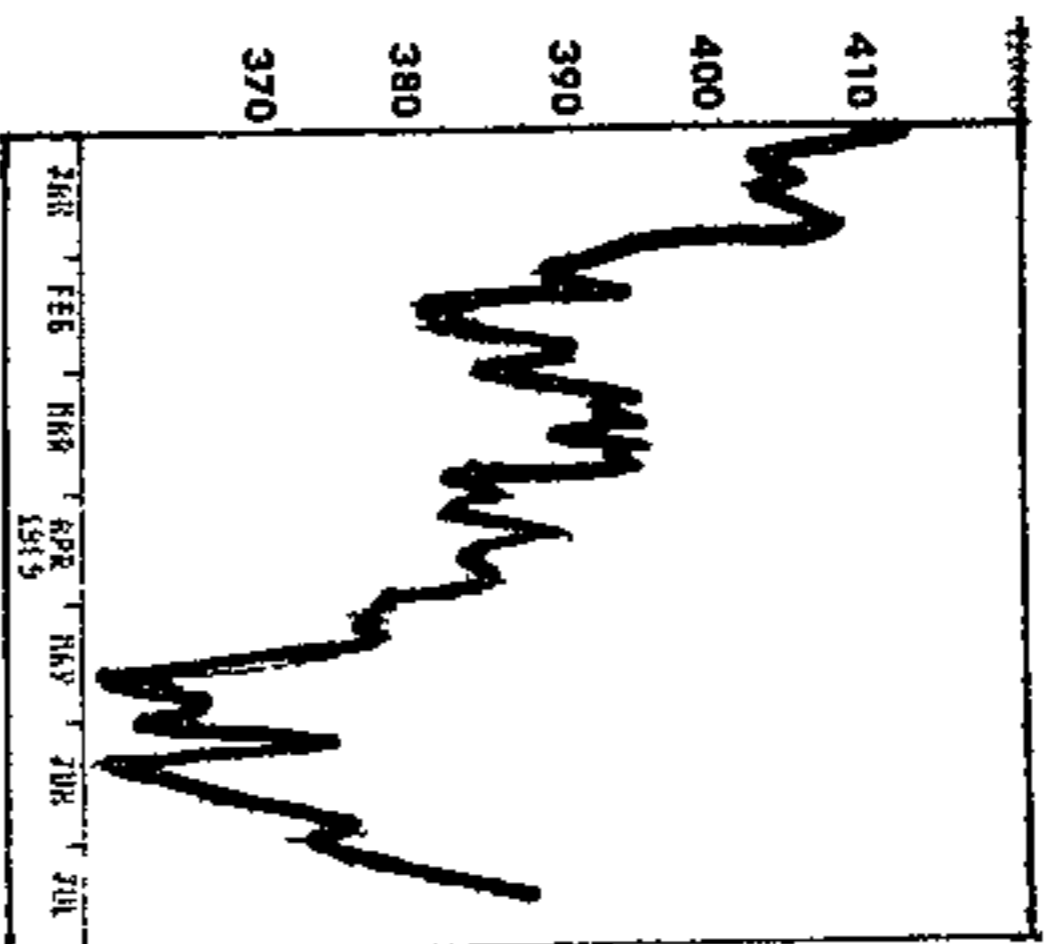
At a report-back meeting in Johannesburg last night, Mr Brown said he was mildly optimistic about gold after hearing the various papers at the conference.

What emerged was that there was little downside potential in the price and that technically the market was oversold.

Mr Brown gave a number of reasons for expecting an improvement in the price.

One was that there had been a marked decline in forward gold sales and gold loans. In addition, many gold loans were due for repayment next year.

Mr Brown said the decline in gold loans was partly because the cost of borrowing gold had



Source: Stock Market Solutions.

risen. In fact, in present conditions it was cheaper for many companies to use equity finance.

Moreover, some of the borrowers had not been able to fulfil the conditions of their loans.

Four borrowers had gone insolvent. And three British banks had suffered losses, which had led the Bank of England to say they had no right being in a business they did not understand.

According to recent estimates, forward sales and gold loans had increased supplies to the market by about 30 tons in 1985, 20 tons in 1986, 70 tons last year, and by between 30 and 40 tons this year.

However, next year, as the gold loans and forward sales matured, there could be a net drain of 51 tons, followed by a drain of 80 tons in 1991 and of 60 tons in 1992. Another reason for his opti-

mism was that the increase in production was slowing down.

After growing by seven percent in 1986, seven percent in 1987 and 11 percent in 1988, world production was expected to grow by only four percent this year to 1600 tons.

Easily mined deposits were being worked out. Fewer new finds were being made.

He quoted Peter Much, chairman and chief executive of American Barrick Resources, who told the conference that exploration would be much tougher and deeper and involve more complex metallurgy.

This would add significantly to production costs and involve much more capital-intensive facilities.

Australians at the conference estimated production in their country could drop by half when the new gold mining tax took effect in 1991.

At present Australian mines were "high-grading" — mining the highest grade ore to make the most profits before they became subject to tax.

On the other side of the coin, demand for jewellery, which accounted for 90 percent of sales, was rising strongly.

Gold jewellery sales were rising gradually in Europe, the US and Japan, and rapidly in other Far Eastern countries. India was buying substantial amounts and

for the first time since the oil price slump, the Middle East was a buyer.

So far this year Far Eastern sales were running about 25 percent ahead of last year.

Mr Brown said there was a possibility some central banks would increase gold holdings. Others, with a high percentage of reserves in gold, could become sellers.

It was not known what effect this would have on the gold market, but it should give it confidence.

Much would depend on the course of the economic cycle and whether the West had a soft or hard landing.

However, it was estimated there would be a shortage of 230 tons of gold this year, which had to be met by disinvestment from some quarters.

A similar shortage had occurred in 1982 and 1985. This had led to an increase in the gold price in 1983 and 1985.

One analyst at the conference, Brian Marber, said if the afternoon fix on the last trading day of June this year had been \$383 or higher, it would have been a 'buy' signal and long-term investors would then have re-entered the market.

One can't help wondering: does the fact that gold took a further three trading days to reach this mark invalidate his forecast?

Bullion price boosts gold index

B [unclear] 7/7/51

GOLD held above \$380 yesterday, keeping investor attention on the JSE mining board and allowing the all gold index to touch a 12-month high of 1 653.

Share prices retreated from their tops as the index finished up 21 points at 1 631.

Gold closed in London at \$385.75/386.25 after being fixed at \$385.50 in the afternoon.

The JSE industrial index also advanced to another record peak. Prices firmed throughout the day and the index finished at its high with a gain of 11 points to 2 651.

This should have resulted in a higher overall index, but the sharp sell-off in the diamond sector had a major impact. The overall index slid 11 points to 2 668.

Reuter reports gold-related shares traded in London eased slightly in line with

STEPHEN RICHTER

bullion but dealers said trade was extremely quiet. The metal edged lower as the dollar steadied in light trade after earlier sharp losses.

Dealers were awaiting news of US June employment data due today, to give an idea of the pace of the US economic slow-down and some direction to the market.

The dollar was mixed against the major currencies at the end of trading in Europe yesterday, Sapa-AP reports.

The dollar fell earlier in Tokyo, to 138.80 yen from 140.20 at Wednesday's close.

Sterling was at \$1,6230 late yesterday in London, more expensive for buyers than Wednesday's late \$1,6155.

79 28 ● See Page 7

Forex reserves up slightly

79 By Sven Lünsche

Gold and foreign exchange holdings showed only a marginal increase in June, continuing the disappointing trend evident since the beginning of the year.

However, most economists expect a more substantial improvement in the reserves in the months ahead as the country has met its mid-year debt repayments and the gold price shows signs of recovering from its recent lows.

Figures released by the Reserve Bank on Friday show that after rising 0,8 percent in May, the reserves improved by only 0,11 percent last month to R5,209 billion (R5,203 billion).

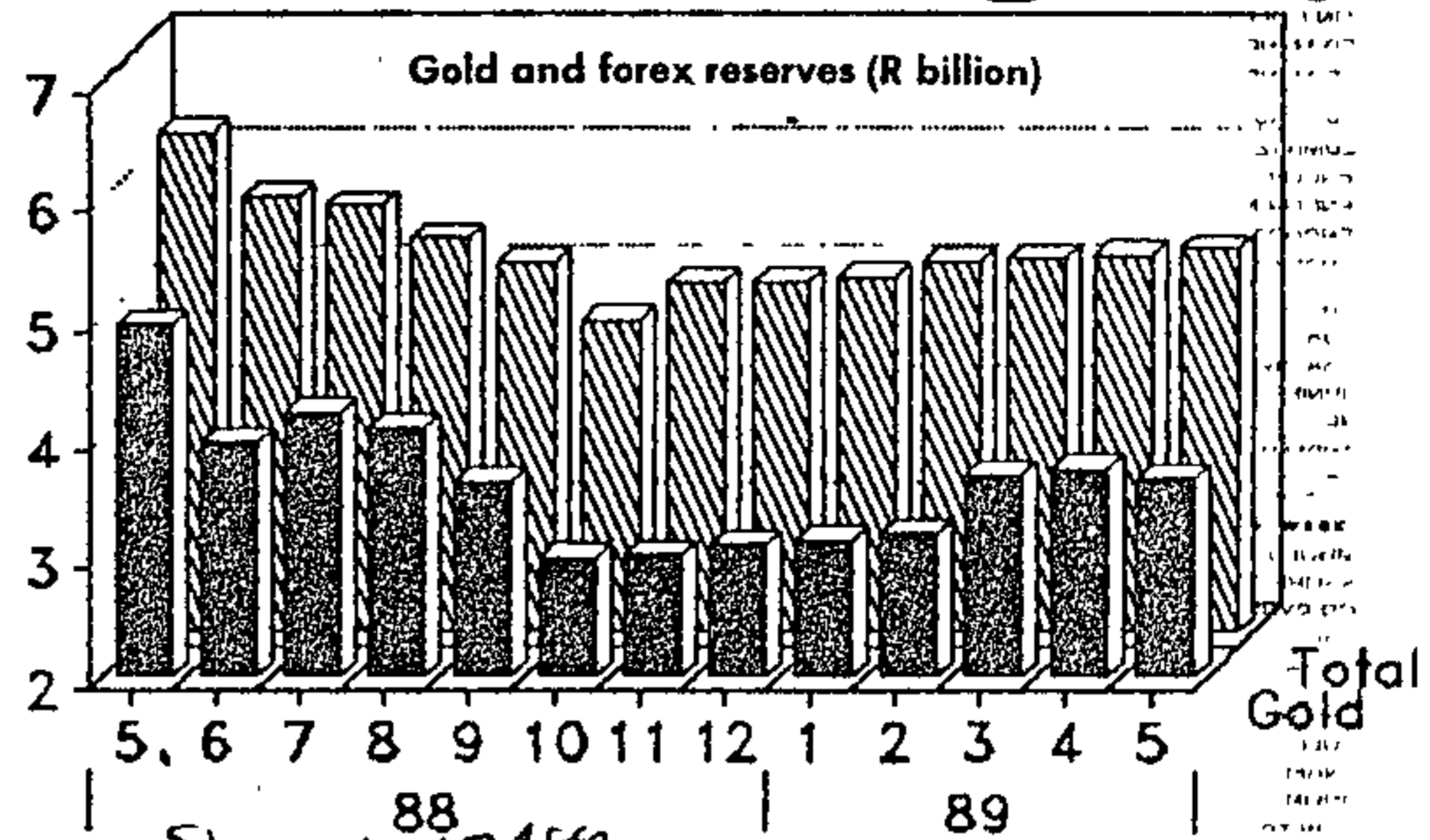
But even the minimal increase in the reserves in rand terms was only achieved as a result of the weakening rand/dollar exchange rate.

The dollar value of the reserves at the end of June was just over \$1,87 billion, the lowest in seven months, and 10 percent lower than at the beginning of the year, mainly reflecting the lower dollar value of the gold reserves.

Total gold holdings showed a decrease of 2,7 percent after rising by 0,5 percent in May. At the end of June gold holdings were R3,624 billion, compared with R3,728 billion in May.

While the bn the average price at which the gold reserves were valued, the metal's price dipped sharply early in the month and has only recovered some of its losses over the last few days.

But for the most part the de-



cline in total gold holdings can be ascribed to the use of loans against gold to meet part of the dividend and interest payments arising annually at the end of June.

The one bit of good news emerging from the figures is that foreign assets, which are for the most part foreign exchange, rose by 7,46 percent in June, compared with the previous month's 0,5 percent rise.

At the end of June foreign assets totalled R1,584 billion, compared with R1,474 billion at the end of the previous month.

The improvement was achieved against the background of substantial foreign debt repayments, totalling about \$250 million.

No gold swaps were made to finance this repayment.

Reserve Bank governor Dr Gerhard de Kock is now optimistic that the reserves will improve at a higher rate over the

next few months.

At the time of the debt repayment last month he said that substantial repayments outside the net were made in the first half of the year, "but we are now looking at a fairly quiet period until the next debt repayment inside the net due in December and the reserves can be built up to satisfactory levels until then".

The decrease in imports is expected to continue towards the end of the year because much of the remaining momentum derives from orders for capital equipment made six to nine months ago and which are slowly coming to a halt in the wake of economic austerity measures.

Finally, economists are pinning their hopes on the expected recovery in the gold price after the recent weakening of the dollar and strengthening international investment demand.

Gold bears ⁽⁷⁹⁾ start to have ^{skw 10/7/87} some doubts

LONDON — Gold analysts who earlier this year were talking gold down to \$300 or lower believe it may be time for a re-think.

This follows gold's rise by more than \$10 over the 10-day period up to Friday's London close of \$384.50.

Robin Griffiths of James Capel said at the weekend: "Possibly \$360 was the bottom, though rallies have failed before."

"If it stops at \$385, it's just an other rally, but if it can break \$400, it's looking quite good."

"People are beginning to think about getting in again now. Bull-market potential is much greater than the cost of a fall to \$300."

Matthew Bounds of Shearson Lehman said: "There may not be a really fast move. Resistance at \$395 may cause gold to consolidate for a while."

Elli Gifford of Investment Research said gold might work up to \$395."

She said there was some evidence that this was the end of the bear market for gold. — Sapa.

Sensible things about the price of gold

S/Times 16/7/89



SOUTH Africa's export performance in the past year shows the extent to which we have come to identify with things going right in the world. Our non-gold exports are doing well.

Even better, we tend to reap the best of both worlds, the remaining structural imbalances in the world economy apparently providing a near-permanent support for the gold price in real terms, measured in various currencies.

However, the war drums start to hum whenever the gold price edges up. There is forever the instinct for the once-off killing, which a gold bonanza has provided before and presumably can again.

In spite of gold's rise in dollar terms from a recent low of \$356 to a high of \$385, it has unfortunately not meant a thing. We are daily presented with the commentaries of technical analysts who read their charts with greater acumen than a soothsayer could a palm.

FUTILE

But all the sophisticated analysis about breakouts and support areas is futile if all we are talking about is currency effects. It is the dollar that is doing the cartwheeling, not the gold price.

In terms of other currencies, the gold price in recent months could not have been more stable and less exciting, especially in Deutsche-marks. One gets the impression that gold is married forever to Dm 725 an ounce.

Granted, there was a little more excitement when looking at gold in yen or sterling terms, but here again it is the currencies that have a tale to tell.

The yen has suffered from the peccadilloes of Japanese politicians, which have especially upset Japanese ladies. In Japanese society, the woman of the household stands central in directing its financial affairs. The male is a mere provider.

From the lowest clerk to the highest company chairman, he hands over his pay packet every month to



his dear wife who gives him some pocket money and handles all financial affairs.

In return, she forsakes women's lib, but of late that too has been changing, and this has been coming out of the wash at the polls. Japanese male politicians got themselves knee-deep into corruption, introduced a sales tax, and then appointed a supposedly Mr Clean as caretaker prime minister, who turns out to have kept not one mistress, but various and of many ages.

What has this got to do with the yen price of gold? As much as the presumed tiff between Britain's Prime Minister and her Chancellor of the Exchequer, whose quibbling about inflation, interest rates, the pound and whether or not to marry into the European Monetary System, and to what degree, has given rise to a loss of confidence in the pound, thereby favouring the sterling value of gold.

QUIBBLES

In recent months, therefore, political considerations in Japan have weakened the yen and thereby translated into a higher yen price for gold. In Britain, economic quibbles have undermined the currency. Neither, however, has said anything sensible about the trend in the gold price.

Along this route it is possible to say that the recent stability of the D-mark price of gold also does not mean anything. However, a closer analysis of the UK, Japanese and US currencies suggests that Central Europe, including the Swiss franc, has more sensible things to say about gold than these others.

Take the dollar. After three years

of steadily widening interest-rate differentials with other currencies, especially since early last year, life has suddenly turned upside down.

The fact is that the greater the interest-rate differential, the more attractive the currency becomes on yield (income) consideration. But that is on the way up. What happens when one reaches the peak of the interest-rate cycle and starts to explore downward potential? That, seemingly, depends on who is in the driving seat.

POSITIVE

On the way up, if interest rates are driven by the central bank, as has been the case in the US, the market interpretation is highly positive. The policymakers are fighting inflation, among other things, and providing wonderfully high returns for investors worldwide who buy American paper. So buy, boys, buy.

The second stage in this cycle is reached when someone must decide that enough is enough: no further raises in interest rates required, it is time to come down.

If the central bank were to make the mistake of taking such a decision a fraction too soon, the market's penalty would be instantaneous: the inflation-fighting is only half-hearted, they are giving up prematurely in order to buy some economic growth. They do not know how to apply and take real medicine. They are weak: love them and leave them.

However, the tune changes considerably when the markets are blowing the whistle for the downturn in interest rates.

All aboard, this train will stop at

no station until it hits rock bottom way down in the valley.

So everyone tries to be the first aboard, reaping the ride-up in capital market values as yields fall, driven in part by foreigners who in their rush to take part drive up the dollar as well, doubling the take for the smart money which comes in early.

However, when the train gets to the bottom of the valley, watch out for the stampede to be first off. Interest rates have been driven down, sedately followed by the central banks which have a more lumbering style to get to their destination compared with the mad dash of the markets.

CORRECTION

But the effects are the same: lower US interest rates and a much narrower interest differential with other countries may reflect good news and sensible management, but they leave all those recent paper profits accumulated during the downturn sitting prettily high and dry and overexposed.

So lock in those profits, as it is known. Sell. Get out. The only real profit is the one that sits in the bank while you can still count your fingers. So stage three is euphemistically called a correction or consolidation or a shortening of long positions or a portfolio adjustment, or simply profit-taking.

In the process, the poor dollar gets mildly mugged as the loot is carried home. Gold, being rated ever so stable among the Alps, gets a bit of a lift as the currency shake-out completes itself.

However, stage three never lasts for long. There is work to be done, money to be made. Gentlemen, where are we going to go next? Meanwhile, gold will merely reflect the ride to come by way of the helter-skelter changes in the relative values of currencies.

Unless something really did go wrong. Please, do not think like that. It is not good for your non-gold exports, structural reform and long-term stability.

But it would be fun, if only for old times' sake. Wonder what those gold shares are really saying.

GOLD ON GO AGAIN?

LESLEY LAMBERT

(79)

CAPE TOWN — Some international economists believe that fundamental economic relationships are turning slowly in gold's favour for the first time since the early Eighties, according to Board of Executors (BOE) executive director Tom Boardman.

Boardman 17/7/89

Speaking at an investment presentation in Cape Town last week, Boardman said some major US commentators who had shown no interest in gold for years were now recommending reinvestment in the precious metal.

Gold had behaved more like a weak currency, with an inverse relationship to the US dollar, rather than an investment haven during the last decade, Boardman said.

"If there is continued weakness in the dollar, we will almost certainly see an appreciation in the gold price."

With the expansionary period of "Reaganomics" and "Thatcherism" possibly drawing to a close, and the prices of commodities such as oil on a rising trend, some economists believed there could be a renewed bout of the "stagflation" that characterised the Seventies.

Another bullish argument referred to in the BOE's quarterly investment report, was that the production of gold from shallow, low grade oxidised ore deposits — which had oversupplied the bullion market and depressed prices — would level off or even decline after several years of rapid growth.

"The fact remains, however, that it will be difficult for the gold price to move ahead in an environment of high positive real interest rates," Boardman said.

Markdown of gold expected

Biday

177787

LIZ ROUSE

BROKERS expect a markdown in gold share prices today, not a sell-off, as no overseas selling developed on Friday when the gold price sank below \$370 at one stage.

Gold traded as low as \$368 on Friday afternoon before recovering slightly to about \$370, but the fall from Thursday's \$375.75 level caught dealers by surprise and there was some hurried long-position liquidation on the New York Comex.

A leading JSE arbitrage dealer said US gold funds were no longer selling gold shares — mainly because sentiment towards SA had changed for the better.

SA gold shares were yielding about 8% while US, Canadian and Australian gold share yields were nil. Changing overseas perception of improving political situation in southern Africa could turn attention back to the high yielding SA gold stocks.

While remaining cautious about the di-

rection of the dollar, brokers said a gold price of \$370 or just above R1 000 was unlikely to trigger off selling.

However, a decline to the \$360/\$365 mark would have an adverse effect on the gold board.

In general, Johannesburg brokers were surprised the JSE gold board held up so well on Friday when gold dipped below \$370 as soon as US producer price index figures available to gold were released.

Cushioned by the financial rand the JSE all gold index shed only 9 points, bringing the week's fall to 51 points on a \$14.70 fall in the gold price over the past week.

London fixed gold at \$370.80 and New York settled at \$370/\$370.50, while closing at \$370.50/\$371 in Hong Kong on Saturday.

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879

US analysts see gold recovering

The Star's Foreign
News Service

NEW YORK — Market specialists in New York are predicting that the gold price will rise to almost \$400 an ounce in the next quarter.

The experts ascribe this more optimistic outlook for gold to changes in the world economic climate coinciding with technical factors in the spot gold market that they believe will lift prices towards the \$400 mark.

The weaker dollar, easier Federal Reserve monetary policy and a tighter supply of gold appear to be underpinning the gold price just as the heavily oversold market seems poised to snap higher, according to these observers, quoted in the *Wall Street*

Journal.

That combination, they say, bodes well for gold, which was a disappointment in the second quarter. But market-watchers caution that that doesn't mean a bull market lies ahead — prices appear ready to rise, but in a broad-based consolidation rather than a true recovery, since investor interest in gold is still thin.

There is also the possibility that before its projected new climb gold could easily dip towards the market's bottom in the next quarter, usually estimated at between \$350 and \$360.

"The underlying fundamentals are starting to shift to make things look better for gold," said Fred Demler, of Drexel Burnham Lambert.

He and other metals economists believe, however, that breaking the \$400 barrier is only a possibility at best this quarter, but a probability before the year ends.

Nor do these Wall Street gold analysts see the precious metal returning to prominence as an investment haven during the third quarter.

Gazgold offers more than most marginals

Star 2/7/84

With the gold price fluctuating between \$360 and \$380 an ounce mark, the marginal mines offer little prospect for investors, according to Ann Mackeurtan from stockbrokers SP Reid and Mackeurtan.

Marginal mines, by definition, have high operating costs relative to the grade of ore milled and therefore a \$10 change in the price of gold from \$370 to \$360 an ounce will drop the profitability of a mine such as Loraine, before tax and lease considerations, by 67,4 percent.

Until the gold price stabilises or moves upwards the marginal mines offer little or no buffer zone in which to absorb the changing gold price.

Gazgold, which in its June quarterly reflects the grade of ore milled to be 2,15 grams per ton, has a distinct advantage in that operating costs are a fairly inexpensive R49,86 per ton of ore milled.

This sets it apart from the other marginal mines as profit margins have reasonable elasticity to accommodate price fluctuations.

For Gazgold a \$10 an ounce drop in the price of gold to \$360 means a drop of only 9,5 percent in profitability.

Earnings are expected to be higher for the next 12-month period as their major expenses by way of bringing in line a mill and the establishment of shafts for underground mining and an



improved method for extracting the gold from dumps have all been implemented, according to chairman Sydney Newman.

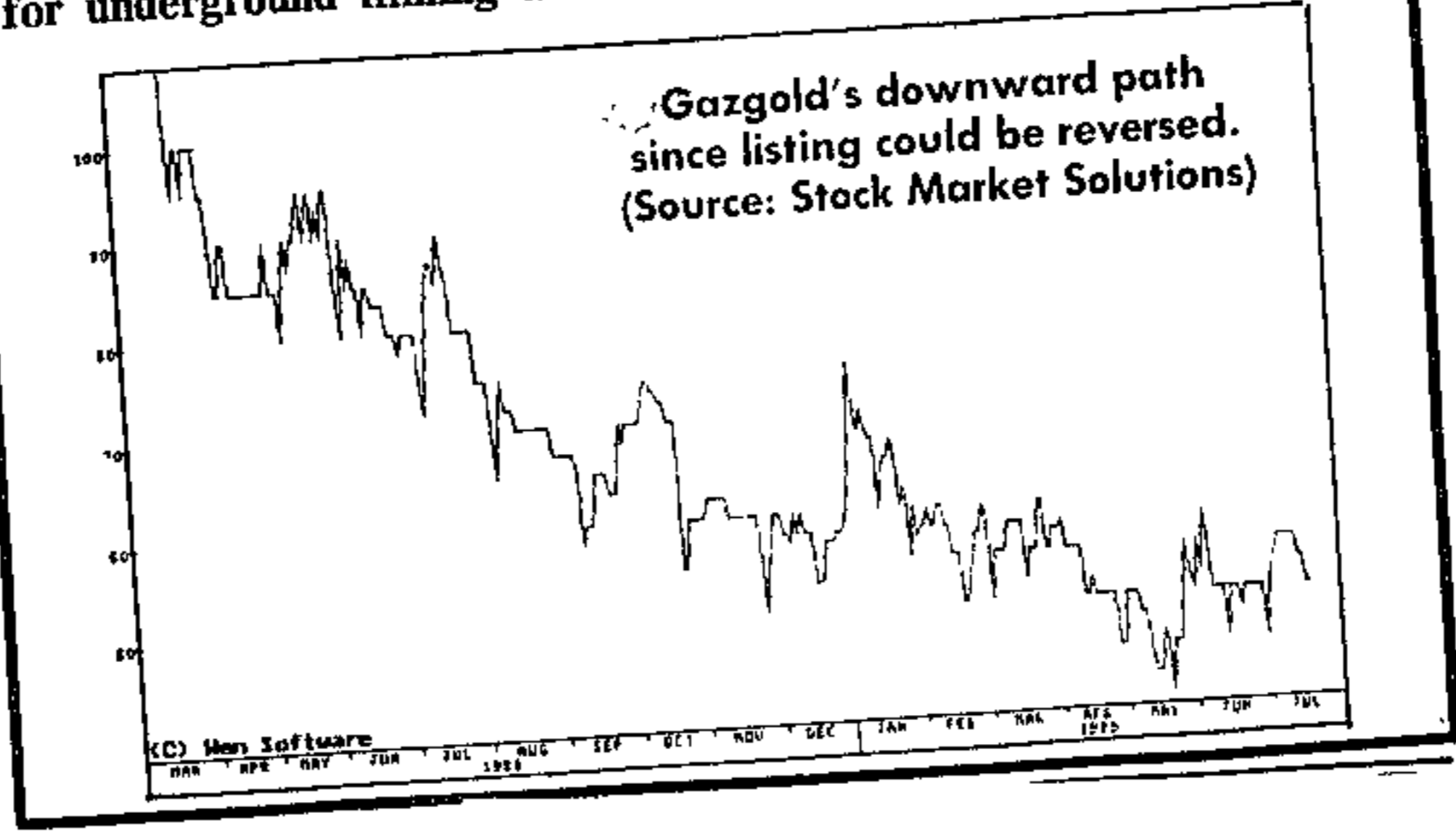
In addition the company is in an advantageous position with regard to capital expenditure, as profits will not be taxable until the capital expenditure has been offset against profits.

Gazgold intends rehabilitating more of the mines in the Sutherland Greenstone belt in the Eastern Transvaal which are currently water-logged.

During the quarter the production of gold increased by 47 percent from 49,41 kg to 72,53 kg, while operating profits have increased from R478 785 to R774 502, a 62,4 percent increase during the quarter.

Tom Dale of Ed Hern and Rudolph believes that the share price will pick up if Gazgold continues to produce encouraging reports.

If the low operating costs can be maintained by sustaining a small work force (at present 28 skilled and 300 unskilled workers) and capital expenditure contained then, considering their due performance and future prospects, the share price should move to highs beyond its listing price of 110c.



All the signs point to higher gold price

79

5/22/89

GOOD news for gold investors is that for the past month or so the gold price has been showing signs of wanting to go higher.

A look at the gold price chart shows that since the middle of May gold has been establishing successively higher floors. This week it has been trading at around \$370-\$372 an ounce, which is some \$10 higher than its floor at the end of the May.

What this means is that the gold price seems to be forming a solid base as a springboard for a further advance.

This type of movement indicates a steady demand for the metal recently — which is only to be expected after the FT Gold Conference in Lugano last month.

Mr Mike Brown, who is Frankel, Vinderine and Kruger's economist, was at the conference and has recently issued a paper outlining the proceedings there and giving his impressions of the conference's findings.

The 'Luminaries of Lugano' came to the conclusion that a degree of cautious optimism existed for the gold price outlook in the

DEREK TOMMEY

next 12 months, says Mr Brown.

This was in sharp contrast to the outcome of the Vienna gold conference a year earlier.

Then, concern about rising world gold production, huge forward loan sales and other forward sales had raised fears that the gold price might crack as a result of supply indigestion.

While Mr Brown does not mention it, this probably was a major cause for the gold price dropping from around \$450 in June last year to \$400 at Christmas and, interestingly, to a low of \$360 just before the FT Conference.

Mr Brown says that running through the recent conference was the view that the gold market had already absorbed the anticipated supply bulge predicted last year and that now it was relatively firmly based on good physical offtake.

"To a large extent, therefore, Lugano emphasised a cross-over

from an oversupplied market to a more balanced gold market with greater potential for stability and perhaps some price appreciation.

The cross-over factors were:

- Peaking Western world gold output after 1990. Gold production grew by more than 11 percent last year. But it is expected to rise only 4 percent this year and 6 percent in 1990.

- Gold loan and forward sales are slowing down — and the repayment of these transactions represents a demand from, rather than a supply to the market. Mr Brown says that the new gold loan business has slowed dramatically and, as can be seen from the accompanying "Gold Loans" graph, the payback of existing loans should create a net demand from 1990 onwards.

- The main demand for gold has switched to the Far East where there is consistent support for the metal. Demand in the first four months of the year was running 30 percent ahead of last year.

- There is a strong demand for gold for jewellery and fabrication purposes. Total fabrication demand absorbed some 99 percent of total world gold supplies last year, says Mr Brown. The market should continue to experience good physical offtake this year.

- There is a shortage of physical gold in the market. Bullion dealers are having to wait one to three months for small bars from the refineries. The market is actually in a tight supply situation, which is temporarily alleviated from time to time by large central bank sales and producer forward selling.

All these factors, says Mr Brown, point to a limited downside risk in holding gold.

Looking further ahead Mr Brown says there is likely to be a continuing shortage of gold. Last year there was a shortage of 468 tons. This was met by gold loans, forward sales and net disinvestment. This year the shortage is likely to be 200 tons.

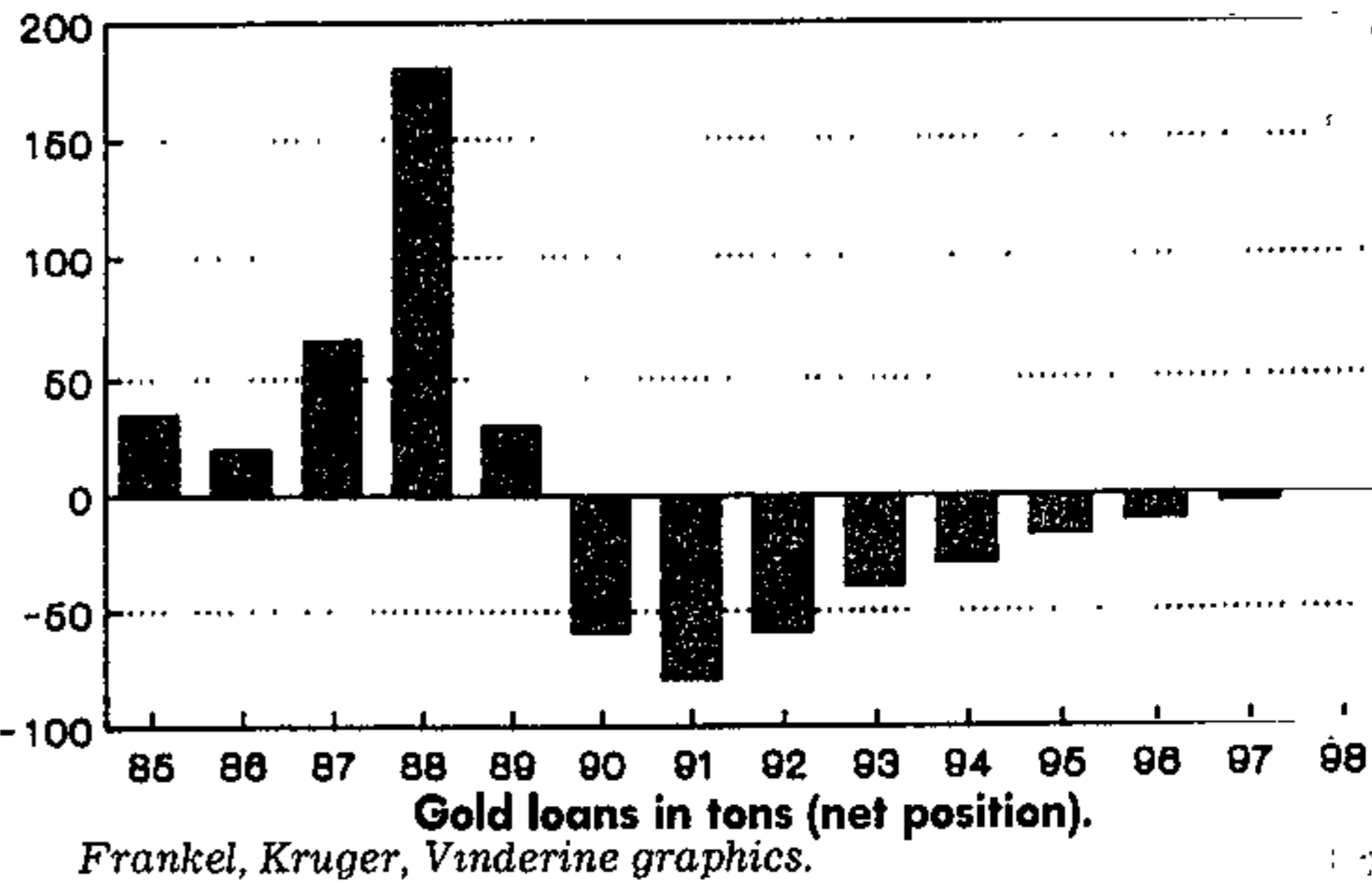
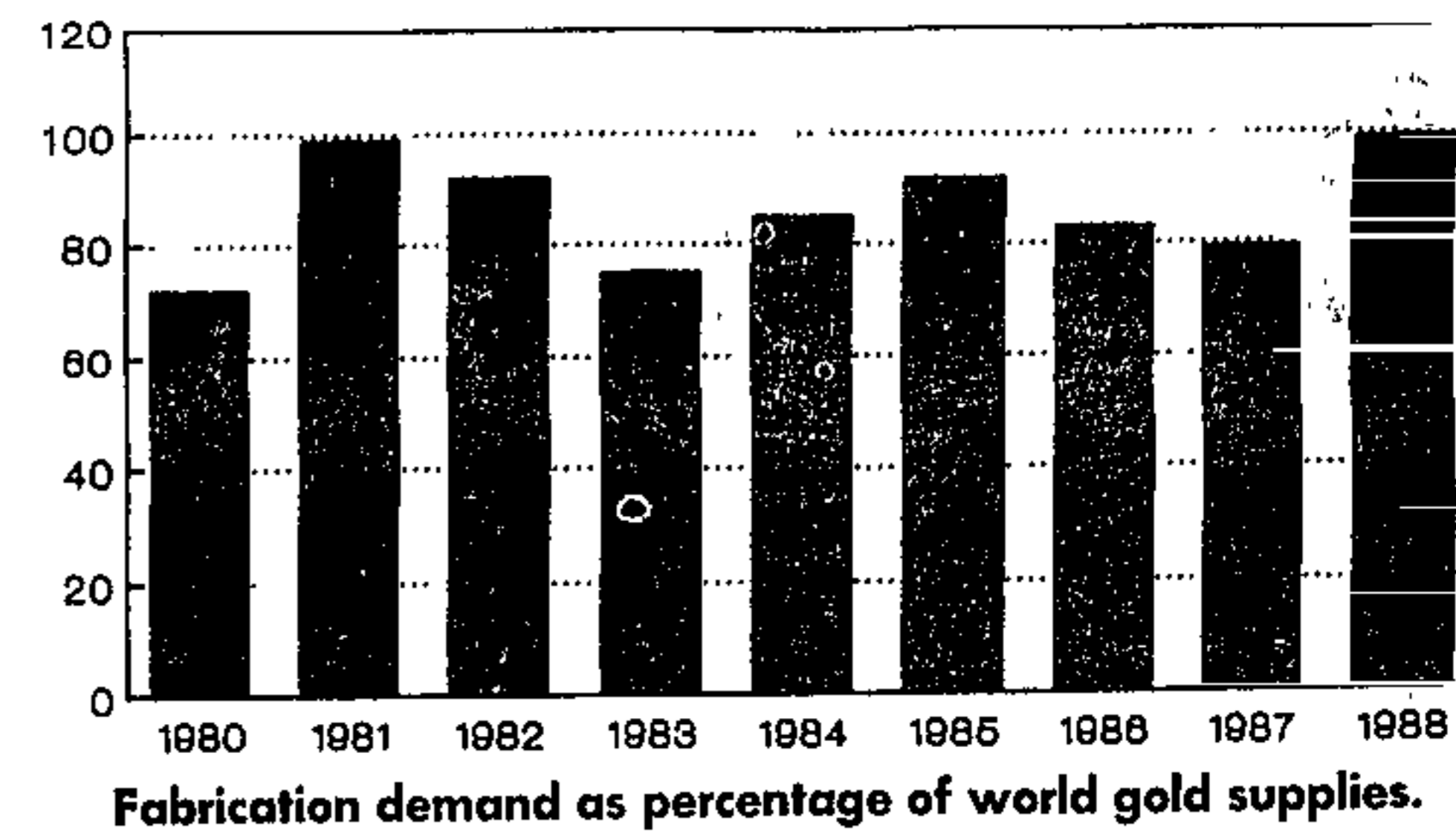
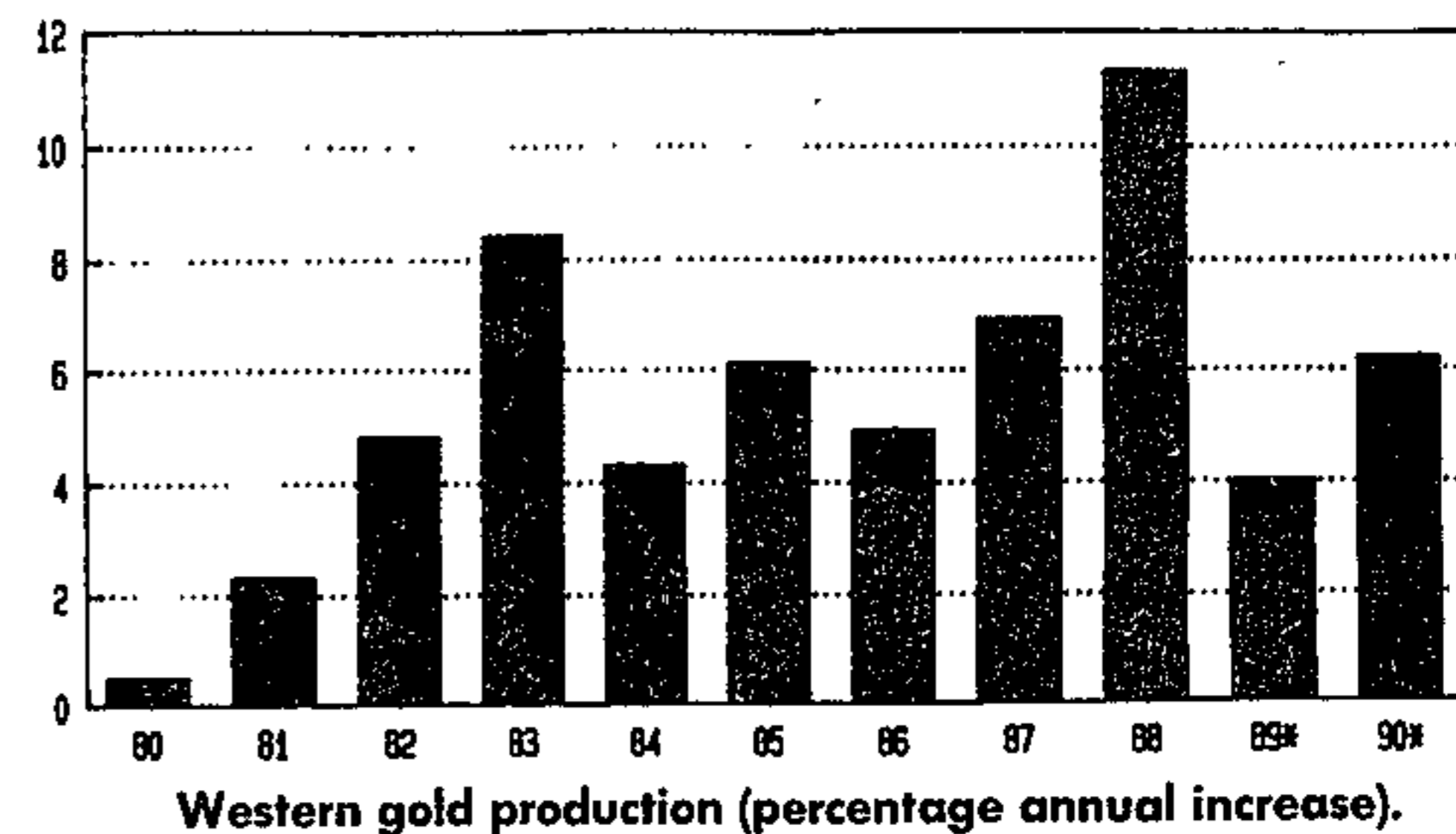
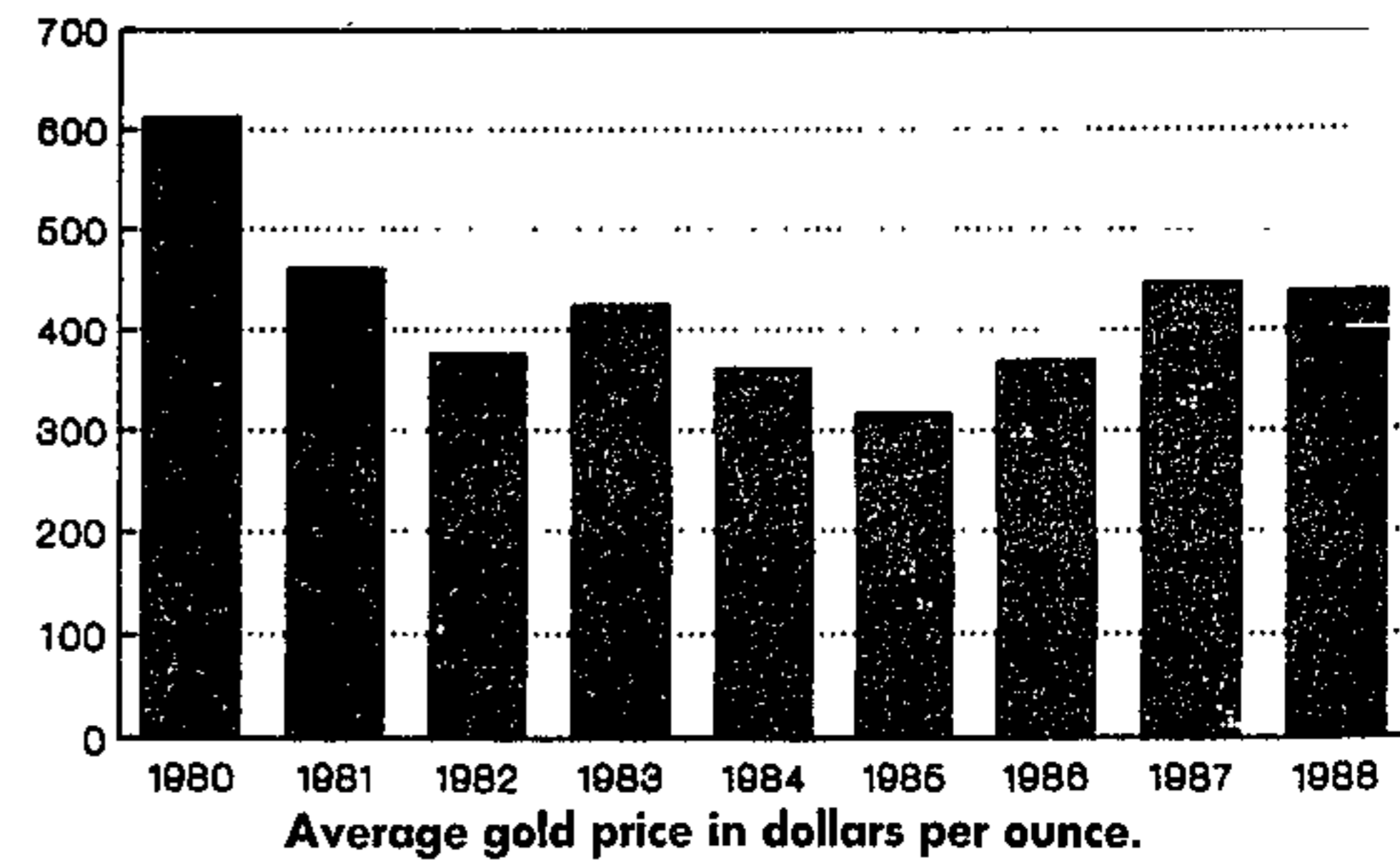
Supply shortfall

A similar shortage in 1981 and 1982 and again in 1984 and 1985 led to gold price spurring in 1983 and 1986. Mr Brown says the current two years of supply shortfall provides a powerful argument for a supply/demand generated floor for the gold price.

Several potential economic developments, including a weaker US dollar, persistent inflation, a relatively hard landing for the world economy and declining real interest rates could also help the gold price.

On the other hand, there was a possibility that some central bankers might become net sellers rather than net buyers of the metal.

However, after considering these trends and developments, the conference decided that there were grounds for being cautiously optimistic about the gold price firming, says Mr Brown.



Frankel, Kruger, Vinderine graphics.

Gold industry in VICIOUS circle

B1 Day 25/7/87

79

THE gold industry is caught in a vicious circle of stagnant rand gold prices and rising inflation, which has locked many mines into dependence on an ever weakening rand.

Economists warn that SA finds itself in a similar position to that of the late 1960s, when mines' rising working costs threatened to overtake the artificially fixed gold prices of the period.

At the time, many SA mines faced the prospect of closure. Their rescue came in the form of subsequent liberalisation of gold markets, which allowed the price to rise above the artificially low \$35 an ounce.

Today many mines face the same crisis — in dollar terms gold has been in a steady decline for the past 19 months, and officials remain pessimistic about its short-term to medium-term outlook.

Over the same 19 months, marginal mines have been rescued more than once by a weakening rand, which fell in response both to gold's dollar decline and to political pressure, economists say.

The weaker rand has maintained mining income in rand terms, but brought with it rising inflation. Increased inflation

ANDREW BUDDEN

has inevitably translated into higher working costs, so reducing the margins bolstered by a weaker rand.

Economists have forecast an effective inflation rate of 17% by the end of this year, and warn it will probably rise to about 20% in 1990. The implications for gold mining are disturbing.

Working costs have been rising at 20% to 25% a year, and without a marked improvement in the dollar price, many mines will join the ranks of the marginals by next year.

The metal recently recovered some of the ground it lost earlier in June, when prices plunged to a three-year low of \$356.96, but analysts say this does not mark the beginning of a prolonged up-swing.

Technical analysis shows the price would have to climb well above \$390 and stay there for about six weeks to mark an extended break-out of the decline, says one.

Gold industry officials this week also said they were not convinced the dollar gold price had bottomed out.

Monday 27/7/89

79
 'Boost gold output'

CAPE TOWN — SA should fix its exchange rate to the basket of European currencies when Europe becomes one market in 1992, UCT economics professor Brian Kantor said on Tuesday night.

And it should boost gold production now to reduce foreign debt as much as possible.

Kantor, speaking at a seminar organised by Investec, stressed the need to bring down the inflation rate.

He said SA needed a system of "reverse annuities" with payments increasing with time so that people in this country need not fear living too long.

One effect of inflation was that the share market gave a much better return than fixed investment, Kantor said.

Even ignoring capital growth, it took 11 years for dividend income alone to overtake interest income from long-term investment.

Property shares had done even better. "Dividends from property shares have done spectacularly well".

He thought property shares and investment were under-valued.

In view of this, anyone expecting to live more than 11 years should invest his or her money in the equity market or property shares.

"The danger facing old South Africans is that they will live too long," Kantor continued

"We need a system of reverse annuities.

"The great problem facing ageing South Africans is inflation.

"It was not always like that. SA's capacity to generate inflation high in relation

Own Correspondent

to that of other countries began in the '80s."

SA had mismanaged its booms in 1979 and in 1987-88, "giving us tremendous trouble on the way down".

Kantor said government did not print money to finance its expenditure. It was willing and able to do this through taxation

"Government spends too much. But it also taxes too much."

It always failed to raise interest rates in the early stages of a boom, because politicians prevented the Reserve Bank from doing this.

Trust

"We haven't got a political fix. And I've given up on money supply targets. We always undershoot in recessions and overshoot when times are good.

"We need a fix and I've got one. We should get back to fixed exchange rates and fix the rand to the European basket of currencies in 1992. We can trust the Germans and others to manage their money supply properly.

"We should go in at an under-valued rate. This is better than going in over-valued."

Kantor said his second suggestion was to step up gold exports to reduce SA's foreign debt problem.

Pointing out that revenue from gold mines amounted to "less than 1% of the take from sales tax", he said: "We should stop looking at our gold mining industry as a source of revenue."

SA had consistently reduced its gold output since the 1970s. Instead it should increase it.

"We should stop thinking of revenue and start thinking in terms of higher gross domestic production (GDP) and lower debt."

He was in favour of getting rid of the Board of Trade, and of stopping trying to save foreign exchange by increasing local content.

This interfered with efficiency and did not bring foreign currency into the country.

Discussing inflation, Kantor said it was not as bad as it appeared through the year-on-year statistics. The smoothed, annualised, monthly increase showed a declining trend

He expected inflation to peak towards the end of the year "but it won't go much above 16%".

The balance of payments (BoP) was the key. "The outlook for the BoP in dollars is difficult but not disastrous."

The price of gold by the end of 1991 could be either low, in the region of \$350; medium, in the region of \$450; or high, in the region of \$550.

Which it would be depended on the way the US economy was managed — "and I have not given up hope that the Americans will mismanage their economy and give us at least a medium gold price".

It was quite possible that the Americans would allow a slight rise in inflation, which would suddenly turn into a big rise. A great deal would depend on how tough Federal Reserve Board chairman Alan Greenspan was and how much power he had.

Boomalong JSE sets a puzzle for holders of golds

79
S/Times 6/8/89
By Julie Walker

THERE is never a time to sell good shares, says a stockbroker — and his sentiment is reflected on a booming JSE.

In 11 months the overall actuarial index has jumped by 60% to 2 765 points, almost level with the pre-October 1987 crash. But the average price-earnings ratio of shares comprising the index has dropped from about 15 to 10 times. It still offers relative value.

The industrial index has overtaken its high earlier this year, exceeding it handsomely — at 2 748. The rate at which corporate earnings have continued to improve justifies the sentiment.

Puzzle

The big puzzle is the all-golds index. Its high, reached two years ago, was 2 499, and it dropped below 1 200 last year before attaining a 12-month peak of 1 699 this week. It closed at 1 678.

The dividend yield on gold shares averages 4.7% — well below the historic average. Head of mining research at Simpson McKie Rodney Yaldwyn says fundamentals for SA's gold mines are not rosy.

"The gold price has fallen below R1 000 an ounce, and higher costs will make it difficult for many mines to maintain dividends, let alone raise them. Increased salaries always lift costs in the third quarter."

He believes the market is running on an expected rise in the gold price. But he argues that gold has to rise to \$450 and beyond to improve the fundamentals for SA's gold-mining industry.

"If gold goes to \$400, the

rand will appreciate and the rand price of gold won't go up."

He says foreign investors are disillusioned with the Australian gold index. Many mines have underperformed, and the view is that some are being raped — referred to as fast-tracking in Australia — ahead of the introduction of gold-mining tax in 1991.

Shortage

The world's bourses are strong, and the correlation of the JSE index with the global trend is high. But the rate of earnings growth in America and Europe is not expected to startle. If their markets weaken, the JSE could too.

However, the JSE brokers I spoke to say they have pages of buying orders to be filled — and a shortage of scrip.

Even if something looks overpriced, nobody will sell it because it will cost more if he or she wishes to get it back.

Clarice Braun of stockbroker VH Simmons says there has been a spillover of de-

mand from foreign clients who see value in SA gold shares. Among the favourites is Randfontein, where the foreigners expect higher grade and lower costs. Whether it is achievable or not, the view reflects the sentiment.

Melt-up

Mrs Braun says Americans refer to the bull run on Wall Street as the melt-up.

"There could be a triggering of computerised buying orders, which could have the reverse effect of the computerised selling which contributed to the October 1987 crash."

Davis Borkum Hare's George Joubert says that improved sentiment, especially from SA institutions, underlies the market's strength. A few months ago, good results did nothing for a share's market rating. Now, the price jumps on high performance.

Mr Joubert refers to aggravations — certain well-publicised frauds — which played havoc with the financial rand market.

"It is back to normal now, in contrast to after the 1987 crash. The finrand makes out shares cheap for foreign buyers."

The eyes in focus

SWISS-based Wild Leitz and the UK's Cambridge Instruments, both manufacturers of optical instruments, will merge their operations.

Wild Leitz is represented in SA by wholly owned Wild Leitz SA and Cambridge markets its products through agencies.

Last year Wild Leitz turned over R1,7-billion and

Cambridge R550-million. The merger will result in one of the world's largest manufacturers and suppliers of optical equipment, says Michel Peyremorte, managing director of Wild Leitz SA.

There will be 10 000 employees in Europe, America and the Far East. The company sells its products in 20 countries.

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Rising Soviet sales depress gold price

Star 11/9/89

79

By Neil Behrmann

LONDON — A sharp increase in Russian sales is depressing the gold price.

Flirting with its June low of \$359, gold is set to fall sharply, Swiss dealers predict.

A firm dollar and high real interest rates are discouraging investors.

Coins sales by disenchanted European institutions, for example, are being remelted into bars.

So, despite strong fabrication demand this year, there are still plentiful supplies of gold.

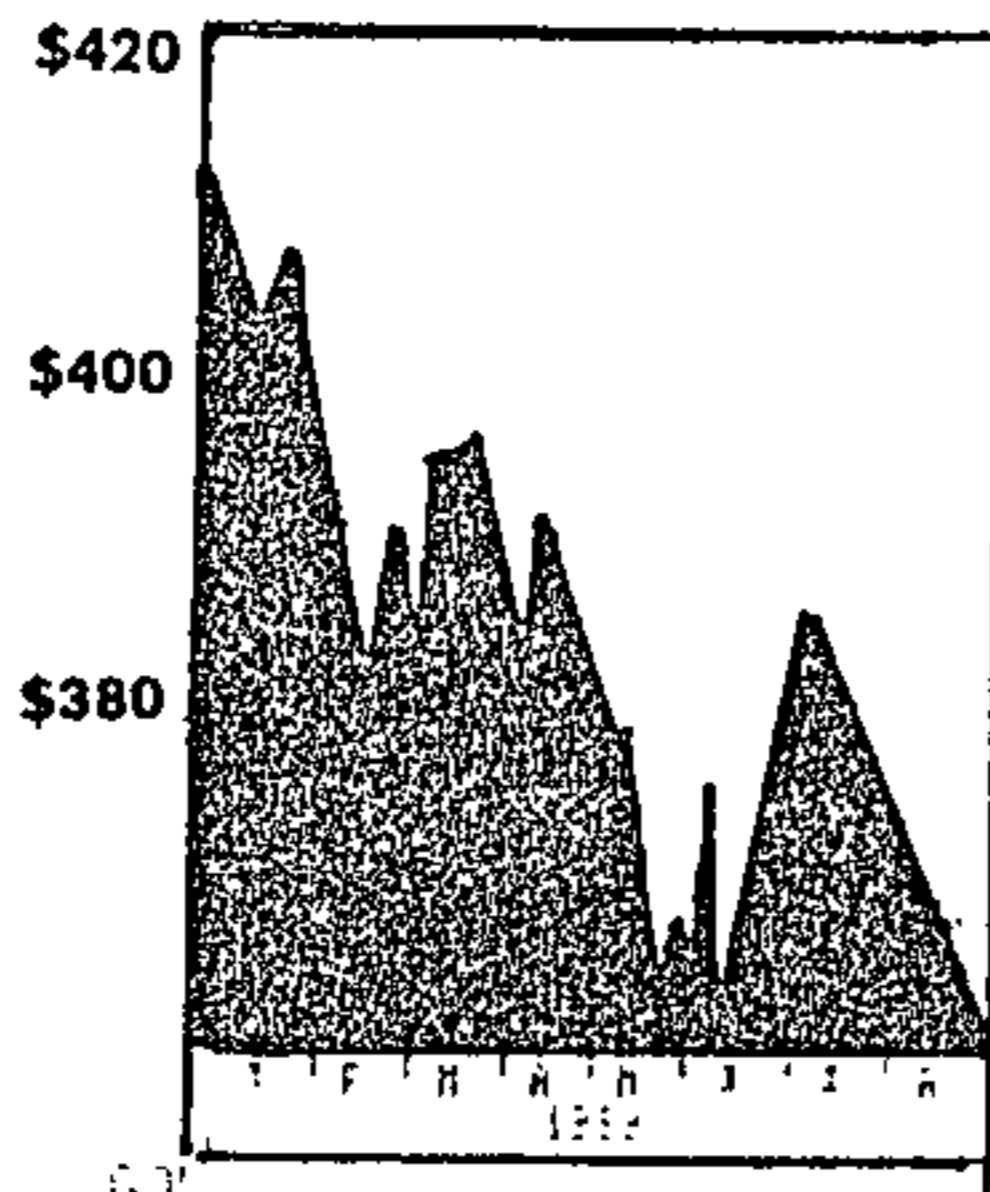
A sharp increase in Russian sales early in February helped push gold downwards through \$400.

The USSR then held back from the market for a few months, according to dealers. In recent weeks, however, their sales have kept a lid on prices.

Savvy trading

Jeffrey Nichols of American Precious Metals Advisers estimates that Russian sales have ranged from five to ten tons a day.

"The Soviets have a reputation for savvy trading," says Mr Nichols, "but these sales have been sloppy.



London gold price

"A friend of ours recently returned from Moscow with news that sales are now being set weekly to relate to the Soviet Union's immediate hard currency needs," he says.

The Soviets have also been selling call options, which are promises to deliver gold in the future at pre-set prices, says Mr Nichols.

Selling "calls" provides additional premium income and increases current revenue.

Swiss bullion managers have noticed that the Soviet Union is "lending" gold from its huge

monetary reserves, estimated by some to be about 2300 tons. These loans add to the supply of gold.

The Soviet Union has increased its foreign bank borrowings considerably in the past year.

But it still needs to sell gold and other commodities because of rising grain and industrial imports.

The pressure for economic reform will lead to higher imports which, in turn, must partly be financed by larger gold sales in coming years, says a Swiss banker.

Edwin Arnold, metals analyst at Merrill Lynch, has detected higher Russian sales in the past few weeks.

China's central bank has also been a modest, but regular seller, as well, he says.

Some estimate that Chinese gold sales have reached 100 to 120 tons since the crisis earlier this year, he says.

On the other hand, this gold could be absorbed by the central banks of Taiwan and Spain.

With supplies of this size on offer, a Swiss bullion manager says that he would not be surprised to see the price slide into a trading band of \$330 to \$350.

Some London dealers who are slightly more optimistic are hoping that seasonal demand ahead of Christmas will boost gold.

They point to surging jewellery demand this year.

Swiss bullion managers say Italian jewellery demand increased by 30 percent in the first half of this year.

But they doubt whether the trend will continue.

In any event, they say, most jewellery fabricators have increased purchases in the past few months. They now have sufficient supplies.

Demand wanes

Moreover, Far Eastern demand, also buoyant in the first half, has begun to wane.

Commodities Research Unit estimates that the gold imports of Japan, Taiwan, Hong Kong and Singapore fell to 261 tons in the second quarter of this year from 383 tons in the first and 317 tons in the fourth quarter of 1988.

Japanese imports were 48 tons in the three months to June, well down on the 106 tons in the first quarter. Japan bought 294 tons in 1988.

Star 189 79/20
419

Taiwan's gold move draws nod of approval

Taiwan's decision to lift import duties on gold has been welcomed by the Chamber of Economic Relations between it and South Africa. (SASA)

In the chairman's report, the chamber says that the move is expected to push Taiwan closer to becoming the major gold trading centre in Asia.

Taiwan has long imposed strict controls on the import and export of gold due to limited foreign exchange and gold reserves.

The report says that Taiwan has welcomed the South African Government's assurance that serious and urgent attention is being given to the withdrawal of the import surcharge on capital equipment and components as this has proved a deleterious factor in new investment.

Commenting on the ministerial conference between Taiwan and South Africa, which took place in Taiwan last month, the report says that ways and means were discussed to encourage two-way investment.

Particular attention was drawn to the facilities of the International Economic Co-operation Development Fund of Taiwan, which aims to assist with the economic growth of developing countries and others friendly to Taiwan.

The report says bilateral trade between Taiwan and South Africa continued to grow in 1988 and in the first half of 1989. — Sapa.

Exposure to gold hits Genbel growth

Genbel's heavy exposure to gold is reflected in the pedestrian expectations for the investment group's earnings growth in financial 1990.

A recent report by Pat Geoghegan of stockbrokers Davis Borkum Hare, which advises investors to hold the share, looks to earnings growth of eight percent to 280c a share in the 12 months to June 1990.

Referring to the group's proposed R300 million rights offer, Ms Geoghegan says the rights have been attractively priced and advises shareholders to follow their rights.

The offer price has been pitched at R53, which represents a discount of 24 percent on net worth at end-August.

Issue price

Since the announcement of the issue, the share has slipped from R61 to R59 at which level it is 11 percent higher than the issue price.

The purpose of the offer is to enable Genbel to follow its rights in certain of its gold and platinum investments, particularly Oryx, Impala and Northam.

In addition, as Ms Geoghegan says: "Capital may be required by Randex, both for ongoing expenditure and to follow its participation entitlement in new projects."

There is also the matter of Genbel's 10 percent participation in Gencor's energy prospects as and when these become available. Ms Geoghegan believes a rights offer at Mobil could be imminent.

Across sectors

Reviewing the financial 1989 performance, she refers to the substantial changes that were made to Genbel's portfolio in the first half of that year. "This appears to be part of a strategy to focus the portfolio within sectors, while maintaining the diversification across sectors necessary to eliminate the effects of specific risk."

Among the acquisitions was an additional 1,78 million shares in Unisel (as a consequence of a deal between Gencor and RTZ) for R35 million, or R19,66c per share.

Genbel also acquired 1,5 million shares in Samancor for R33 million, or R22 per share.

Diagonal Street

79

ANN CROTTY



But, as the Davis Borkum Hare analyst points out, despite major changes to its portfolio Genbel has managed to avoid any onerous tax implications which would have resulted in an erosion of its asset value:

"Its theoretical tax liability is the difference between book and market value. By applying Section 24 (a) of the Tax Act, Genbel has been able to structure its sales on the basis of share swaps."

Reflecting the weak condition of the gold sector, dividend income from investments in financial 1989 was down 3,3 percent, despite R3 million in dividends from Unisen — no dividend income was obtained from this source in the previous financial year.

With effect from July 1989, Genbel increased its holding in Unisen from 49 percent to 100 percent for R23 million.

Dividend yield

Ms Geoghegan says: "Based on income from Unisen, this price rates Unisen on a 6,1 P/E, or 12,7 percent dividend yield, which compares with 21,8 times and 4,6 percent respectively for Genbel itself."

Looking to financial 1990, she expects a small rise in gold income, provided the price of gold averages R1 000 in real terms.

"However, overall we expect gold to continue to diminish in percentage terms until there is a major sustained rise in the price."

An improvement is expected from its investment in mining financials.

On the platinum front: "Strongly improved results for Impala will be reflected in financial 1990. In addition to its holding in Impala, Genbel has diversified its interests in platinum with the acquisition of holdings in Rusplats and Northam."

And Genbel will benefit from the strong returns expected from Samancor. But the overall impact will be a hardly perceptible growth in earnings.

Gold and forex reserves are a little stronger

79) By Magnus Heystek
Finance Editor

South Africa's gold and foreign exchange holdings held up remarkably well in August despite a fairly significant drop in the gold price. *Star 8/9/89*

During August gold and forex reserves rose by 4,6 percent to R5,327 billion from R5,130 billion recorded in July.

But despite showing a rising trend for the second month in a row, the increased levels of foreign exchange reserves does not represent any indication of a relaxation in monetary policy, says Mr Nick Barnardt economist at the TrustBank.

Gold holdings remained almost static at R3,363 billion.

Foreign assets, which for the most part are foreign exchange holdings,

rose by 13,69 percent to R2,009 billion compared with a 11,36 percent increase to R1,767 billion in July.

The Reserve Bank says that gold reserves as at August 31 were valued at R899,94 per fine ounce, compared with the valuation price of R886,11 per fine ounce as at July 31.

At current levels foreign exchange reserves — mostly US dollars — constitute roughly about six week's imports, which shows a welcome increase from May and April levels.

Any drop in the gold price from its current levels will inevitably lead to an increase in the prime interest rate in order to protect the balance of payments, Mr Barnardt said.

The behaviour of the gold price is causing some anxious moments in monetary circles.

Gold price

(79)

stay
18/9/84

bounces back

Finance Staff

Gold bounced back to \$361.09 an ounce in Hong Kong today after falling to \$355 in New York on Friday night.

Gold's slide on Friday followed an unexpected drop in the US trade deficit in July to \$7.6 billion from the \$8.9 billion forecast by many economists.

The dollar immediately strengthened as a result, rising 1.6 percent against the German mark to close just below two marks.

In the resulting currency adjustments the US gold price dropped 1.3 percent from \$360 to \$355.

Time to look at gold shares again

Star 19/11/89

A couple of months ago, Mike Brown, economist at stock-broking firm Frankel Kruger Vinerine Inc, suggested that investors should start to take a heightened interest in gold shares.

He predicted much improved sentiment towards gold shares by the end of 1989, followed by improved gold mining earnings in 1990. He added: "Only low cost/low risk shares should be considered, although a few medium cost mines could offer potential."

On industrial shares, he had this to say: "Further increases in the industrial index should be limited and portfolios should focus on non-cyclical stocks towards year end. Accumulation of stocks in the second half of 1990 might be prudent to take advantage of an upswing in 1991."

He further recommended that any upsurge in industrials might be used to lighten holdings in this area in favour of gold shares.

So far (almost) so good. Industrial shares have certainly been showing signs of weakness, while gold shares, though by no means buoyant, have been showing signs of relinquishing the also-ran role that they've been playing for so long.

Given that background, it is well worth while taking careful note of Mr Brown's recommended portfolio mix by the end of 1989.

Gold shares, he believes, should make up some 15 percent of a balanced portfolio, with preference being given to ET Cons, Southvaal, Dries, Deelkraal, Kinross, Dries, Kloof, Beatrix, Harties and Western Deep Levels.

Industrial shares should be brought down to 20 percent and

Diagonal Street

JOHN SPIRA



the favoured shares here are Amic, AECI, Remgro, CG Smith, Malbak, Richemont, FSI, Hudaco, Powertech, Anglo Alpha, HLH, Pick 'n Pay, SAB and Kersaf.

Mining financials were set at 13 percent and the recommended shares in this category are Anglo, Gencor, Amgold, Minorco and Genbel.

Mr Brown had an "other" sub-division in which his suggested holdings were Rusplat, De Beers, Samancor, Hiveld, Amcoal and Palamin.

Property was given a 10 percent segment, with Cenprop, Sycom, Hyprop, Tambotie, Pioneer and Boardprop, while financial at 5 percent included Libhold and Stanbic.

Of the balance of the portfolio, 15 percent should go into the capital market (Eskom 168 and 169 and RSA 124 and 144) and 10 percent into liquid assets.

The small investor looking at such a portfolio structure would understandably assume that it is targeted mainly at the institutional investor. He'd be substantially correct in doing so.

At the same time, he should acknowledge that the JSE is so institutionally dominated for the present that shadowing the course being followed by the institutions is to be placing oneself at the forefront of the Diagonal Street action.

Comparing your portfolio mix with that recommended by Mr Brown might not, therefore, be such a bad idea.

Sta 19/9/89



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Hedging helps Harties

Higher average rand gold prices received, lower taxation and hedging transactions all contributed to a 14 percent rise in the Hartebeestfontein Gold Mine's earnings of R201,9 million (R177,1 million) for the year ended June 30.

The earnings were equivalent to 180,3c (158,2c) a share and the dividend is up at 180c (153c).

In his annual review, chairman Basil Hersov says that although the average rand gold prices received were nine percent higher, the mine's pre-tax profit decreased by R19 million to R588 million — mainly because of lower gold production from underground sources, higher costs and losses on uranium oxide sales.

With Capex and loan repayments rising to R62 million (R58 million), taxation and state's share of profit — which was calculated on the new formula — was reduced to R324 million (R373 million), leaving an after-tax profit that was 12 percent

higher at R264 million (R235 million).

Mr Hersov adds that the earnings were enhanced by about 12 percent as a result of hedging transactions.

The average recovery grade for the current year is expected to ease a little further to about 9,1 g/t.

Production of uranium oxide, sulphuric acid and pyrite led, as expected, to a loss of R4,9 million.

The Capex bill of R60,5 million (R57,3 million) was mainly devoted to completion of the low-grade plant, and the on-going recommissioning of No.8 Shaft.

Capex during the year is planned at R41 million and includes the purchase of surface and underground equipment, further

upgrading of employee accommodation, the completion of the mine training centre and further work on the recommissioning of the No.8 Shaft.

Mr Hersov concludes: "Development for the current year is planned at higher levels than those achieved for 1989. This, together with general cost escalations and the additional expenditure associated with operating No.8 Shaft, will have an adverse impact on operating costs. Earnings, and hence dividends — which will be affected by lower gold recoveries from underground ore sources and nominal uranium losses — will be determined principally by the gold price in rand terms."

Zandpan's profits rise

ster 1971/1989
Zandpan Gold Mining Company - the Anglovaal Group's investment company which holds 19,6 per cent of Hartebeestfontein Gold Mine's equity — received dividends totalling R39,6 million from these shares during the year to June 30 last, compared with R33,7 million in the previous financial year.

The annual report shows that other income comprised interest of R335 000 (1988: R125 000) and share-dealing profit of R205 000 (R341 000). After expenses of R711 000 (R581 000), the

profit for the year (no taxation) rose to R39,4 million (R33,5 million).

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This was equivalent to earnings of 30,3c a share (25,8c) and the company lifted its dividend payments to 30,3c. The book value of the company's quoted shares was little changed at R21,6 million (R21,3 million), but their market value at the year end rose to R618,2 million (R467,2 million). However, this figure had decreased to R579,1 million (R463,7 million) by September 8.

Bullion bounces to 4-week high

Own Correspondent

JOHANNESBURG. — Gold, boosted by a weaker dollar, bounced to a four-week high of \$366 yesterday causing short-lived excitement on the JSE, before falling back to around \$363. It later rose in New York to close at \$364,25.

The US currency lost ground on talk of higher interest rates in Japan and Europe — particularly Germany — but nothing materialised ahead of today's G7 meeting.

Heavy afternoon selling of dollars in the Far East and London at around the DM1,955 level saw gold spurt \$5, sparking interest in gold shares on markets around the world.

However, the rally was brief and bullion retreated to a close of \$363,25, but the JSE all-gold index ended 11 points higher at 1 600.

Dealers attributed the fall in the dollar from DM1,9580 to DM1,9380 to technical trading and the unwinding of positions ahead of the G7 meeting. The correction followed last week's move beyond DM2 on good US trade figures.

The rand strengthened from yesterday's opening of R2,8162 to the dollar to close at R2,7972, but it lost ground against the crosses.

Gold's movement yesterday demonstrated its resilience and the rate at which it can recover after it hit a 33 month low of \$355 last week, said Max Pollak and Freemantle's Archie Shapiro.

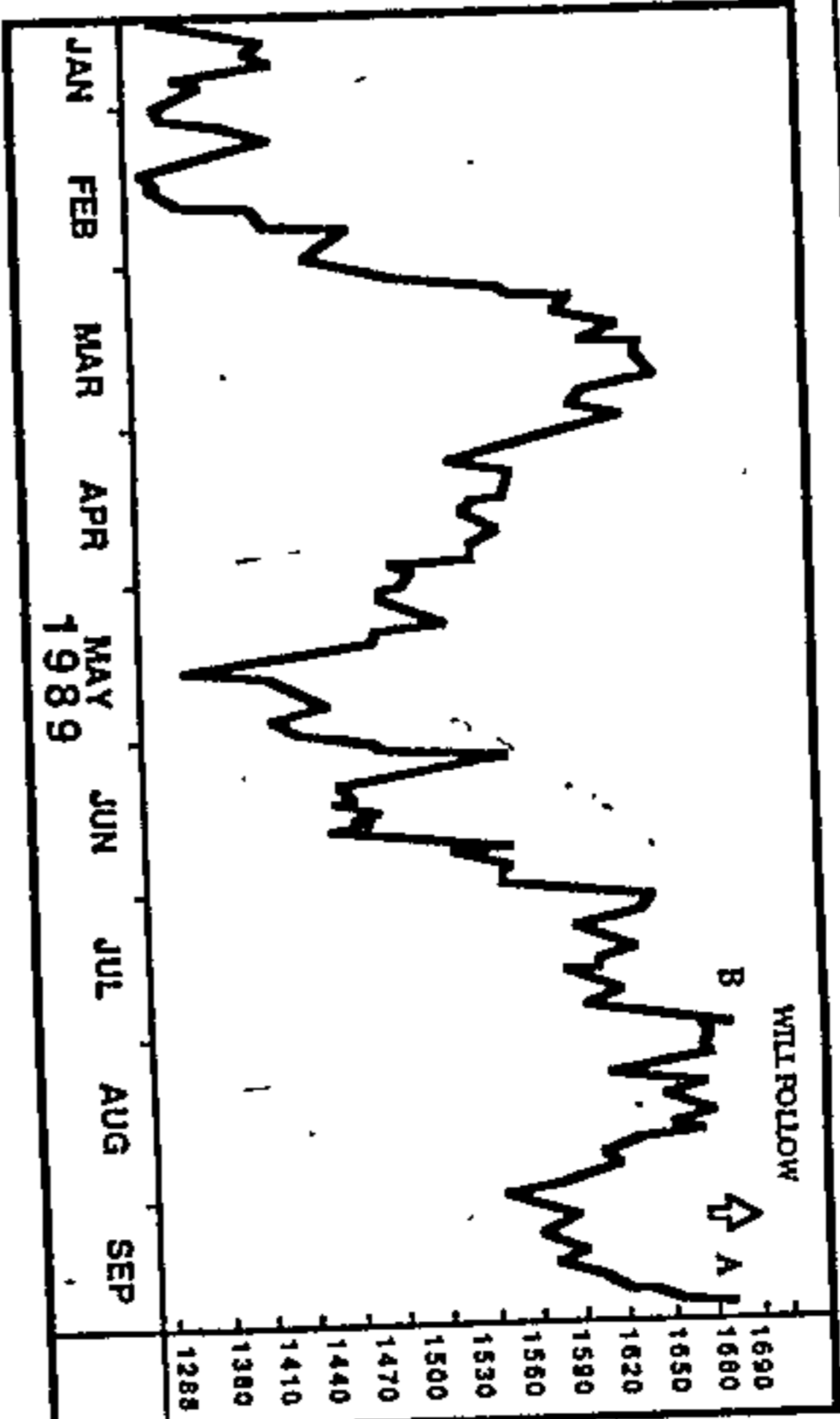
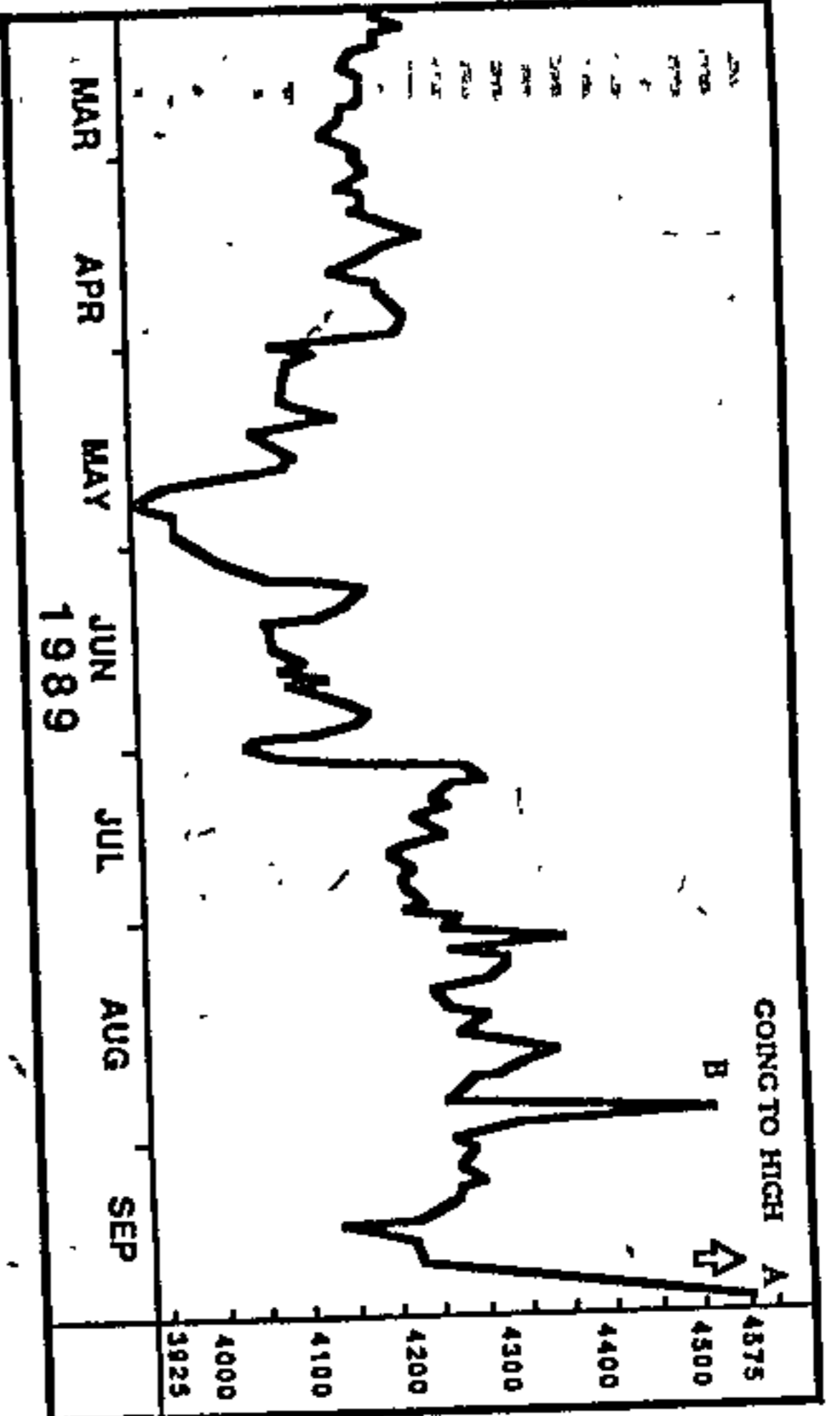
Yet, regarded as a "sterile metal" gold will continue to be ignored as world stock markets boom. It will be further neglected if international interest rates do rise.

Dealers believe gold will continue to trade within a wide range between \$358 and \$368.

Star 27/9/89

The Star Finance

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Foreign buying should lift SA gold shares to new highs

By Issy Bacher

ASA is the only stock quoted on the New York Stock Exchange that holds SA gold shares.

Essentially a gold holding company similar to Arngold, 98 percent of its portfolio consists of a mixture of Dries, Kloof, Hartes, South Vaal, Vaal Reef, Western Deeps, Anglos, Gencor, GFSA, De Beers, Rusplats and Implats.

Three North American gold mines make up the remaining two percent.

Its rise on Monday to a 20-month high of \$45.25 is not only bullish for SA gold shares and the gold price, assuming that

gold stocks will lead the gold price as before, but it also implies a political change in the hearts of Americans to South Africa.

The sanctions threat and the Delums Bill are still a cloud hanging over South African mining shares and a hearing on the subject is scheduled in Washington for late October.

The current strength of ASA implies that the issue will be soft-pedaled.

An improved political climate in South Africa will see Americans rushing for our mining shares again.

Already brokers report that there has been strong buying this week, but the interest is mainly professional.

A higher gold price will bring in the American public.

It is especially encouraging for holders of gold shares that ASA is leading the JSE gold index, almost suggesting that overseas buyers have a more positive view on JSE mining shares than our own institutions.

The two graphs illustrate the point.

One graph is that of ASA. Its rise to a new high of \$45.25 is seen clearly at "A", rising above

its previous top of "B". It is also well above it.

The other graph is of the JSE gold index. It shows that Monday's rise to 1 674 is still below the previous top of 1 685 at "B".

CONCLUSION: The JSE gold index is highly likely to follow the lead given by ASA and rise decisively to new highs in the near term.

This is supported by the fact that Arngold has already risen to a new high of R332.

The next assumption is that the shares should lead the gold price back to the \$400 level sooner or later.

Triple blow sends share prices tumbling

STAR 12/10/89. (79)

By Derek Tommey

Share prices tumbled on the Johannesburg Stock Exchange yesterday after experiencing three hammer blows — the drop in the gold price, the stronger financial rand and the one percent increase in bank rate.

The gold index fell 70 points (4,5 percent) to 1488, its lowest level since the end of June; the industrial index fell 46 points (1,7 percent) to 2648 and the overall 66 points (2,5 percent) to 2602, also its lowest level since June.

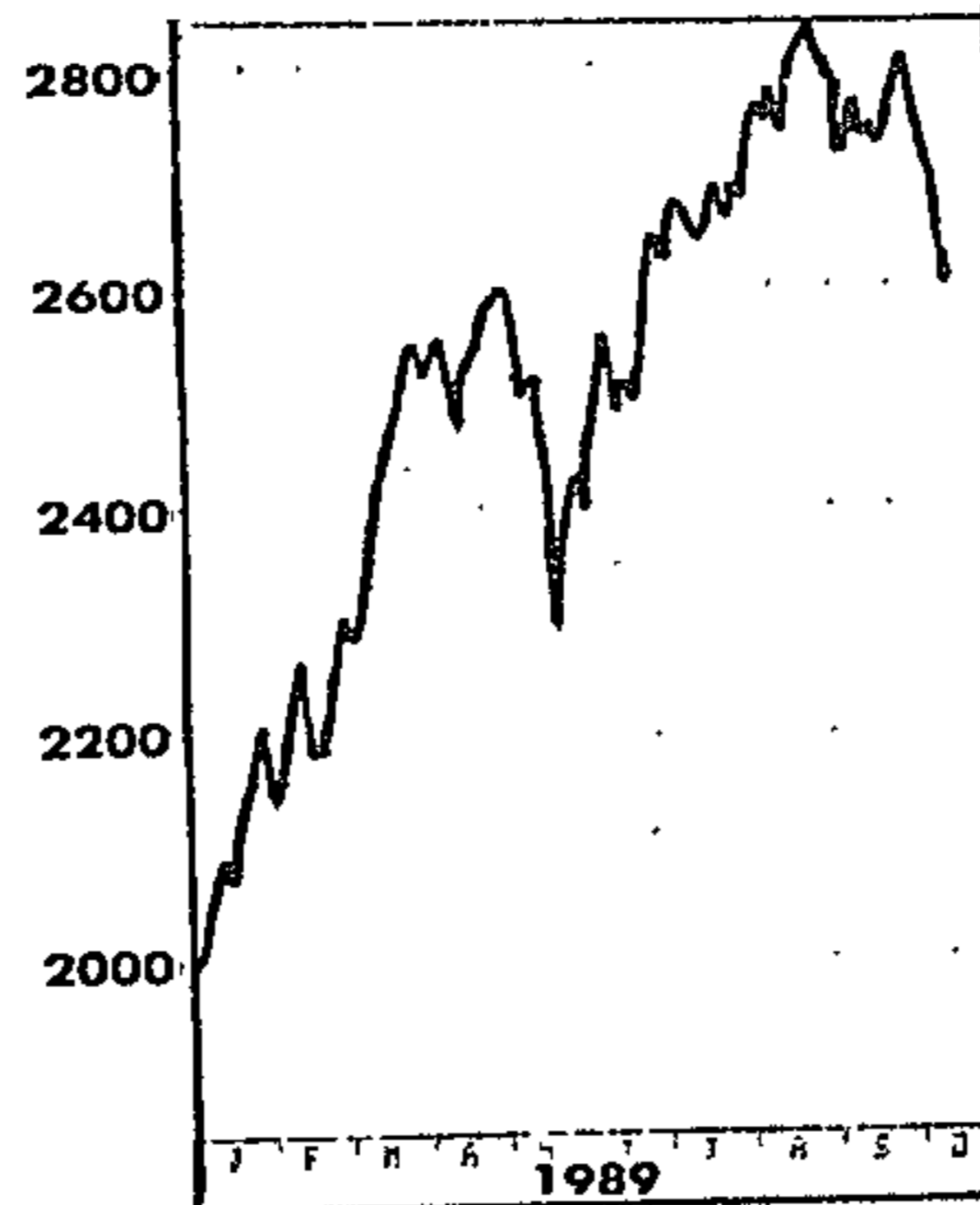
By the close of trading, some R10 billion had been knocked off share values, bringing the loss in the past two trading days to close on R17 billion.

Blue chip mining finance shares and the marginal gold mines were worst hit. Southvaal tumbled 800c to R126. Heavy-weight finance houses GFSA, Anglos, Gencor, De Beers, Genbel, Amgold, Vaal Reefs, Dries and Barlows closed lower in fairly active trading.

Shares of Liberty were under pressure and shares in UBS closed lower.

However, financial rand hedge share Richemont was a notable exception, remaining steady.

Gold and mining financial shares have been easier for some days, mainly as a result of the firmer finrand. Since the end of August, it has firmed from R4,39 to R3,85 to the dollar. This appears to be partly the result of greater foreign confidence in SA and possibly because foreigners have been buying them in order to subscribe for Iscor shares.



The Overall index turns down.

This 12 percent improvement in the financial rand has been a heavy blow for the share market, as it has resulted in the prices of most SA mining and mining financials falling by a similar percentage.

Investors are keenly aware that any further improvement in the financial rand would depress prices of mining and mining finance shares even more.

But holders of gold shares are facing more woe.

The gold price, after showing renewed signs of firmness earlier this month, relapsed at the weekend to \$360.

Although it recovered to just \$362 at the fixing, there appears to be increasing nervousness among SA investors.

This nervousness has not been assuaged in any way by Monday night's announcement of a one percent increase in Bank rate.

Although the resultant rise in interest rates will have obvious deleterious effects on the economy, it is the intention signalled by the Bank rate increase that is really unsettling the markets.

The increase is aimed mainly at protecting the exchange rate of the rand and preventing it from depreciating further against other major currencies.

The upshot of this is that the gold mines can no longer rely on a depreciating rand and a steady increase in the rand gold price to keep them out of financial trouble.

It means the mines' only hope of improved profits now is from an increase in the dollar price of gold, which could be some years away.

The Reserve Bank's decision to defend the rand with an increase in Bank rate also has important implications for other sections of the share market.

This must show up in the industrial list of the Johannesburg Stock Exchange and a number of retail shares were notably weaker yesterday.

The JSE could be in for even greater changes if investors start believing that the Government is at last determined to crush inflation — for this could require a completely new investment approach.

FRANCE'S NEW CODE

FMail 13/10/89 (79)
A new takeover code on the French stock market for the first time obliges predators to launch full bids once they have picked up a third of a listed company's shares.

The rules are in response to the growing wave of sometimes chaotically contested takeovers sweeping the Paris stock market. They follow more than a year's intense debate between regulatory authorities and financial institutions over the right balance between discipline and market freedom.

They are closely in line with proposals launched by the French stock exchange council last April, to which Finance Minister Pierre Bérégovoy made one or two minor technical changes in the light of parliament's views on separate legislation giving tougher powers to the Commission des Opérations de Bourse, the stock market regulating body.

The main change obliges bidders to offer for all listed subsidiaries and associates in which the target company holds a stake of more than 33%. This principle would not have applied in all cases in the draft proposal.

The code, which government will soon publish in full, exempts investors from making full bids if crossing the 33% threshold does not alter control. It also fixes the terms which holders of 95% of a listed group must offer for the minority shares.

Freegold leads way for Anglo gold mines

By Derek Tommey

Highly satisfactory results for the September quarter have been reported by the four gold mines in the Anglo American group — Vaal Reefs, Western Deep Levels, Elandsrand and especially the giant Free State Consolidated, which has increased available profits by 10,4 percent to R92,6 million.

The quarterlies show that the mines are fighting hard and with great success to at least maintain profit in the face of rising costs and a static gold price.

With the price dropping steadily in real terms, a maintained profit would seem to be about the best investors can hope for from the established, long-life, large mines.

In the September quarter the three Transvaal mines among them increased the area mined by six percent, tons milled by five percent, and average grade by 0,3 percent to 6,64g/t, resulting in a five percent increase in production.

Unit costs were well contained, rising only three percent to R20 340 a kilogram.

But because the gold price increased only one percent to R32 397 a kilogram, pre-tax profit declined

two percent to R374,4 million

Provision for tax rose 37 percent to R96,4 million, largely as a result of an 18 percent drop in capital expenditure to R166,9 million.

After appropriations, profit available was slightly lower at R120,5 million.

Vaal Reefs enjoyed improvements in all areas of mining and had a working profit before royalties of R261,3 million, compared with a working profit in the June quarter of R252,2 million.

Tax payments virtually doubled because of a drop in capital expenditure. Attributable profit was R66,7 million, down from R69,1 million in June.

Western Deep Levels had an available profit of R37,5 million, R2,4 million lower than in June.

An increase in tonnage milled more than offset the effects of a slight drop in grade.

The increase in costs a kilogram was held to three percent.

Elandsrand increased milling rate and grade, resulting in a 14 percent increase in production.

Costs a kilogram declined, falling one percent to R20 376 and profit from gold was 12 percent higher at R39,1 million.

But increased capital expenditure led to available profit dropping R3,3 million to R16,3 million.

Free State Consolidated Gold Mines (Freegold) increased revenue from gold by 4,2 percent to R893,0 million as a result of higher production and a slightly higher rand gold price received.

The southern section achieved a record for both tonnage milled and gold produced.

Unit costs rose 4,5 percent to R26 413 a kilogram to show an 11,8 percent increase over the same period last year.

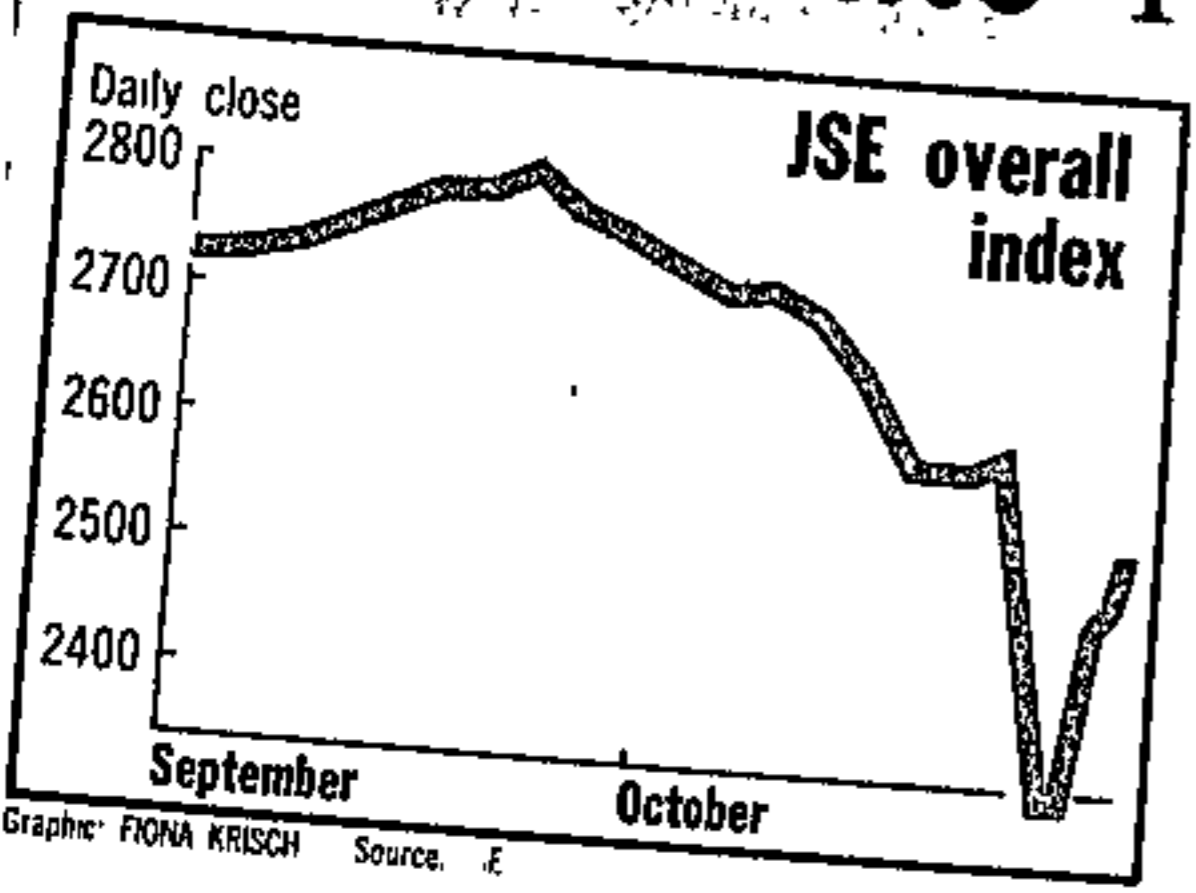
Cost increases in the southern region are expected to be below the increase in the consumer price index.

Available profits from Ergo, which recovers gold from dumps, dropped to R10,4 million (R11,7 million) because of the scheduled shut-down of the acid plant for maintenance, which affected production.

However, part of the lost output was offset by improved results from the Daggafontein and Simmergo divisions.

These two divisions are expected to maintain the improvement in the current quarter.

Immoderate recovery makes analysts wary



THE recovery of leading shares gathered momentum on Diagonal Street yesterday to set alarm bells ringing among some analysts who believe the market has bounced back much too rapidly from Monday's shake-out.

Some analysts are worried the fast recovery in blue chip shares may not be justified by fundamentals such as the slowdown in economic growth and the possibility of a further hike in interest rates.

Led by gold and mining financial shares, the JSE overall index firmed 1,7% to 2 539 points, which means the index has recouped 201 of Monday's 277-point slump.

MERVYN HARRIS

"The over-reaction is typical of the SA market," a dealer said. "We always oversell or overbuy. There is no moderation."

Bullish sentiments on gold shares swept the index up 2,5% to enable it to surpass last Friday's level of 1 523 and close at 1 542, with dealers reporting a shortage of scrip on offer. *BIDAM 20/11/89*

Demand was fuelled by London traders who had gone long on the dollar but were caught short when the US currency weakened. They are now switching into golds as

To Page 2

Analysts wary *BIDAM 20/11/89*

a currency hedge. Gains by gold shares came in the morning as the gold price made an assault on the \$370 chart level. But the metal eased back on news of a smaller-than-expected 0,2% rise in US consumer prices (CPI) in September, which dispelled inflation fears.

Gold closed in London yesterday at \$368,45, 20c up on the previous close.

The US CPI data buoyed stock-markets in Europe and gave an early boost to share prices on Wall Street.

From Page 1

Shortly before the close, the Dow index was up about 53 points.

The rise of leading shares on the JSE narrowed the discount between the spot and futures markets.

Dealers noted that a feature of trading on the JSE over the past week had been the large amount of jobbing in the market.

They reckon about 30% to 40% of the trade in golds has been by professionals seeking to make quick short-term profits.

each. I bought on speculation, and am prepared to take my

IN spite of this week's flutter, most gold shares do not offer value at current gold prices and profit margins.

The JSE gold board is capitalised at nearly R50-billion. This most liquid sector of the JSE should be traded and not held for long-term growth.

Why should investors buy golds, and what can they expect from them in the coming year? They should buy them to get rich quickly.

If the gold price continues close to R1 000 an ounce, and working costs on the mines grow at about the rate of inflation, one analyst says their combined distributable income would barely touch R1,5-billion.

OPTIMISTIC

Investors would be looking at an average forward dividend yield of 3%. The range of views varies, but even the more optimistic suggest that the dividends from golds will be about 10% below the historic figure if the status quo is maintained.

At current high interest rates investors can earn 15%

Fit only for a fast buck

or more risk free. They need to do far better out of equities to make it worth the risk.

One analyst says that even if the gold price were 50% higher in rand terms, the distributable income would amount to only about 5% of the current market capitalisation of gold shares.

LIMITED

The JSE's all-gold actuarial index puts the average dividend yield below that at 5,4%. The index comprises gold shares which are tradeable, and which pay dividends. Many do neither.

Gold mines are wasting assets with limited lives. A mine approaching the end of its life should yield a higher dividend than one with longer to go.

On the other hand, if gold

jumps by 50% you can bet your bottom dollar that the price of gold shares will more than double.

Sentiment soars, gold shares are internationally tradeable, and the dividend yields to foreign shareholders are more attractive than to the locals because of the discount of the finrand to the commercial version.

If the finrand — a sort of political barometer — strengthens under SA's new management, foreigners stand to make better gains.

Even if the dividends failed to impress, traders could have been in and out of the market by then. The capital profit would make it all worth while.

As another analyst puts it "Ya, we South Africans have to be gold bulls."

But we don't have to be stupid about it.

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S/Times 29/10/89

APR 30/1989 (79) (70)

SA gold near sanctions proof, finds Kennedy-inspired study

By DAVID BRAUN,
The Argus Foreign Service

WASHINGTON. — South Africa's gold is the country's one export that is probably sanction-proof.

This reassuring news for the world's largest gold producer comes courtesy of the United States Congress, which recently commissioned an in-depth probe into the feasibility of imposing sanctions on South Africa's gold and diamond exports.

The irony of the findings of the Congressional General Accounting Office (GAO) investigation is that it was ordered by Senator Edward Kennedy, who had hoped to hear how South Africa's major export commodities could be boycotted.

The GAO issued an interim report at the weekend that found sanctions on South African gold might be more difficult than sanctions on other products, but it might not be impossible.

Likely impossible

The report then went on to detail many reasons why such sanctions would in fact be more likely to be impossible to implement or even be counter productive in that they could drive the price of gold up, and earn South Africa more foreign exchange.

The GAO has not yet made any findings on the feasibility of sanctions on South African diamonds.

The GAO report said in spite of its falling market share, South Africa still mined 35 percent (621

metric tons) of the 1796 metric tons of gold produced worldwide in 1988. This large share however does not translate into much South African influence over the world price, according to industry analysts and economists.

The price of gold is primarily determined by the demand for it as an investment asset rather than the supply of new production. Any attempt by South Africa to withhold supplies from the market to increase the price would eventually cause private investors and central banks to sell gold from their large stocks, thus pushing the price back down.

Central bank stocks are 20 times greater than annual world gold production and private investment holdings are 30 to 36 times as great. The world's gold stocks are therefore equal to more than 150 years' South African production.

The GAO said policy makers who wanted to impose further sanctions on South African gold should consider several major issues.

First, because gold is more easily smuggled than most commodities owing to its high value relative to its weight, and because gold from all countries appears the same, enforcing sanctions on gold might be more difficult than for other commodities.

It is possible to determine where gold bullion was mined by physical and chemical testing and, as in other situations, en-

forcement of sanctions might be helped by leads on illegal imports supplied by informants.

While the predominant view of market participants is that there is no test to determine gold's origin, a research chemist at the US National Institute of Standards and technology has successfully determined the origin of gold by a test that analyses trace metals in gold. According to the chemist, the test might be used to identify South African gold for sanctions enforcement.

However, according to the chemist, it might be more difficult to use the test effectively to determine the country of origin of jewelry. Metals combined with gold in jewelry manufacturing might render the tests ineffective.

To enforce sanctions on jewelry, enforcement authorities would need to rely on leads generated from documentation accompanying jewelry imports and tips from informants.

Second, even if there were no smuggling and some other nations began to adopt a ban on imports of bullion, South Africa could sell its gold to many alternative markets. Countries with large reserves could sell their stockpiles while restocking with new South African gold.

Third, any sanction on the largest gold producer, in a market where psychological or speculative influences are powerful, might cause enough uncertainty to cause unintended price increases helpful to South Africa.

CMT Tests 30/10/89

79

Sanctions on SA gold not feasible — US study

Own Correspondent

WASHINGTON. — Sanctions on South African gold are not feasible, United States congressional investigators have concluded in a major independent study prepared at the request of Senator Edward Kennedy.

Senator Kennedy sought to suppress the finding, delaying release of the report and issuing a press statement last Friday.

He claimed that the study, conducted by the General Accounting Office (GAO) over nine months and in three continents, supported his call for a ban on jewellery containing South Africa gold because this could readily be determined by chemical tests.

The researchers, however, reported that while one US Commerce Department chemist had told them it was possible to determine the origin of newly mined bullion — at a cost of up to \$240 (R634) per sample tested — through “trace element fingerprinting”, sourcing the alloyed gold in jewellery by such tests would be considerably “more difficult”.

In commissioning a study of South African sanctions' impact last year, Senator Kennedy specifically ordered researchers not to question any black South Africans on the subject.

In its latest report, the GAO poured cold water on all gold-sanction strategies thus far suggested.

The senator, who initially tried to issue his statement while further holding up release of the report, did not mention this.

Even in the extreme and highly improbable, case of a multilateral ban, the study concluded that the “more likely” outcome was a surge in the value of South Africa's easily smuggled exports as the “increase in speculative demand” outran the theoretical decrease in demand for the South African metal.

Furthermore, if sanctions did indeed have the desired result, and mines had to be closed, the researchers warned that this could have serious implications for a post-apartheid economy because shafts would collapse if left untended.

Reactivating them would either be impossible or at best cost “hundreds of millions of dollars”.

A ban on jewellery containing South African gold would not only be virtually unenforceable, its principal target would not be South Africa but Italy — source of 58% of the \$1.8-billion worth of jewellery the US imported in 1988 — and on the Swiss refiners who supply the Italian industry.

Gold hits three-month high: Fixed at \$378,50⁷⁹

By TOM HOOD *M.W. 30/10/83*
Business Editor

GOLD shares soared today on the Johannesburg Stock Exchange as the gold price hit a three-month high.

Heavyweight Vaal Reefs gained R35 to R375, Driefontein gained R5 to R52 and Anglo American added R3,75 to R94,50.

The upsurge came from a \$9 jump in New York at the weekend to push gold \$20 above the price at the end of last month.

Gold was fixed at \$378,50 an ounce in London today, up \$5,90 from Friday afternoon's fixing.

A \$20 gain in the gold price is estimated to boost foreign earnings by \$32 million — R85 million at current exchange rates.

Spinoffs from this would be a firmer rand, a halt to rises in the prices of imports, including oil, and reduced inflation.

The upsurge in gold was prompted by a United States Congressional investigation which reported at the weekend that sanctions against South African gold might be impossible to implement or might even be counterproductive in that they could drive the price of gold up and earn South Africa more foreign exchange.

● See pages 8 and 9.

Analysts hope gold will come to rescue

79 B/Dam 16/10/89

SHARE prices are expected to come under pressure when Diagonal Street opens today, but analysts are pinning their hopes on a rising gold price to bolster the market amid fears of a renewed crash of global stock-markets.

Gold rose \$3.65 to \$366.85 in active half-day trading in Hong Kong on Saturday in reaction to a weaker dollar and the shock 190.5 point plunge in the Dow Jones industrial average to 2569.26 on Friday, its sharpest decline since the Black Monday sell-off on October 19 1987.

The sharp fall on Wall Street could put additional pressure on the Federal Reserve to ease credit policy. A cut in US interest rates, to cushion the deflationary impact of the share price slide on an economy already showing signs of weakness, would undermine dollar strength and boost gold.

While the JSE will be guided by what happens on the Japanese, Hong Kong and London markets, attention will be anxiously focused on Wall Street.

Analysts hope there will not be a repeat of the October 1987 scenario.

"Global stock-markets are now in a much more mature phase and their economies are looking towards a slowdown. But despite this, the effect of the Wall Street fall on the rest of the world will not be as

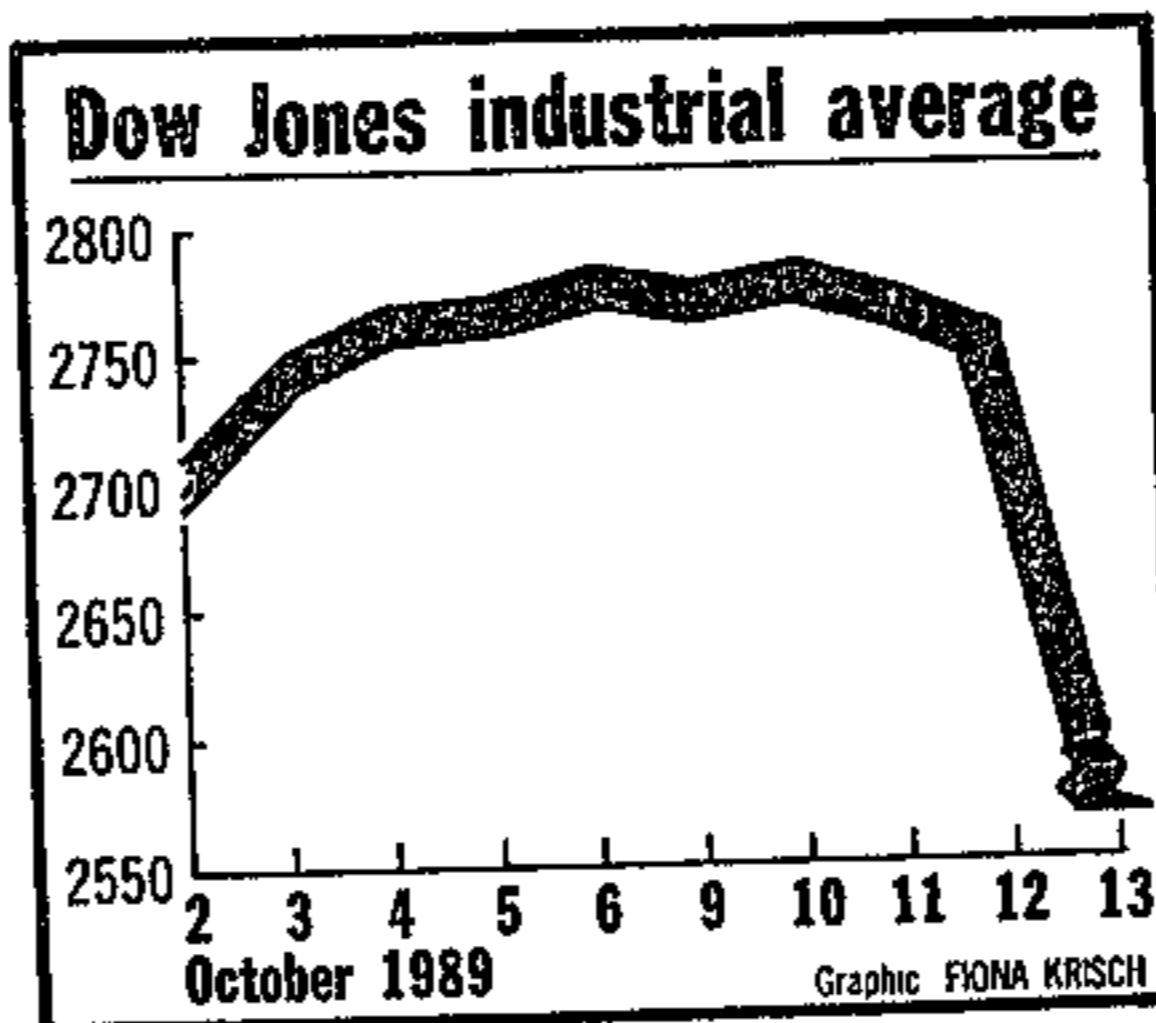
MERVYN HARRIS

drastic as in October 1987", said Dixie Strong of stockbrokers Simpson, Mckie.

The JSE overall index has fallen about 8% from its recent high and Strong believes that the Wall Street collapse could draw out the correction.

Doug Gair, JSE GM, listings and marketing, said: "While markets also move on sentiment, I hope investors will not panic. They should adopt a wait-and-see attitude as the cause of the Wall Street crash appears unusual."

□ To Page 2



Gold to rescue

79 B/Dam 16/10/89

The crash was triggered by news of the failure of United Airlines pilots, backed by British Airways and banks, to complete the financing of the \$6.8bn leveraged buyout of UAL Corp.

David Meades of stockbroker Meades and De Klerk said he was encouraged by the initial reaction of the gold price which was crucial to how the JSE reacted.

"The gold price is technically in a sensitive area, but if the price breaks through its current narrow trading range of between \$362 and \$372, it could herald a

major buying signal and climb to the \$400 level by year-end."

If the price of the metal was to drop below \$360, there could be a massive sell-off of share prices on the JSE.

However, Meades said, the surge of mining house and blue chip industrial shares to their recent peaks was not a true reflection of the overall market. With small investors still largely out of the market, shares of second-line companies are still at their lower levels, and further downside potential appears limited.

□ From Page 1

B. Day 1/11/89

79

FW sounds a warning on SA's dependence on gold

DEPENDENCE on the gold industry was cause for concern because of the volatility of international prices, President F W de Klerk said yesterday.

Opening the Rand Refinery in Germiston, he said this was why so much insistence was being placed on inward industrialisation and broadening exports in content and diversification.

Until 1985 SA was the lowest-cost gold producer of five major producers. In 1987 it became the highest cost producer of the five.

"The industry will be hard put to contain further increases as long as inflationary trends continue, which hopefully will not be long if government and the private sector put their heads together," he said.

The refinery was a step towards keeping mining industry costs down. He stressed again the utmost impor-

GERALD REILLY

tance of proper co-ordination and implementation of a cohesive economic policy in a period of dynamic change.

The highest degree of co-ordination of government actions in the economic sphere would be incomplete if the best possible co-operation between government and the private sector was lacking. Economic measures and long term strategies would have to be executed in harmony.

Reform

"We will have to see to it that fiscal, monetary and all other economic policy measures do not only not clash, but complement each other."

Also social constitutional and economic reform processes would have to integrate with each other, he said.

Referring to SA's efficient mining industry co-ordinated by the Chamber of Mines, De Klerk said the value of the chamber had been proven again in the draft Mineral Bill negotiations, involving government and many groups in the private sector.

The Bill would soon be thrashed out in parliament. Hopefully, it would ensure continued stability and prosperity for the mining industry well into the future.

"Although a capital outlay of R78m was needed this will undoubtedly bear fruit through saving in labour, higher productivity, greater all round efficiency and a streamlining of the refining process."

De Klerk said the R32,5bn annually which came from the refinery was of critical importance to the national economy and would maintain and strengthen the base of the international monetary system.

Gold touches ⁷⁹ 7-month highs

CME Tin B 9/11/87
LONDON. — Gold hit a seven-month high in London yesterday but drifted down later as investors cashed in their profits.

The metal leapt nearly \$5 to around \$389 in early trade and then settled back to a London morning fix of \$386,95, the highest since last April.

Dealers said the surge was inspired mainly by a relatively weak dollar and interest from Swiss-based buyers.

But the price fell in the afternoon as a strengthening dollar and cheaper US futures contracts prompted some investors to sell, reaping the benefit of a recent upturn in gold prices.

The metal ended in London unchanged from Tuesday's close at \$384,25.

Dealers said the basic factors underlying gold's fresh popularity remained sound and prices were likely to hold around current levels.

A two-year decline in the gold price has seemed to bottom out from a low of \$356,40 six weeks ago.

Other precious metals tracked gold's movements. Silver rose \$0,2 to trade at \$5,28 an ounce in London in the morning, but ended at \$5,25.

Platinum closed \$0,50 down on the day at \$492 an ounce after a morning fix of \$494,25.

● In New York, gold closed at \$387,50/\$388 against Tuesday's close of \$385,25.

— Sapa-Reuter

SIGNS that US interest rates are heading lower fuelled a strong rally on Wall Street yesterday. Short-covering also boosted prices, traders said. And revival of interest in some takeover situations attracted buyers.

The Dow Jones industrial average jumped 36 points to 2 633 and gainers led decliners by a 10-to-three margin. Volume was moderately active.

Gold jumps to \$393,40 as dollar reels ⁷⁹

By TOM HOOD
Business Editor

AGU-1
15/11/89

GOLD bounced back above \$390 an ounce to \$393,40 in Hong Kong today after dipping in London to \$389,75 yesterday.

The metal's price strengthened as the US dollar reeled on world currency markets.

Fresh signs that the American economy is weakening hit the dollar and the downswing continued today after news of the steepest decline in American retail sales since January 1987.

RISING GOLD PRICE

The rising gold price has fuelled one of the fastest rallies in South African gold shares for years.

In four weeks the JSE gold share index has soared almost 42 percent to its highest since the October 1987 share-market collapse.

In hard cash the boom in gold shares has added R40 billion to the value of shares listed on the JSE.

Gold is now at its highest price since mid-March and has gained almost \$38 since it dropped to the year's low of \$355 in September.

Analysts forecast gold could reach \$400 — which would give the South African economy a boost — within weeks.

However, each rise above \$390 has produced a bout of profit-taking so far and curbed the gold price.

WEDNESDAY, NOVEMBER 15, 1989

Gold closes at \$392,75⁷⁹ in New York

Cap. Tints 15/11/89
Financial Editor

GOLD, which appeared to be running out of steam late yesterday, recovered to a close of \$392,75 in New York after Wall Street began to turn down in afternoon trading.

Dealers and analysts had earlier forecast that gold would consolidate in a range between \$388 and \$390 before resuming its upward trend.

Now it again seems set to reach \$400 as uncertainty about international stock markets makes it more attractive to investors.

Wall Street was expected to open lower yesterday following the release of figures showing there had been a 1% drop in US retail sales in October and a 0,7% drop in industrial production.

But in fact Wall Street opened higher, boosted by hopes of lower interest rates to avert a "hard landing" for the weakening US economy.

The London stock market strengthened and gold slipped briefly below \$390 an ounce.

However, Wall Street slipped lower in mid-afternoon trading with the Dow Jones index down 13 points at 2 613. Declines led gains by seven to six.

Gold see-saws nervously

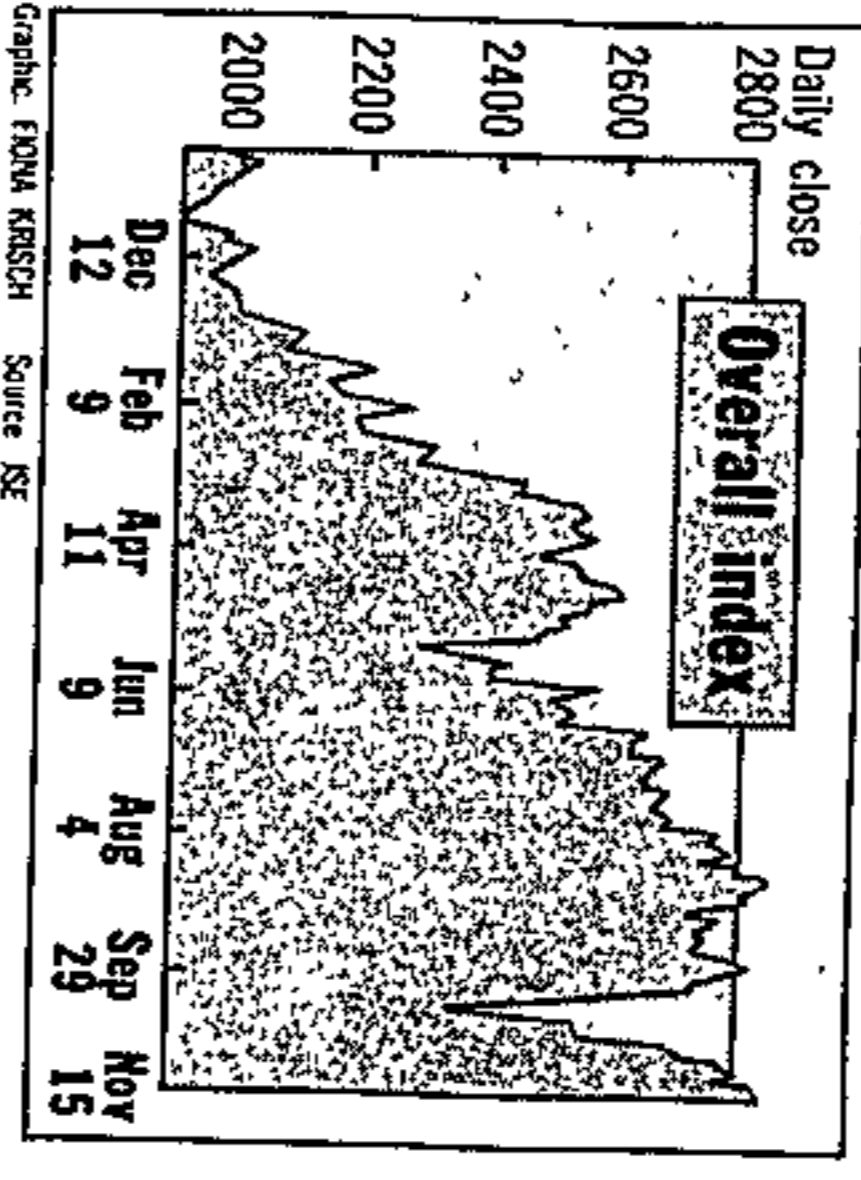
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12/11/89

MERVYN HARRIS

(79)

GOLD was see-sawing around the \$390 level yesterday as financial markets nervously awaited the release later today of September US trade data which will determine the metal's short-term prospects. The hesitancy was apparent on the JSE as profit-taking set in towards the close of trading, wiping out some of the gains as the overall index scaled new peaks. After rising to a high of 2 853, the index retreated to close 25 points up at 2 843 to equal the previous record set at the end of



August. The rise was fuelled by continued strong demand for mining shares which pushed the JSE all gold index up a further 22 points to 2 006, but off a high of 2 023. But while the index has surged more than 40% over the past month, the gold price has risen by less than 10%, and dealers caution that gold must either go up or shares come down.

They are looking for a correction in the index of about 100 points, or 5%, which they say will bring it to more realistic levels. However, speculators continued to drive up the lowest rated lightweight golds.

Gold yesterday repeated the pattern of the past few days trading by firming in the Far East, dipping later in Europe and then recovering losses in New York.

Gold closed \$1.50 higher in London at \$391.25, after briefly pausing for technical consolidation at \$387.20 before testing overhead targets around \$395 and %400.

□ To Page 2

Gold see-saws nervously

12/11/89

From Page 1

Strength in other precious metals was underpinning gold with attention yesterday focused on silver, which has lagged behind the rise of the other two metals. Silver tested key chart levels of \$5.50, its highest level in six months, before easing back to close 16c up at \$5.47 on speculative buying. But platinum eased from six-month highs to close at \$514.50 after a report by refiner Johnson Mathey of a smaller supply deficit of 120 000oz this year, against 400 000oz last year, prompted some profit-taking.

Gold's firmness enabled the rand to rise

from R2,6448 to R2,6308, but off its high of just under R2,62, as the dollar retraced some of its losses on dealers covering short positions.

The dollar closed in London at DM1 8394 from levels around DM1,8500 on Tuesday, after exploring the bottom end of its current tight trading range.

Reuter reports that dealers believe the September US trade data would have to be significantly wider than the average expectation of an \$8.9bn deficit to bring about a breach of the current floor at DM1,8250.

THE LONG VIEW ON GOLD

(79) (scribble) *Final*
Back to the Golden Constant

■ Historical figures don't bear out gold bugs' hopes

Jos Gerson, chief economist at stockbroker Mathison & Hollidge, looks at the performance of gold as an investment over the really long term.

Imagine being a US investor in 1871 with an

exceedingly long time-horizon: 115 years to be exact. You are concerned solely with what your great-great-grandchildren might inherit in 1986. Assume further that you were restricted to three (and only three) choices of investment:

- Physical gold bullion;
- US Treasury bills (TBs); and
- A wide spread of equities on the New York Stock Exchange according to some ruling index.

Details must include the absence of stor-

FINANCIAL MAIL NOVEMBER 17 1989

17/11/89

(79) (circled) Email

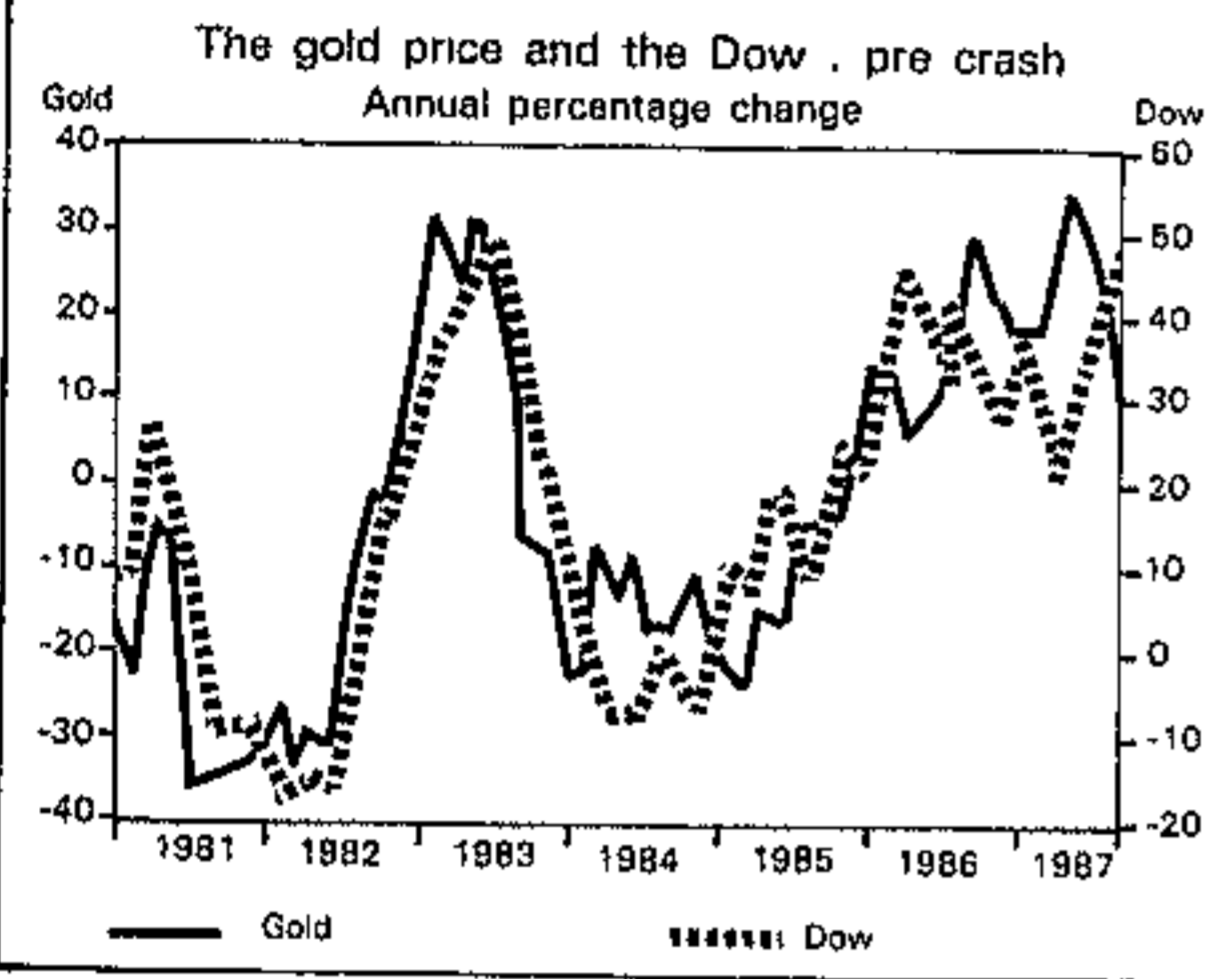
age costs for the bullion as well as the automatic re-investment of interest in additional TBs and dividends into additional shares. Assume further, to get around the distortions arising from (dollar) inflation, that you decided to invest one "real basket of goods" in each of the three options.

The question is: how many baskets would your heirs have derived from each in 1986?

The answers (as the accompanying chart "Varying fortunes" shows) are:

- A mere 1,5 baskets from the investment

Moving in tandem



in bullion (and less today);

- About eight baskets from the TBs, though close to that amount would already have been attained in 1910; and
- Something in the vicinity of 7 000 baskets from the investment in equities and, by now, well over 8 000.

The chart shows clearly that there is no real long-term return to investing in bullion. At best, it merely keeps up with inflation.

The contention is hardly new. In his magnum opus, a book entitled *The Golden Constant*, R W Jastram, an economics professor emeritus from Stanford University, amassed data going back to the 16th Century that demonstrate clearly how the real value or purchasing power of gold has remained more or less unchanged throughout the centuries, despite prolonged but ultimately unsustainable deviations.

Was this characteristic a fluke? Almost certainly not, though Jastram fails to provide an explanation. In "normal" times the world's total indestructible stock of gold grows in line with the growth in global demand. However, if under unusual economic conditions, as in the Seventies, investor demand picks up, the

price has to rise since the stock can scarcely respond in the short term.

Total annual world output of new gold is thought to comprise less than 2% of the accumulated world stock of the metal. However, in the longer run, over a decade or two, a higher price induces mines to step up production so that the stock expands a little faster to meet the extra demand. In this way, depending on the real marginal cost of mining, which with some technological progress and some new discoveries tends not to change very much, the price of gold returns to its old golden constant. Simple, isn't it?

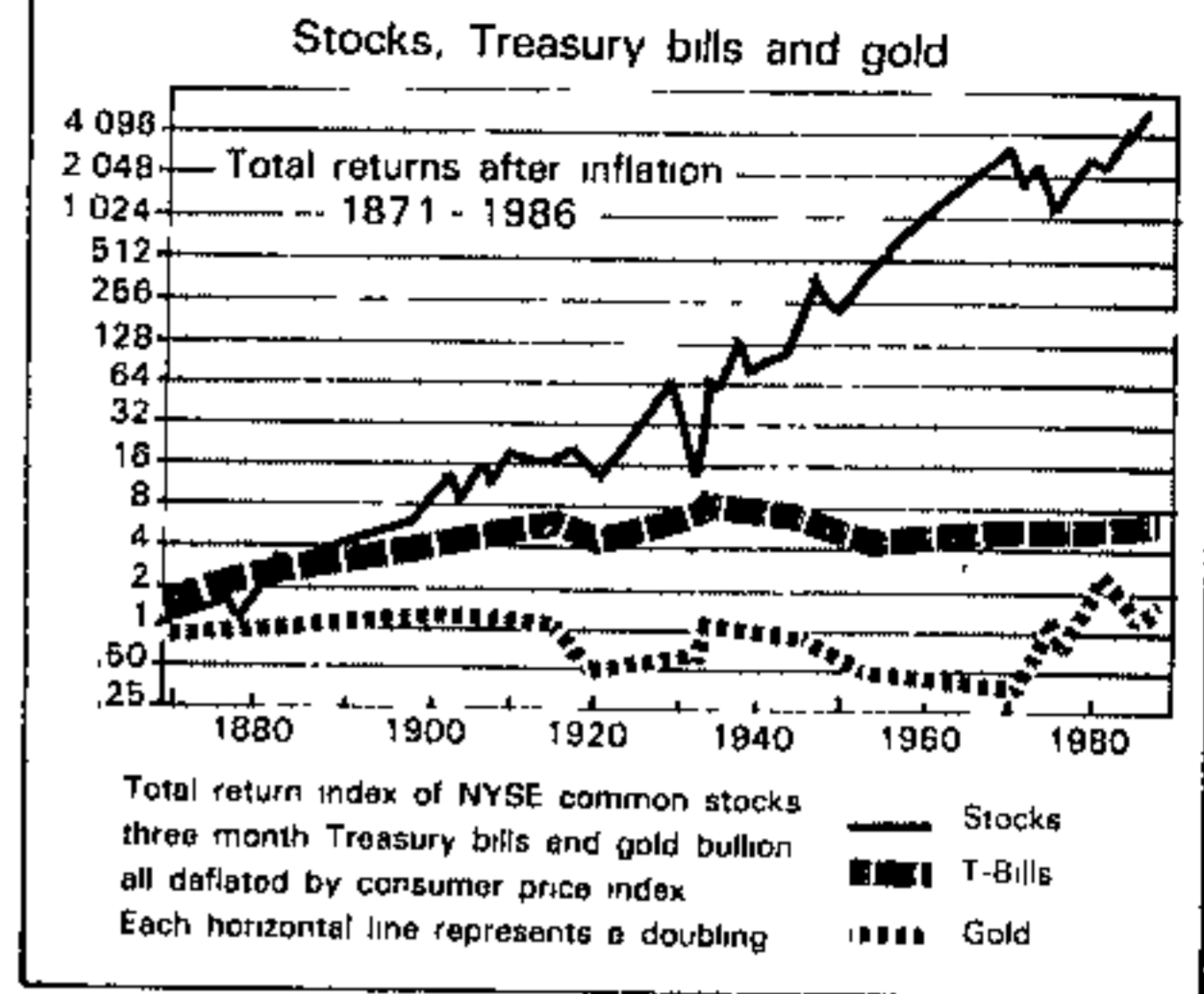
So — are we now back at square one? Possibly. If we update the chart to October 1989, with the gold price fluctuating around \$360, we're roughly at 1,3 baskets, which is the purchasing power attained by the metal in the Thirties and, far more significantly, for several decades around the turn of the century when the London-dominated classical gold standard was at its zenith, operating smoothly with a minimum of distortions.

For that reason I am inclined to regard bullion's value during that period as appropriate. There we see the benchmark of Jastram's Constant. I am determined to ignore the artificially depressed gold prices of the ill-fated Gold Exchange Standards of the Twenties and the postwar period of the Bretton Woods arrangement.

Whither now? My view is that the extremely unusual stagflationary period of the Seventies, after the collapse of Bretton Woods in 1971, pushed the metal's price far above its Golden Mean. The restoration of a more normal situation in the Eighties coupled with a higher global mining output forced the price back to more sustainable levels.

That process has now been completed or, at least, is certainly nearing completion. From now on the gold price will merely

Varying fortunes



fluctuate inversely with the (real) interest rate cycle overseas. Despite such cyclical and relatively modest ups and downs, it will not be going anywhere in particular, chained as it is to Jastram's Constant. In the very long run, it will probably increase by about 5% a year in dollar terms as US inflation of that order gradually erodes dollar purchasing power.

The chart "Moving in tandem" is also interesting in highlighting the relationship between bullion and equity. It shows clearly that bullion has performed as an investment hedge on only two occasions — in the early Thirties and the Seventies, precisely the two periods that witnessed disastrous performances by equities, the Seventies being the worse on the basis of a 10-year moving average.

The age-old adage about gold being the ultimate hedge against economic dislocation comes out very strongly.

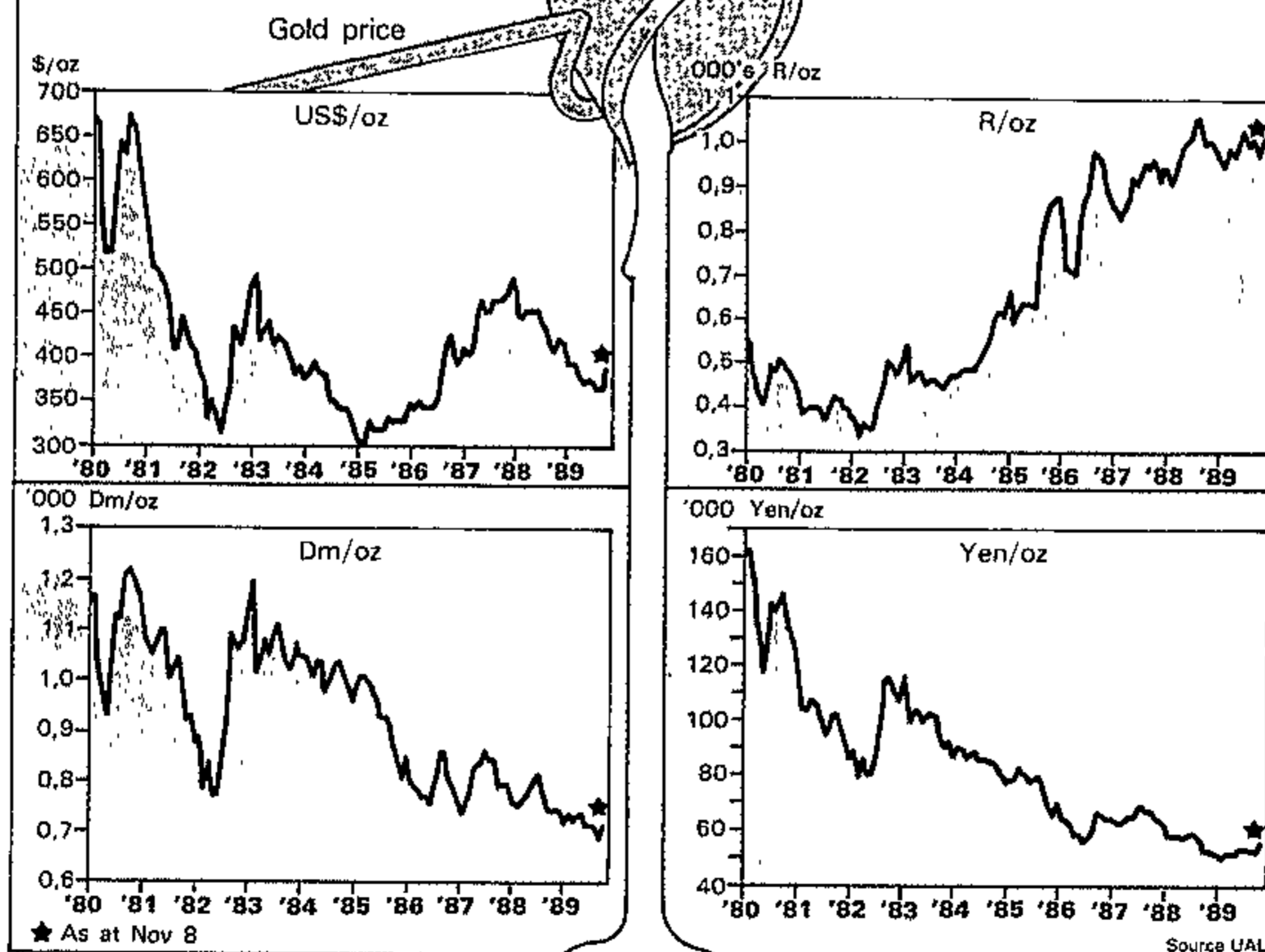
However — and this is the catch — when one looks at the relationship between bullion and equities over a shorter time span, the picture alters radically.

In periods of normal-to-good world economic growth and low inflation, such as the Eighties, the performance of all financial assets other than cash tends to be inversely related to interest rates so that bullion and equities appear to be positively correlated.

This is true for cyclical fluctuations within a given stable economic structure — but it is not true over the long term when one compares one grand economic episode (such as the stagflation of the Seventies) with some other episode, say, in another decade. The picture can change.

So, beware the dangers of interpreting correlations!

Cross currents



Gold price sparks off stampede on JSE

8/10am 17/11/89

MERVYN HARRIS

A SURPRISE surge in the gold price, after improved September US trade data initially boosted the dollar, lifted gold shares off their lows on Diagonal Street yesterday.

Dealers reported a stampede into gold shares in the last 15 minutes of trading as the gold price jumped from a low of \$388 to test new seven-month highs around \$393.

"Everything went better with prices turning from offers to bids. People were buying whatever gold shares they could get hold of, but little scrip was available," a trader on the JSE said.

The about-face came after share prices had gone through a healthy correction

from an overbought situation following recent sharp gains. The JSE all gold index ended less than 2% down at 1 966.

Gold closed \$1.50 higher in London at \$392.75. In New York the price touched a high of \$394.25 before easing slightly.

Analysts said gold's bullish fundamentals were prompting good buying on price slides and limiting selling into rallies. The rise was helped by a renewed rally in the price of silver which closed at a new six-month high of \$5.62.

Platinum also edged up and closed \$2.50

higher at \$317.

The dollar ended nearly a penny lower in London at DM1,8320 amid unconfirmed dollar sales by central banks.

The dollar's retreat was despite news that the US trade gap narrowed to \$7,94bn against a forecast of \$8,9bn. The trade data aroused new concern that expanding US exports could dissuade the Federal Reserve from easing credit.

However, the rand ended weaker against the dollar in quiet trade. It closed at R2,6372 against the previous R2,6308 and was also little changed against other major currencies.

79

Futures on dollar gold price have arrived

81 Day 17/11/89
BULLS who believe gold has a glittering future and bears who see a dark future for the metal have a new vehicle for giving vent to their sentiment — a futures contract on the dollar gold price.

The contract, to be launched by Cape Investment Bank (CIB) on Monday, is the first of its kind in SA and is one of the simplest products in the local futures market. South Africans already invest in international commodities futures.

A futures contract is an obligation to buy a commodity at a fixed price at a certain date in the future — but obviously there

GRETA STEYN

will be cash settlement in the local market instead of physical delivery of the metal.

CIB trader Gerhard Vlok said yesterday: "We eat, sleep and drink gold in this economy, and it makes sense to have an instrument focusing only on such an important variable."

Some of the more complicated futures instruments have not taken off, but Vlok is emphatic market research shows there is a demand for a local gold futures contract.

79
The rand value of the contract will be determined by assuming that \$1 is R100. The price of a \$397 future gold price will therefore be R39 700. An initial margin of R3 000 is payable and must be topped up while the contract is held.

Assuming the contract is sold at \$395,75 or R39 575, a loss of R125 is made and vice versa for the profit.

Expiry dates for contracts are at 11h00 on 15 March, June, September and December. The London morning fix on those days will be the expiry price.

Gold-watchers sceptical of metal's sudden surge

8/Day 17/11/89 (218) (79)

THE gold price appears to have stabilised around the \$390 level, and yet a lot of people are still wondering why. A lot of informed gold-watchers remain sceptical.

The first reason for scepticism is that there has been no apparent rise in physical buying taking place — in other words, people buying gold to have and to hold for at least a while, if not keep.

"The only visible buyers are professionals, who are buying gold to make a profit," says a senior mining house official.

He believes the gold price rise has some way to go before it would signify the entrance of a more permanent, and possibly more passionate, class of investor. "I think it would have to go efficiently past the \$394 to \$400 level before these investors will be drawn into the ring."

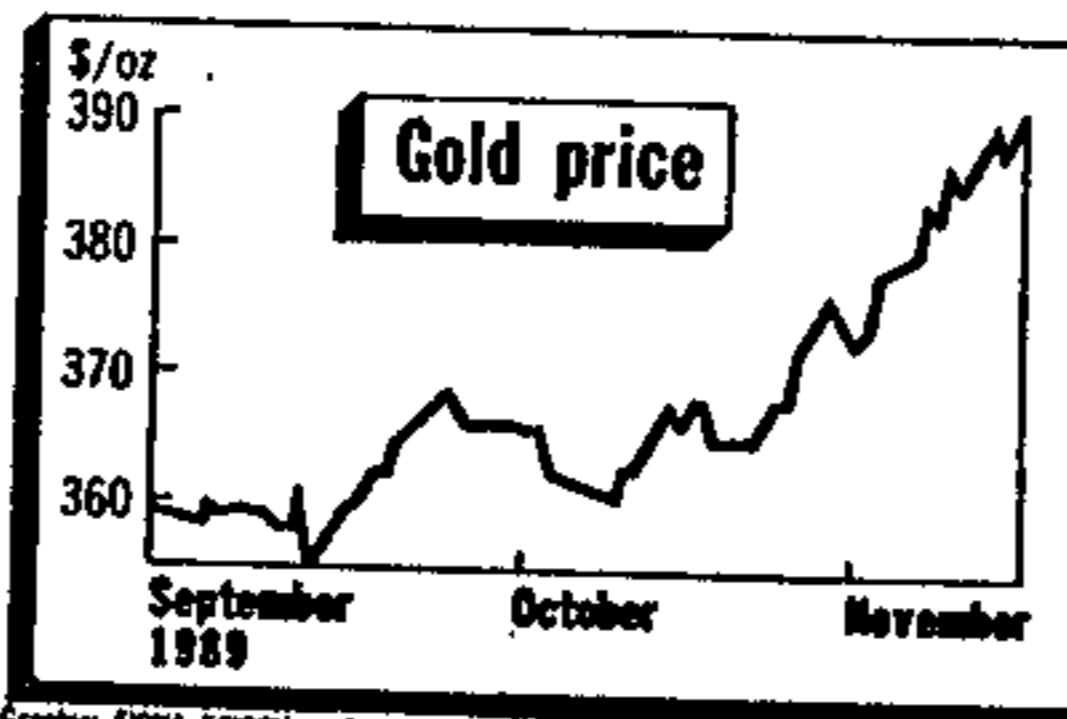
He feels such a change in investor-type would assure a more credible, and more sustained rise in the gold price.

Anglovaal commercial manager (mines) Ian Benfield also admits to surprise at the recent surge in the gold price. He says he had expected the gold price to fall to a low point between \$300 and \$350 earlier this year. But he now believes the two-year bear-trend in the gold price has been broken, after recovering from the low-point of \$355 in mid-September.

He says the gold price rise has been the

REINIE BOOYSEN

product of a coincidence of reasons: firstly, technical, in that traders simply felt the charts were telling them that the long-term bear-trend was over, and that now was the time to get in on the act; and



Graphic: FIONA KUNSON Source: JSE

secondly, more fundamental reasons, relating to supply and demand.

On the supply side he mentions two factors:

- A fair amount of gold production is under threat in SA and elsewhere because of rising costs of production; and
- Indications that the USSR may decide to back up its currency with gold, to restore confidence and attract Western credit, which could lead to a decline in this substantial market source.

On the demand side a significant development was a decision by the Japanese authorities to allow non-life insurance companies to invest up to 3% of their total funds in gold (as opposed to the previous 1.5% limit).

The International Gold Mining Newsletter estimates that this represents about 620 000-million yen, or about R11.4bn, which amounts to about 360 tons of gold.

Says the Newsletter: "A major boost would be provided to the gold price if only 50% of these purchases are realised."

"In the longer term, if the same dispensation were to be extended to the life insurance companies, then an additional 1.4-trillionyen would be theoretically available, equivalent to almost 800 tons of gold."

JSE analysts make the usual points that gold is looking like a better alternative to world currencies and equities, with uncertainty about the extent of the expected downturn in the world economy.

But some are distinctly wary. Says E W Balderson's Nick Goodwin: "It's actually a very dangerous situation. Gold shares have risen to unjustified heights purely on sentiment and have lost sight of the fundamentals."

Since mid-September, when the gold price was at its low point, the All Gold Index has risen from 1 559 to 1 966 points.

18/11/89 79

Economists see bullion price rising to \$425

By AUDREY D'ANGELO
Financial Editor

AS the gold price surged to \$393.85 an ounce in London yesterday — its highest level for eight months — Trust Bank economists Nick Barnardt and Jacques du Toit forecast that it would reach "\$405 at year-end, rising further to about \$425 in mid-1990."

And Glenn Moore of Personal Trust, who until now has been cautious in his view on gold, conceded: "A lot of factors are looking positive for gold. The gold price may have bottomed out and it may be that we are at the beginning of a bull trend."

Moore pointed out that buying in the Far East was a good sign for gold, and that overseas buyers of shares in marginal SA gold mines were clearly "betting on a substantially stronger price".

But he added: "I won't be absolutely convinced that the turning point for gold has been reached until I see long-term bond rates in the US going up. They have been steady to falling most of the week."

"Gold and long-term rates are both looking to inflationary expectations as the major driving force to send them up."

Barnardt and Du Toit said in their weekly market commentary yesterday: "The fact that gold has survived profit-taking and producer selling at the higher levels with ease, indicates just how positive short-term investor sentiment has turned."

"Healthy jewellery demand is also underpinning the market."

However, they warn that: "Renewed dollar strength and some weakness in the oil price could push gold back to about \$400 by the end of 1990."

In spite of the rising gold price, Barnardt and Du Toit expect the progressive slowdown in the domestic economy and high interest

Trust Bank economists Nick Barnardt and Jacques du Toit think there is "a more than even chance of a 1% bank rate rise in February, in response to low foreign reserves and higher German rates. SA rates will remain high until at least mid-1990, and prime will probably be close to 20% by next year-end."

rates to continue throughout 1990 and into 1991. They expect further rises in the prime rate.

"Overall growth in gross domestic product (GDP) could be above 2% for 1989 but will be closer to 1% in 1990-91".

Pointing out that retailers expect a slowdown towards year-end, they continue: "We expect a more visible downturn in the new year, particularly in durable consumer items."

Barnardt and Du Toit also think there is "a more than even chance of a 1% bank rate rise in February, in response to low foreign reserves and higher German rates. SA rates will remain high until at least mid-1990, and prime will probably be close to 20% by next year-end."

"The Reserve Bank will keep the money market tight until at least June next year, in order to force the banks into the discount window and thereby give teeth to the high penalty accommodation rate."

"Credit demand will slow moderately in the first half of next year but more sharply in the second half and into 1991 as the fixed invest-

ment cycle draws down.

"Consequently, 1991 will be the year in which the balance of payments (BoP) performance turns highly positive — with interest rates declining more visibly."

Pointing out that long rates have shown very little movement, they say: "The potentially favourable effect of the strong gold price, together with continued foreign buying of SA gilts, is neutralised by the difficult money market conditions and the expectation of a bank rate rise early next year."

"This has effectively locked the long Eskom rate, for example, into a tight 16,90-95% range."

Moore said a high gold price would be helpful in paying a large tranche of foreign debt due in December.

"The authorities must be hoping the higher price will hold out at least for the rest of the year."

Gold had broken its long-term moving average and could benefit from "some kind of fear which seems to be creeping into the investment community. Wall Street and London have taken a bit of a knock and have not fully recovered."

He had recently spoken to some overseas fund managers, who were still not buyers of gold because it appeared the US economy would have a soft landing.

But most overseas funds were low on gold. And it needed only a decision to increase their gold holdings, on uncertainty about the equity markets, to make a big difference to the price.

"I have noticed in the past week or so that gold has opened higher in the East. Then it tapers off in London, sometimes rising again in New York."

"Buying in the East must be good for gold, because that is where the buying power is. Those are the countries with the BoP surpluses."

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Gold set to pass ^{at 7:15 4/11/37} \$400 mark ⁷⁹

Financial Editor

GOLD seems set to breach the \$400 an ounce barrier and continue upwards as uncertainty continues in overseas stock markets.

It closed in New York at \$398.15 and in London at \$396.25 yesterday — the highest level for 10 months.

Wall Street weakened in early trading, on fears of cuts in US defence spending. The Dow Jones dropped 29 to 2624.

The pound sterling also weakened, causing the London Stock Exchange to fall on fears of another rise in interest rates.

● Reuter reports that yesterday's trading pattern in gold mainly represented technical consolidation of recent gains. It says traders expect that \$400 will be breached soon

Gold soars, shares boom, rand firmer

79

Added 22/11/87

By DICK USHER, Business Staff

GOLD continued its upward push on world markets today, reaching \$408,05 an ounce in afternoon trading in Hong Kong.

In London the metal opened at \$406,60 against last night's close of \$404,25.

The rand opened firmer in Johannesburg, starting at R2,6068 to the dollar against Tuesday's close of R2,6158.

The gold index rose another 17 points to a new high of 2 074 in early trading on the Johannesburg Stock Exchange and the overall index lifted 12 points to 2 871.

MILLIONS MADE

Lorraine added 25c to go to R14,25, East Driefontein climbed 40c to R57,25 and Kloof rose 40c to R48.

In hectic trading in Johannesburg yesterday about five million gold shares changed hands and added about R82-million on the day after gold's thrust through the psychological \$400 an ounce barrier on international markets.

Analyst Mr Mike Brown of stockbrokers Frankel, Kruger said the dollar was under pressure and the likely cutback in US defence spending in response to the liberal moves towards a freer economy in the USSR had introduced new and meaningful influences on the market.

Whatever the US saved on its defence bill more than likely would be spent elsewhere on social items and the impact on the inflation rate in the economy had yet to be forecast.

Boosted by Swiss and Far-Eastern trading, gold closed in London at \$404,25 and in New York at \$403,25 last night.

Gold price tops \$400⁷⁹ mark again

Own Correspondent

JOHANNESBURG. — The gold price rose firmly above \$400 in New York last night, at \$403,25 after shrugging aside bouts of profit-taking which had taken the metal off its highs in Europe.

The metal breached the psychological level of \$400 for the first time in 10 months when it was fixed at \$400,30 at the London morning fix. It slipped back to an afternoon setting of \$399 before firming to close at \$404,25.

Profit-taking was also rife in hectic two-way trading on the JSE as the market wavered in line with the gold price before the all gold index closed 4% higher at 2 057.

This is its highest level since the end of 1987 but is still well below its peak of just under 2 500 recorded in July of that year when the gold price was testing \$500.

However, the JSE overall index surged 1,4% to scale a fresh peak of 2 859 points.

Strong local and overseas demand for gold and other mining shares, and a number of large book-over deals in other stocks, lifted the volume of shares traded from Monday's 12,1 million to 27,8 million yesterday.

The rand firmed against both the dollar and a weak British pound but lost some ground against most other major currencies. It closed at R2,6158 to the dollar from Monday's R2,6358.

Gold keeps on climbing

Cap Times
23/1/89
79

Syrets Cape Times

Share Challenge

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DAILY LISTING — Page 11
STOCK PRICES — Page 13

Rat grounds jet

LONDON — British Airways grounded a Miami-bound jumbo jet yesterday after a stewardess spotted a rat on board.

Airline officials said fumigating the plane would have taken up to eight hours, so Flight 293 was changed to another jumbo jet which left two hours late. Fumigators managed to catch the rat — Sapa-AP

Financial Editor

THE gold price reached its highest level for 10 months yesterday, boosting both the Johannesburg Stock Exchange (JSE) and the rand.

The bullion finished the day at a high of \$411.25 in New York, \$7 up on the day. Earlier, the metal slipped slightly to close at \$408.25 an ounce in London.

Handsome profits were made on the JSE as the all-gold index soared by 56 points to close at 2113, a rise of 50% in a month. Quality gold shares gained up to R10 each on the day.

And the rand strengthened to R2,609 to the dollar compared with R2,615 on Tuesday.

Ominous sign

However, an ominous sign was that institutions were among those who took profits on gold shares on the JSE.

But these were quickly snapped up by both South African and foreign investors. Analysts suggested that moves towards political reform were making the SA market look more attractive overseas, particularly to foreign buyers.

Old Mutual chief economist Mr David Mohr said it was a hopeful sign that the gold price had moved up against other major currencies, not only against the dollar.

ROBERT GENTLE reports from London that SA gold shares quoted on the London Stock Exchange had another good day yesterday as they rode the wave of positive sentiment generated by the rising gold price.

Reuter reports from Tokyo that Japanese investors are becoming even more bullish on gold due to its recent strong advances and are expected to keep buying it.

"Given the enthusiasm among individual speculators, we cannot help but be bullish," said Mr Takuya Takemoto, a gold dealer at Sumitomo Metal Mining Co.

"The bullish sentiment in the futures markets stimulated physical demand from Asia, including Japan, Hong Kong, Taiwan and Singapore," said a spokesman at Tanaka Kikinzoku Kogyo, a major precious metals retailer. "This investment fever is unlikely to weaken in the near future."

Traders expect Japan's gold imports to rally in the last quarter of 1989 and full-year imports are expected to at least maintain last year's level of 297,09 tons.



TOP SCORER

Natal hero Henry Fotheringham in action during his innings of 70 at Newlands last night. WP captain Lawrence Seeff lost his most important toss of the season as his cricketers went down by 26 runs to high-riding Natal in the Benson and Hedges night series. A crowd of some 14 000 attended. Man of the match award went to Fotheringham.

Full report — Back Page





SAVE R100

CHINON

AUTO GL

'Don't join with govt'

By ANTHONY JOHNSON
Political Correspondent
BUSINESS should not fall into the trap that it had during the



brave intentions", then this was "Business must not fall into that trap again."

Cap Times 23/1/89
133 (30KA)

Gold at 10-month high in London

B/D 24/11/89

79

THE widely expected correction in the gold price was of short duration yesterday, with gold bouncing back to a new 10-month high of \$411,55 at the London afternoon fix.

The rand price of gold rose to just under R1 078, a boon for the gold mines.

In London, gold closed at \$411,50/\$412, while in Zurich the metal finished \$1,35 up from Wednesday's close at \$410,75/\$411. Platinum followed gold to close \$3 firmer at \$531/\$534.

Some selling was triggered off in early trade on bullion markets and the London fix was down at \$408,10 in the morning. This was basically unchanged from Wednesday's closing \$408/\$408,50 but down from the highs seen in the Far East, where gold touched \$413.

Dealers said the market was nervous and slightly unreliable due to the holidays in Japan and the US, but the market remained constructive after recent advances and the increase in general investor buying, according to Reuter.

Technically, the market's rise has not been interrupted by a correction. Although traders are looking for a retracement of about \$10 soon, bullion dealers say any sign of a price dip encourages buying.

A Zurich dealer said gold might fall to near \$390, but he would then expect it to climb again as the market for gold was basically bullish.

The rebound in the gold price dispelled initial hesitancy on the JSE. After suc-

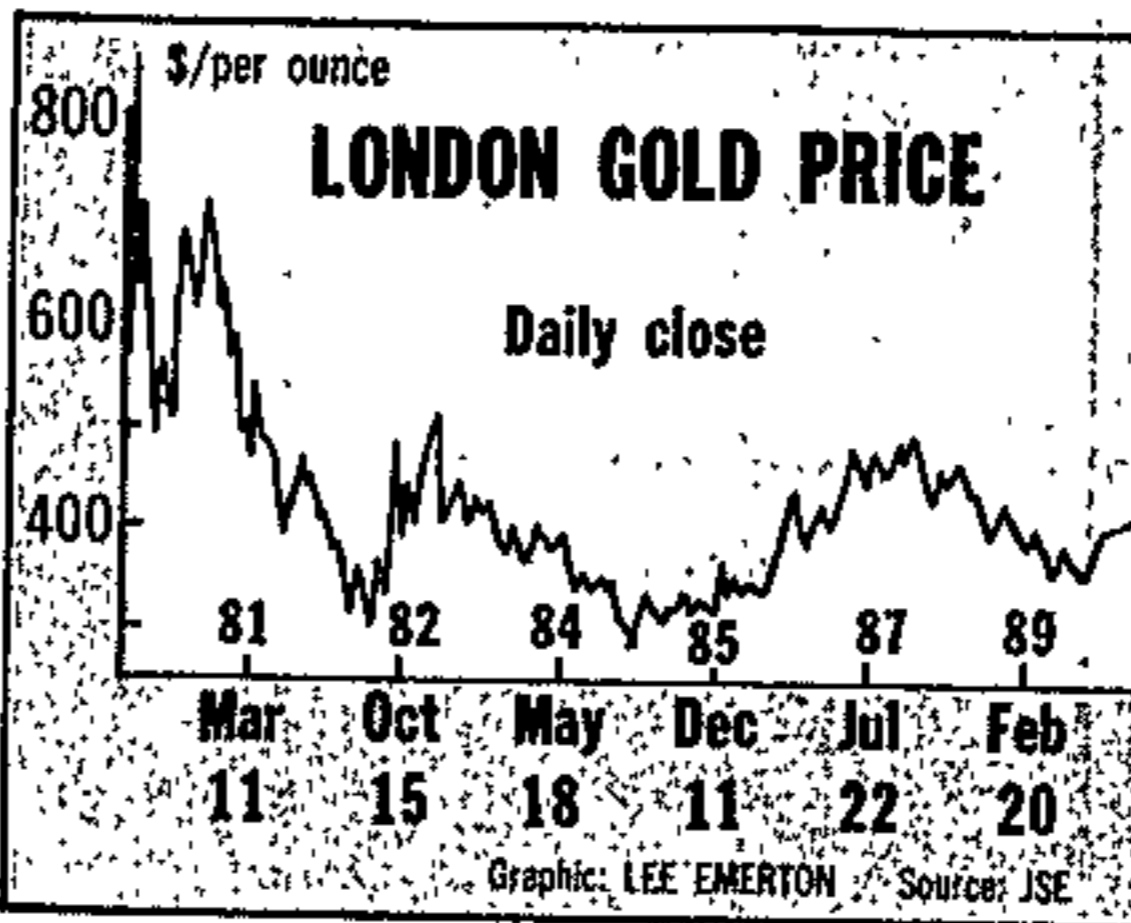
MERVYN HARRIS
and LIZ ROUSE

cumbing to profit-taking, buyers emerged and share prices recovered most of their morning losses.

The JSE all-gold index closed only 11 points lower at 2 102 after falling 35 points in early trade, with the overall index mirroring the trend by closing seven points lower at 2 890 after slipping 22 points.

Johannesburg brokers said institutions had been sitting on the sidelines and had not come back into the gold sector despite the rising price of the metal. However, they are probably the mystery buyers of ConsGold's gold and platinum interests in SA, sold this week by Hanson for £240m.

The finrand closed firmer yesterday at R4,0100, suggesting that disinvestment money might already be out of the country.



Market's cry: Gold \$450 by Christmas

Caple Ken's 27/11/89 (79)

LONDON. — Gold fever grips the London markets again: "\$450 by Christmas" is the market's cry after the yellow metal's \$25 upward sprint to \$416.25 an ounce in London last week.

That prompted chartists and fundamental analysts to predict the biggest bull market in bullion since it touched \$850 in 1980.

Friday's \$7.7 surge to \$419.3 in gold for December delivery on the New York Commodities Exchange shows the way the market is heading.

"This is not just a bull market in dollars," points out Stephen Raphael of technical analysis group Brian Marber Associates.

"It's going up in all major currencies, including the yen. The Japanese are getting really excited."

Economic and political upheavals in Eastern Europe and the Soviet Union are helping to win friends for gold.

"What's behind the new firmness is the crisis behind the Iron Curtain," argues senior Wall Street trader Harry Laubscher.

"The rouble has been devalued and the Russian comrades are falling all over themselves to change their currency into anything made of gold before the next devaluation is announced."

Raphael's view is that there should be some selling close to the \$430-level — when many gold mines have contracts to sell. But, after that, if the

buying pushes the metal through the \$509.25 technical resistance level, it could go on to test first \$ 600 and eventually even \$850.

A note of short-term caution is sounded by Kleinwort Benson's Huw Williams: "It's gone up too far too soon, pushed by short sellers covering their positions."

But he too sees bullion at \$450 by Christmas.

"Money is pouring into the gold funds, forcing them to buy," reports Robert Weinberg of stockbroker James Capel.

He sees the present surge taking the price to \$450 fairly soon, but believes there could be even more dramatic possibilities in the longer term.

"One way of looking at it is to regard 1968 to 1980 as one long bull market up to \$850. After that, there was one long bear market all the way down to \$355 in September this year.

"This year, 400 tons of gold have been sold forward by mining companies and stocks in investors' portfolios are at historic lows.

"The balancing of supply and demand put an end to the bear market.

"Gold could certainly rally up to \$550 or even restage its performance at the end of the 1970s and reach \$850 again."

Chartist David Fuller concludes in his latest newsletter: "A target of \$500 for gold should be easily within reach."

^{CAT}
^{Times}
^{28/11/89}
Bullish
gold price
suffers 79
setback

GOLD suffered its first setback since soaring early last week through the \$400 barrier as profit-taking set in when the metal failed to hold on to a 1989 high of \$420,50 in the Far East.

A sharp fall in early New York dealings to a low of \$412,50 from an 11-month high of \$417,15 at the London morning fixing, prompted a swift sell-off of gold shares towards the close of trading on Diagonal Street.

Gold closed \$2 lower in London at \$414,25 as operators on both sides of the Atlantic took profits amid disappointment that the metal could not sustain its bull trend.

But the falls in both gold and share prices were cushioned by bargain hunters, who saw the correction as a buying opportunity.

● Report — Page 10

Drop prompts sell-off on JSE

79

Gold suffers first setback in bull run

B/Day 28/11/89

GOLD suffered its first setback since soaring early last week through the \$400 psychological barrier as profit-taking set in when the metal failed to hold onto a 1989 high of \$420,50 in the Far East.

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Gold closed \$2 lower in London at \$414,25 as operators on both sides of the Atlantic took profits amid mild disappointment that the metal could not sustain its bull trend.

But the falls in both gold and share prices were cushioned by bargain hunters who saw the correction as a buying opportunity. Dealers on the JSE said the falls could be the consolidation the market was expecting and the bull trend was still operative.

MERVYN HARRIS

Diagonal Street opened firmer on weekend demand from New York and the strong gold price but share prices drifted lower in the absence of follow-through buying of the metal in nervous and sober professional trading after last week's euphoria.

The JSE all gold index gave up an early 31-point rise and shed a further 14 points to close at 2 135. The overall index mirrored the trend to close seven points off at 2 911 after rising to 2 947.

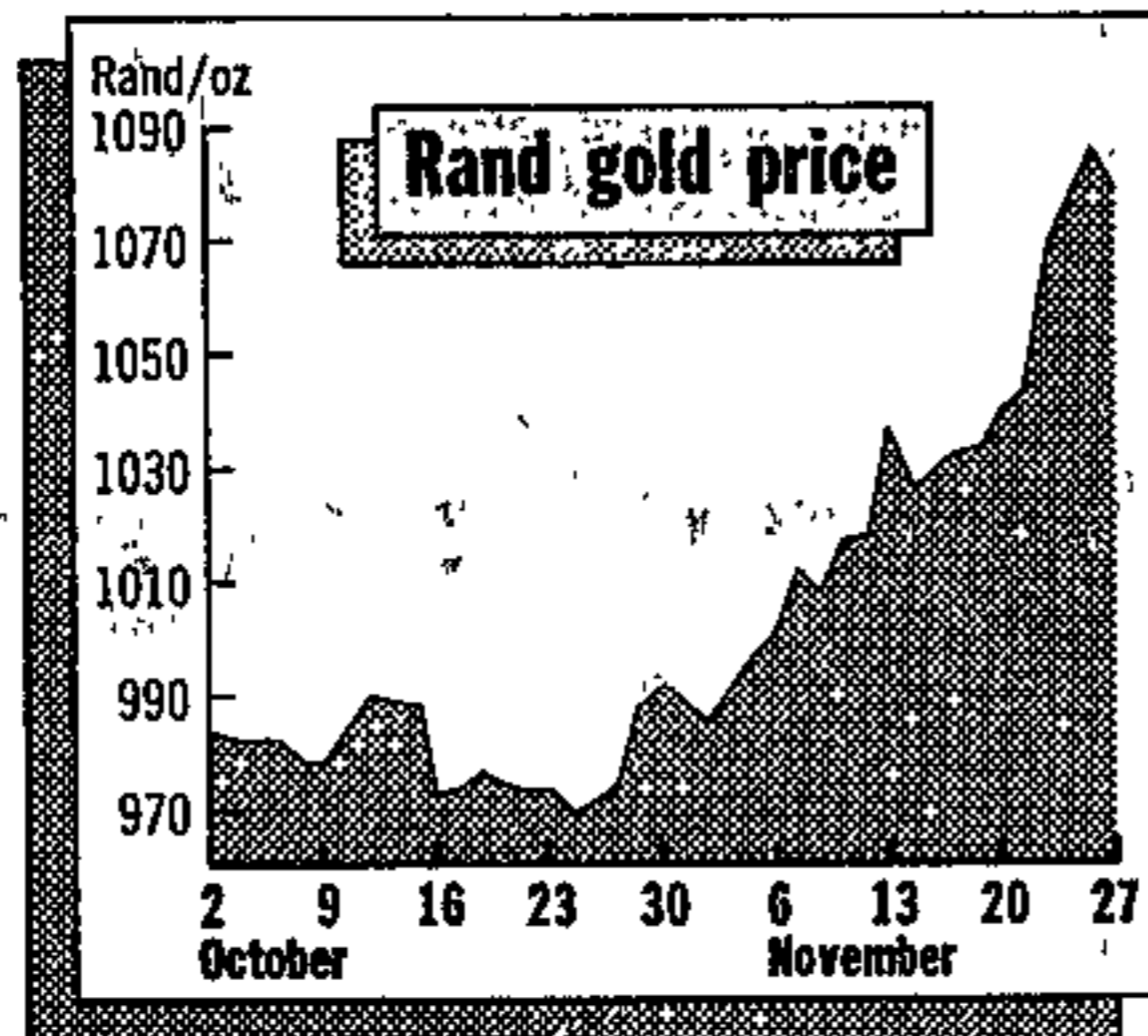
"People were waiting for a correction and there was a rush to sell with shares falling as rapidly as the gold price," a dealer said.

Heavyweight golds bore the brunt of the selling as several lightweight golds chalked up new highs. This was particularly the case with regard to special shares designed for overseas investors.

With the rand giving up early gains to close little changed at R2,6088 to the dollar, the rand gold price eased from R1 086,81 to R1 079,39, levels last seen in August 1988.

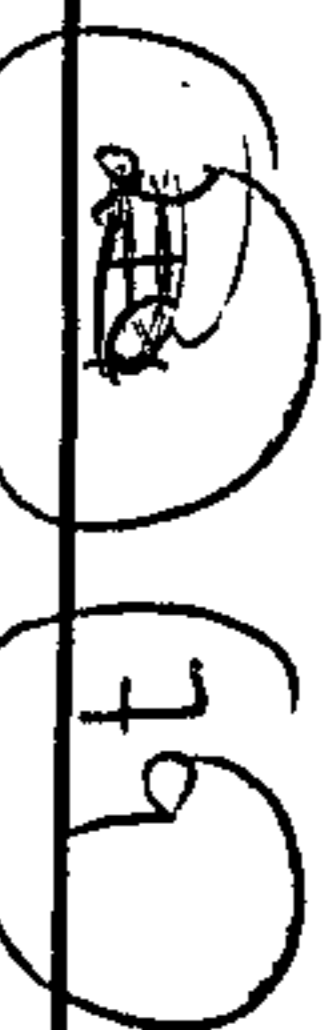
Reuters reports that the DM remained in the limelight on foreign exchange markets, holding firm against major currencies despite some profit-taking.

Sterling was hardest hit, shedding nearly three pfennigs to DM2,718. Against the rand, the British currency has now fallen 8,3% from R4,4400 to R4,0684 since September. The dollar fell more than half a cent to DM1,7890 with dealers attributing the easier tone of the US currency not only to Mark strength but speculation that the Federal Reserve might further relax its grip on credit by the end of the year.



Graphic: FIONA KRISCH

● See Page 8



COMPANIES

Flexibility is called for in the mining sector

A FLEXIBLE response to the JSE's mining sector seems as appropriate as it was to industrial shares a year ago.

Many factors make the mining sector an interesting proposition for investors, according to Dana Wakefield of broking firm Davis Borkum Hare.

He says investors who are willing to trade on a medium-term view of gold's potential — even if they remain adverse to longer-term investment — should see good buying or switching opportunities recurring on pullbacks.

Gold and mining house counters have firmed sharply and could therefore see short-term profit-taking, but underlying movement has established rising support price levels on corrections.

Wakefield says combine this with the introduction of all-share retirement annuities to be initiated by a life assurance company, and it seems likely that demand will underpin the market on possible short-term weakening.

A flow of even part of the funds freed by the abolishing of prescribed assets

LIZ ROUSE

for life insurers, would stabilise corrections, and enhance up movements in gold shares if the gold price continues firmer.

He says the longer-term dangers evinced by the current vulnerability of overseas share markets and the JSE's industrial sectors remain — but a full bear swing towards a cyclical base in equities is not indicated in the short to medium term.

Sketching the background to gold's swing from being an unfashionable investment to being a potentially rewarding investment after years of languishing in the wake of hyper-activity in other investments, Wakefield says gold in all currencies is at last free of its 23-month downtrend.

But the extent of gold's potential becomes open to conjecture, with optimists anticipating \$700/\$1 000 heights, while pragmatists see \$400/\$500 trading

for some time to come.

Nonetheless, international attention has recently renewed its focus on gold share markets, as investors/traders switched from currency and junk bonds to climb into what were comparatively cheap gold shares — particularly the SA mines.

This sharp re-appraisal has resulted in local yields that are overbought in fundamental terms, which has encouraged a number of local institutional investors to remain out of gold shares at the current rand/gold price.

Their standpoint is that a rand/gold price around R1 110-R1 200 is needed at current cost levels to provide the income now being discounted in local share prices.

But, says Wakefield, it must be remembered that overseas buyers of SA gold shares receive a healthy 6% dividend yield even at current prices — benefiting from the financial rand discount — as against the local 4% yield.

In terms of expectations, if the dol-

lar/gold price achieves and maintains \$450 it will be free of the decade-long downtrend that began in 1980, considerably enhancing its longer-term prospects at a time when global equities, base metals and currencies have had their wings clipped again.

Wakefield says even if gold were to fluctuate in the \$400/\$500 horizon in 1990 — rather than making a sustained upsurge towards the \$700 level that could be targeted by chartists if the possible long-term head and shoulders base formation should evolve fully — it would provide a local gold price around R1 090 at a conservative price of \$420 and an exchange rate of about, say, R2.33 to the dollar or 38c.

In terms of gold motivation, Wakefield notes that some wild cards are now being thrown into international currency and gold markets in the form of the literal and symbolic breaking down of the Berlin Wall and its economic implications for East and West Germany.

Wary investors eye gold scene from sidelines

51 Day 29/11/89 MERVYN HARRIS (79)

GOLD hovered around the \$410 level on global bullion markets yesterday as nervous investors were closely watching whether the metal would extend its downward correction after its recent surge to new highs for the year. (84)

In the second consecutive day of profit-taking after its 10-day upsurge, gold eased to a low of \$407.50 in London amid fears that it could test resistance levels at \$405.

But the downside was restricted by underlying buying interest in New York which enabled gold to edge back and close in London at its day high of \$410.75.

Uncertainty over the short-term trend of the gold price was reflected in the lower volume of trading on the JSE where there was only limited participation by institutional and overseas investors.

The JSE all gold index gave up 3.2% to close at 2066 points, but buying at the lower levels helped lift shares off their lows. Dealers said a lot of the selling came from professional jobbing.

Analysts said gold rallied in New York on fresh bargain-hunting against a background of constructive fundamentals and charts. "Gold is acting like a typical market which is correcting after big gains," one trader said.

In London, the easier trend of gold was shadowed by other precious metals with platinum shedding \$11 to close at \$521. Silver slipped from \$5.75 to \$5.66.

Reuters reports that, on foreign exchange markets, the dollar reversed an earlier rally as the West German mark reasserted its strength.

● See Page 9

Economists cheerful about prospects . . .

Gold's sharp drop 'healthy correction'

CMT Teats 29/11/89

79

By **AUDREY D'ANGELO**
Financial Editor

STOCKBROKERS and economists were still cheerful about prospects for gold yesterday, as it continued its downward trend to close in London at \$410,75 an ounce — \$3,50 down on the day.

Manny Pöhl, a partner in stockbroking firm Davis, Borkum, Hare, said yesterday that he saw the drop as "a healthy correction" and expected to see gold at \$450 an ounce by the middle of next year.

Old Mutual chief economist David Mohr said he was "encouraged by the widespread interest in gold — shown by the fact that the price has increased in terms of every currency."

But a Cape Town partner in stockbroking firm Simpson McKie said: "People in SA should be looking at platinum rather than gold. This country produces 85% of world supplies of platinum — and demand is expected to outstrip supply again this year.

"It is less vulnerable than gold. The Japanese — whose buying of gold has been one of the main factors pushing up the price in the past few weeks — prefer platinum for jewellery and it is needed in industry."

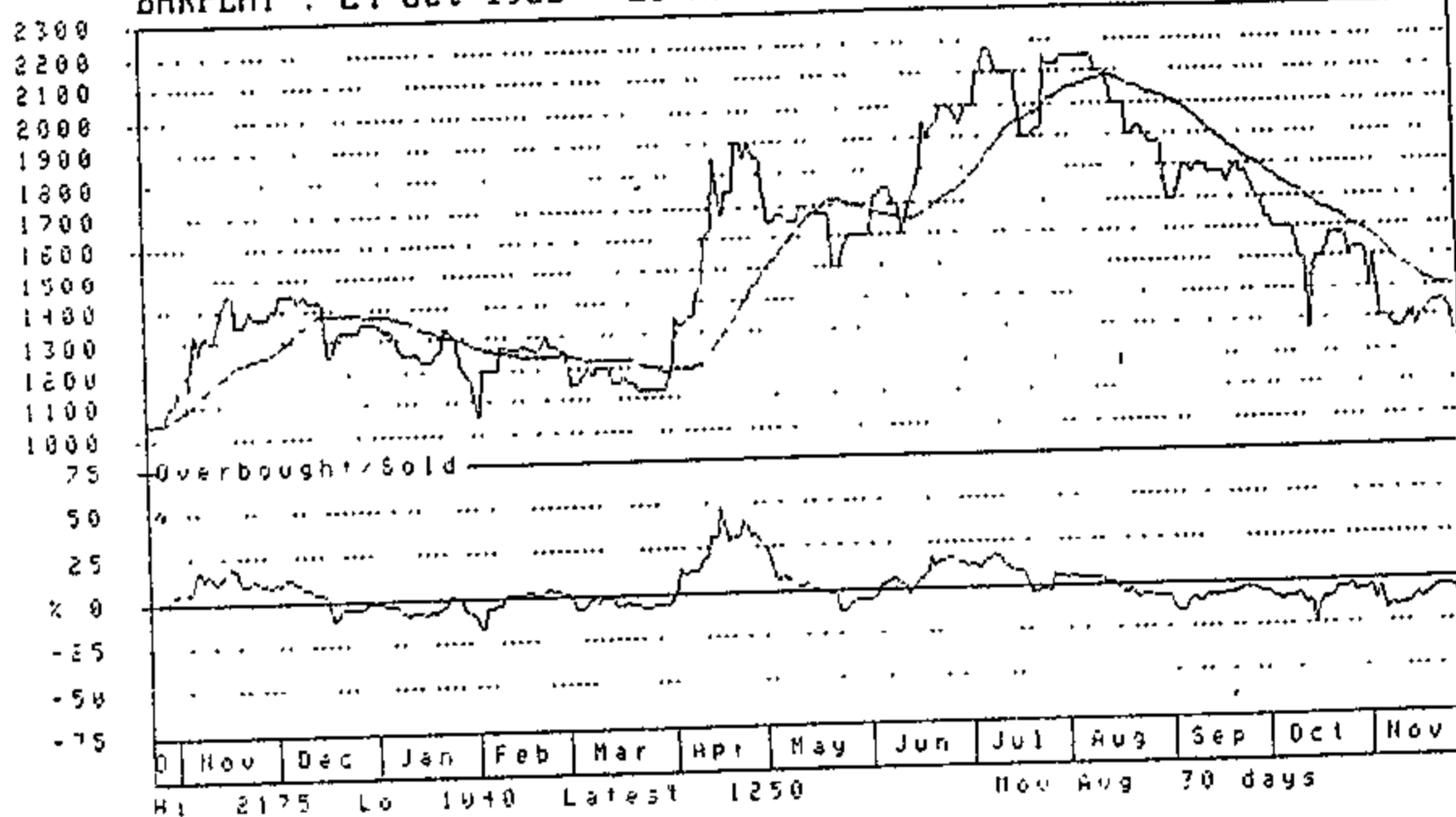
Mohr said Old Mutual analysts were "reasonably positive" about platinum. "There is a real industrial demand for platinum internationally and it is not in over-supply. It has never collapsed like gold.

"It fell temporarily below \$500 an ounce but the lowest it went was \$473 in August."

Discussing gold, Mohr said he thought the price fall merely "normal market movement" and felt quite comfortable about it.

BARPLAT : 24 Oct 1988 - 28 Nov 1989

Source: Simpson McKie



This graph has not been adjusted to allow for the rights issue. Today is the last chance for investors in Barplats and Barmine to take up nil paid letters of allocation and avoid brokerage fees.

Previously, gold had risen only in dollar terms as a result of currency movements. "The most encouraging feature now is that it is going up in terms of all currencies, which signals real interest in gold.

Pöhl said there was no longer an over-supply of gold on the market, as had been the case last year.

The Group of Seven industrial countries had made it clear that the dollar would not appreciate. International equity markets were "looking a bit weak" and commodities were down.

In a circular issued by Davis, Borkum, Hare, A S Robertson says that gold prices in the dollar, mark, yen and pound between February and this month compared with the 40 week moving average suggest that gold is on the verge of a sustained recovery.

"The relatively disappointing behaviour of gold in the Deutchemark from time to time is more

than counter-balanced by the encouraging performance in the other three major currencies."

Warning that the yellow metal could suffer a setback to \$350 an ounce, and trade in a range between this and \$500 over the next two years, Robertson continues: "Nevertheless, on present indications the metal could hit \$450 an ounce by mid-1990. The strong behaviour of gold shares in SA and North America since October 23 is further evidence of confidence in gold at present."

The circular points out that "Investment sentiment, like fashion, changes from time to time and gold recently has attracted a good following as a hedge against increasing uncertainties in world economies and equity markets.

"In addition, the continuing upheavals in the USSR and Eastern bloc countries, and particularly in East Germany, could again attract attention to gold as a political hedge."

Day



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Gold holds steady despite Far East pressure

GOLD held steady on bullion markets yesterday as fresh buying in Europe and New York pared early selling pressure from the Far East for the metal to close \$2,25 higher in London at \$413.

Dealers said gold was finding good support at \$408 but was encountering solid resistance at around \$413. Analysts said the metal was dragged back for the third successive day by Japanese selling.

A firmer finrand dampened interest in gold shares on the JSE, which had its quietest trading session in several weeks. The all gold index ended 35 points or 1,7% lower at 2 031. **(79)**

Dealers said the gold market had moved into a consolidation stage after its recent sharp upsurge. The trend was still positive, as indicated by the strength of market leader De Beers, which shrugged

MERVYN HARRIS

off the effects of the firmer finrand to close 1,1% higher at R60.

De Beers' rise, on the back of its firm trend in the US and positive reports from London brokers, limited the decline in the JSE overall index to 15 points, to end at 2 853. *Blom 30/11/89*

Continued foreign demand for investment in SA gilts pushed the finrand up from R4,000 to R3,9650 to the dollar. Currency dealers said selling of finrands through disinvestment could be out of the way for the time being.

With gold and the dollar holding in narrow ranges, the commercial rand closed slightly firmer at R2,6008 to the dollar. This took the rand gold price down R5 to R1 066,58.

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Political Economy
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B/Pay 30/11/84

Gold's bull run might prove to be short-lived

KAY TURVEY

GOLD is unlikely to enter a major bull market over the course of next year, although the metal has risen on expectations of central banks easing interest rates.

The latest International Bank Credit Analyst reports the breakout in world gold prices is a clear sign central banks will not be able to keep conditions tight much longer, although this could mean their goal of price stability may not be achieved.

Many factors point to a big drop in short-term international interest rates. There is a growing fear of a US financial accident. Many countries are nearing critical points in their election cycles, and the success of East bloc countries to move away from communism depends on prosperity in the West.

However, the central banks seem determined to wait out any decline in interest rates until growth looks weaker."

Restrictive interest rates are therefore unlikely to last longer than the next three to six months and the only surprise will be weaker-than-expected economic growth.

During this time equity markets will be in for a rough time with prices vulnerable to further profit disappointment and to impatience with the potential drop in interest rates.

The International Bank Credit Analyst says investors should prepare for another 10% to 15% drop in world equity prices over the next three to six months.

If this does not happen it will be because central banks move to cut interest rates sooner than anticipated. They warn a more bearish outcome on equities is not warranted because of the likelihood that the central banks will ease monetary policy as world economic growth weakens and stock markets begin to sink.

Gold - 1990

JANUARY — MAY

Overseas investment expected to continue

Gold and politics stimulate the JSE

79
23

Star 2/1/90

Patti Waldmeir of the Financial Times on the foreign influence behind the surge on the JSE which turned in the world's third best performance in 1989.

Politically and economically 1990 is expected to be a tough year for South Africa. But one would never know it from the equity market, which turned in the world's third best performance last year in dollar terms with further gains expected this year.

Gold and politics were the driving forces behind the rise in the Johannesburg Stock Exchange in 1989. In the last two months of the year, the coincidence of a rising gold price and improving political prospects boosted the FT-Actuaries Index for South Africa by 25,8 percent in dollar terms.

For the year as a whole, the market has risen by 68 percent in dollar terms, behind Mexico, which has nearly doubled over the period and Austria, which has gained 78 percent.

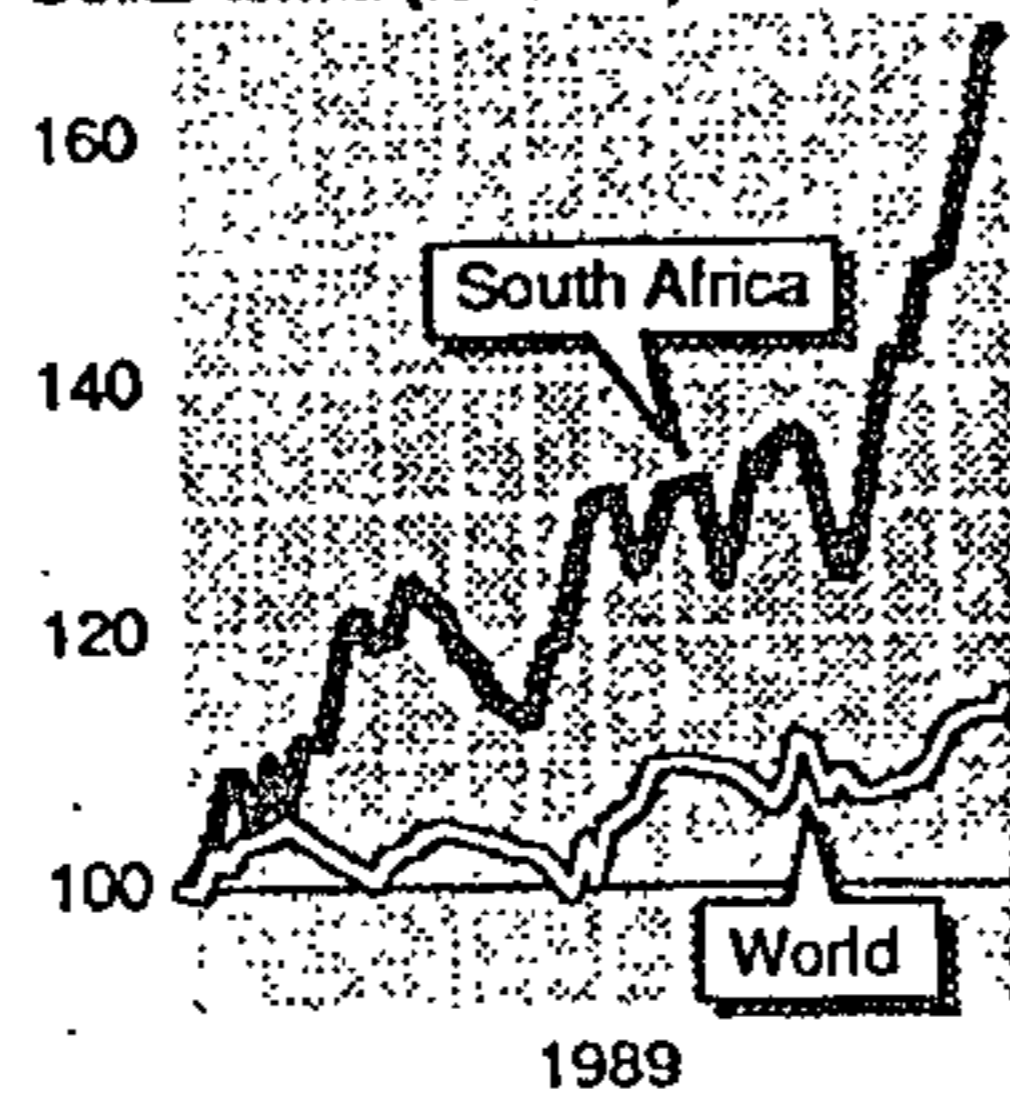
Johannesburg stockbrokers are predicting still more for 1990. "Despite this strong rise in share prices, I feel optimistic about prospects for next year, mainly because the gold price has changed from a long-term bear trend to a bull trend," says Mr Max Borkum of leading brokers Davis, Borkum, Hare & Co.

Foreign buyers

But the reversal in gold's fortunes — the gold price has risen by 14 percent since its 1989 low of \$356 an ounce on September 15 — was not the only factor behind the JSE's latest surge.

For the first time in years, foreign buyers were a major factor in the market, reversing yet another trend. For the year to the end of October, foreigners made net sales of equities estimated at R3 billion (\$1,2 billion). But they have now become net

Dollar terms (rebased)



purchasers of equity in significant amounts for the first time since before the currency crisis of mid-1985.

Brokers estimate that foreigners purchased more than R200 million in equities in November alone, with signs that interest continued strongly in December.

"We've been doing a substantial amount of business with overseas customers for the first time in years," says Mr Borkum.

Most brokers agree that this reflects a shift in political perceptions of South Africa, prompted by the removal last August, with a poor international image, of Mr P W Botha and his replacement by Mr F W de Klerk, who has already carried out some political reforms and promised many more to come.

The influence of foreigners in the gilts market was, if anything, even more pronounced. Foreigners have been tempted by yields of as much as 25 percent on long-dated stock — the effective yield to foreigners who purchase bonds with financial rands but repatriate interest at

the commercial rand rate, enjoying an advantageous exchange rate on both transactions.

Demand for financial rands to purchase gilts has led to a sharp appreciation in the currency, which has risen more than 10 percent in the past week.

Equities

Although this rise makes equities more expensive for foreigners, brokers believe that their interest will persist if momentum can be maintained behind both the gold price and the process of political reform.

They expect foreign buying, largely confined to gold shares so far, to be extended to industrials, which have risen much less sharply in recent weeks. Since the end of October, the JSE Industrials index has risen by 7,2 percent, while the gold index has gained 17 percent.

However, because of a surge in industrials to mid-year, prompted by good corporate results early on, the industrials index is ending 1989 40 percent higher, with the gold index up nearly 60 percent. Brokers are reporting foreign inquiries about industrial shares, as well as small purchases, for the first time in years.

They note that, in South Africa's extremely illiquid market, a large inflow of foreign funds could create severe price distortions. And with local investors already considering the JSE somewhat-dear, any foreign selling prompted by disappointments on the gold or political fronts could prompt sharp falls in the market.

If, however, the gold price firms for the first half of 1990, and if the expected release of Mr Nelson Mandela, leader of the African National Congress, eases political pressures, most brokers expect the indices to

beat the inflation rate of under 15 percent in 1990.

Institutional demand will remain strong, they say, in spite of further privatisations; they point out that offers of new equity totalling R9,5 billion to the end of October 1989 (including the privatisation of state steelmaker Iscor) did little to slow the market's rise.

The Government's apparent determination to tackle inflation and state spending are seen as positive for the market. Economic growth is expected to slow sharply next year, possibly to less than one percent, suggesting lower growth in corporate profits and dividends, but the interest rate reductions which should follow (prime rate is currently 21 percent) would also be welcomed.

Next year could start slowly for both gold shares and industrials. Brokers believe the JSE gold index could ease back to perhaps 1 800 or 1 900 in January or February, from Friday's close of 2 046.

But they expect foreigners to continue to find attractive an effective price earnings ratio of 15 or 16 times for gold shares (adjusted for the effect of the financial rand), noting that, with the industry's profits at 20-year lows, further gold price increases should make a big impact on earnings.

Lower interest rates, meanwhile, are expected to contribute to a strong second-half performance by industrials.

STAN • (79) Surge in gold demand by jewellery fabricators

By Neil Behrman

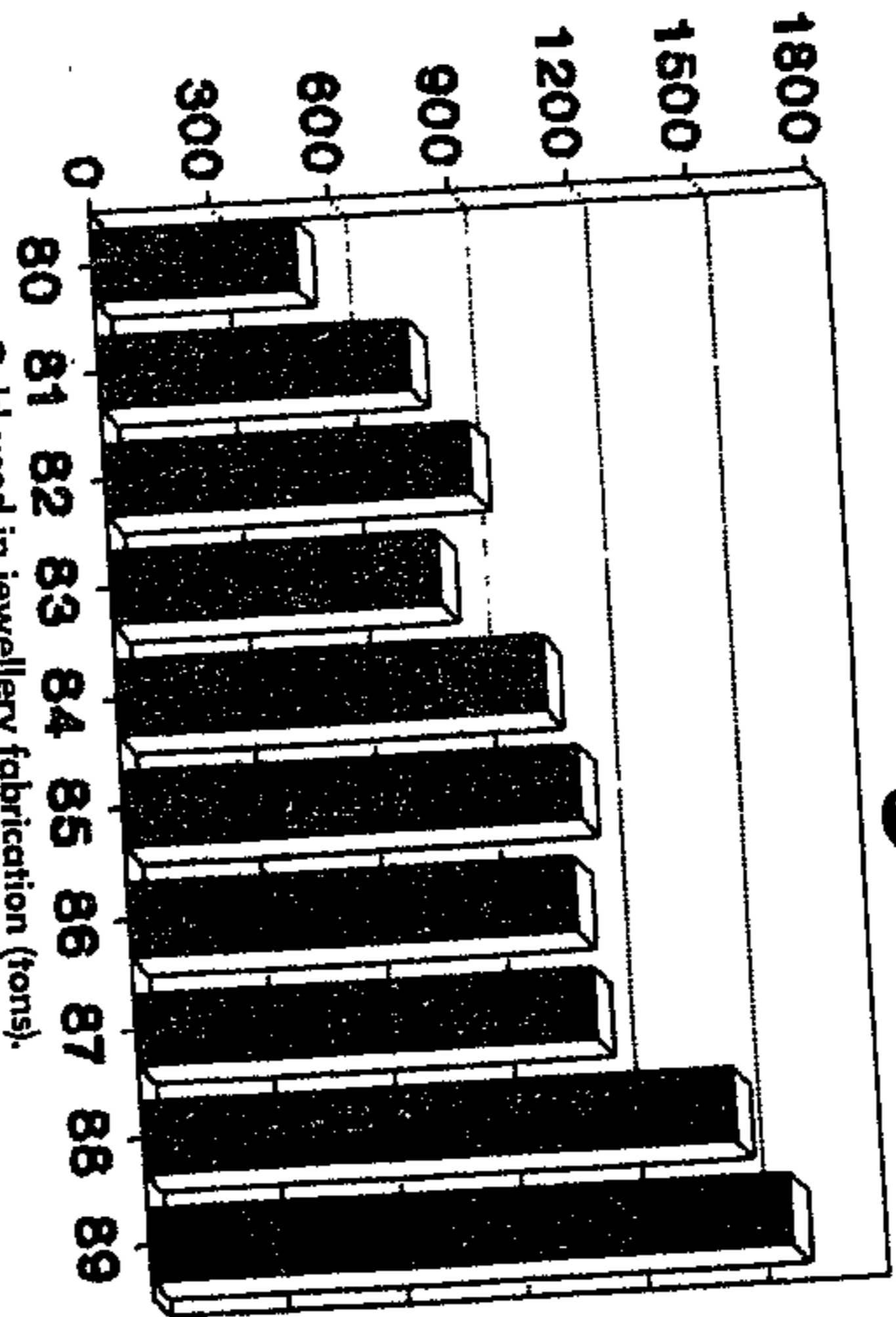
LONDON — Gold jewellery fabrication surged to more than 1 600 tons in 1989 from 1 483 tons in 1988, estimates the World Gold Council.

The jewellery market took off when the price was depressed in the second and third quarters of the year and matched total Western mine production in 1989.

The boom in gold jewellery fabrication is in contrast to a slowdown in diamond sales. But De Beers raised the price of diamonds substantially during the past two years so there was price resistance.

Gold jewellery fabrication has risen at an average compound rate of 11 percent in the past six years, says the Council. The motor during the past two years was Japanese and Far Eastern demand and the big question for the coming year is whether the slowdown in the international economy and the recent increase in prices will curb sales.

Mr Fred Demler, precious metals analyst at Drexell Burn-



ham Lambert says that Far Eastern demand fell below 1988 record highs. In the ten months to October, for example, Taiwanese gold imports fell by 58 percent, although they are still likely to exceed 1987 levels by over 80 percent.

In tandem with normal patterns in the gold market, fabrication purchases tend to slip when

investment and speculative buying boosts prices. According to historical statistics total supplies, including scrap, exceeded fabrication consumption by nearly 200 tons in 1989. At prices of around \$400, only \$5.1 billion would be necessary to absorb this surplus, a tiny amount when compared with the massive international money and capital

markets. Yet real interest rates are high and investors can receive more than eight percent on deposits in Deutsche marks and Swiss francs, so investors are also sensitive to price changes.

If they buy physical gold, they must pay storage costs and forego interest. If they leave most of their money on deposit and buy gold through the futures and options market, the 12-month forward price is around \$430, well above recent highs of \$420.

The expense of holding gold at a time of high interest rates explains the sudden setback over the past week. Gold's trading range has risen, but at \$401 the price still appears to be trapped within a band of \$385 to \$425 an ounce.

Mr Demler believes that gold's major bear trend bottomed at \$360. Yet "while there has been a clear shift in investment demand, we are not of the opinion that gold is entering a new bull phase."

Although "physical supply/demand balances are relatively tight ... many of the fundamen-

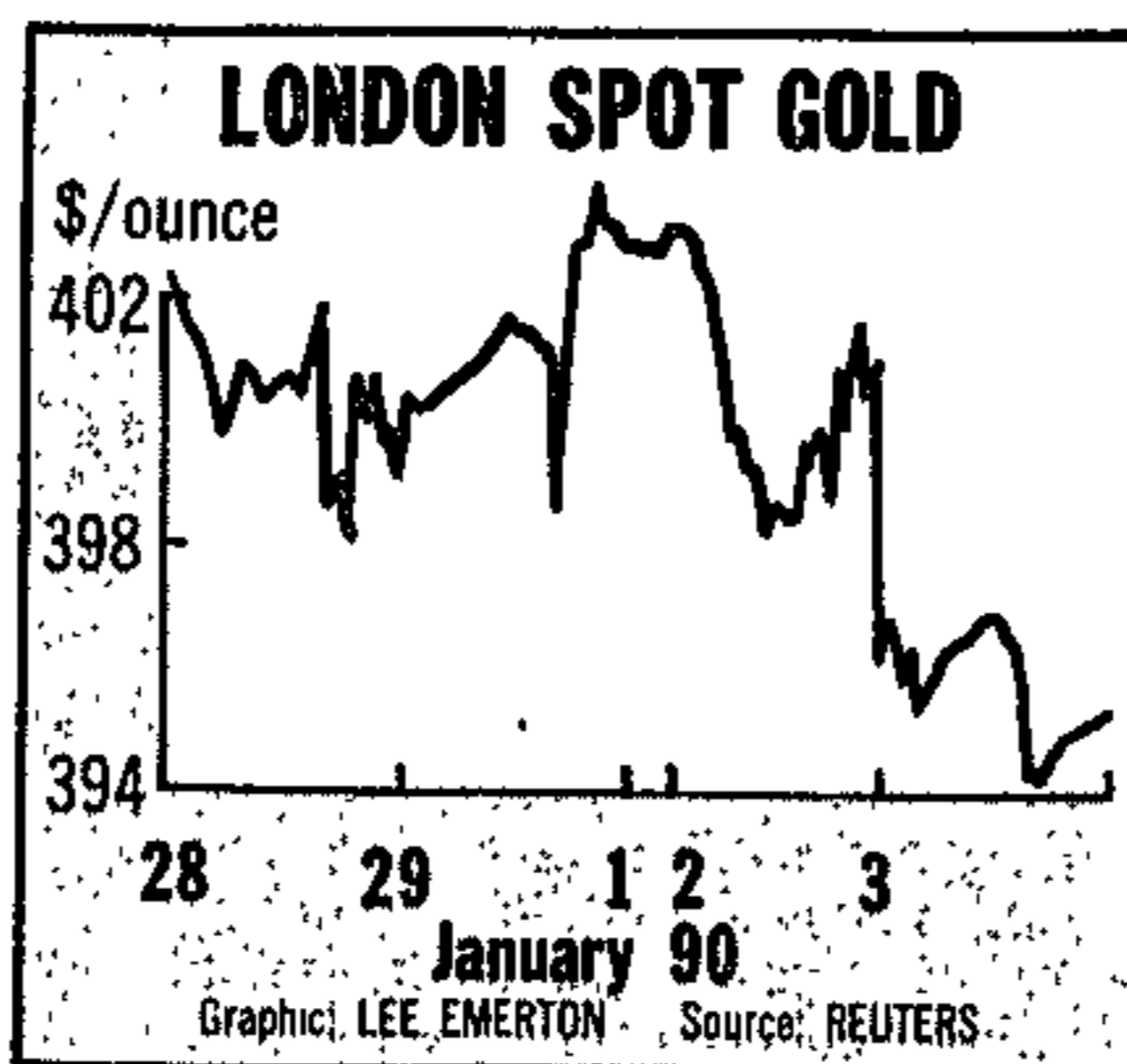
tals which have adversely affected gold over the last two years are still well in place.

"Real interest rates have come down, yet they are still high, inflation is also low and there is confidence in the Bush Administration and Greenspan's leadership. Production outside South Africa is also likely to rise sharply over the next few years and Russian sales are likely to increase because the stricken Soviet economy needs to be financed."

Metals and Minerals Research Services estimates that at a constant price of \$400, non-socialist world mine output will increase by an average of 4.8 percent a year to 1 945 tons in 1993 from 1 537 tons in 1988.

This is double the amount produced in 1980. Even at a constant price of \$350, total mine output will rise to just over 1800 tons in 1991, claims the firm.

South Africa's share of world production is expected to fall to 31 percent in 1993 from 70 percent in 1980, says the consulting firm.



Gold clings to key level of \$395 in US

(79) 79 MERVYN HARRIS

GOLD was clinging to the key support level of \$395 in New York last night as a combination of factors put renewed pressure on the metal. *1/4/90*

Tracking the easier trend in New York, gold was fixed at a six-week low of \$395 in London yesterday afternoon and closed at \$395.50 against a stronger dollar and the record rise of Wall Street which, dealers said, might have prompted portfolio managers to tighten up on gold holdings.

US analysts said gold was being driven down by weakness in the white metals of platinum and silver. They said the selling began as early as last week with the trading off of silver options.

Silver was trading in New York at \$5.16, off 3 cents, while January platinum on Nymex was at \$468, down from Tuesday's \$474.20. Platinum was under pressure from a sharp fall in mid-December US vehicle sales, down 21.3% from a year ago.

US analysts said the car selling rate for December 10 through 20, reported on Tuesday, was about 6.2-million units compared with 5.5-million in early December. A year ago the rate was 8.2-million units.

On the JSE, share prices were telling a slightly different story.

The all gold index eased 11 points to 2 017, but renewed strength of Dow stock De Beers and associates Anglos and Min-orco enabled the overall index to close 13 points up, at 2 987.

● See market report

What a week that was on the stock market

THE Stock Exchange came to life this week, continuing the pattern of recent years to soar during the first couple of weeks in January.

A rise in the gold price to an after-noon fix of \$405 an ounce in London yesterday after dropping to as low as \$392 earlier in the week, coupled with soaring equity markets worldwide boosted shares from Thursday after-

FINANCE STAFF

noon onwards.

Industrial shares were in particular demand with the industrial index twice setting record-highs. Yesterday the index rose by 39 points to yet another high of 2892 with institutions scrambling for a limited supply of good-quality scrip.

The JSE overall-index closed the week at 3090, a rise of close on 100 points on the week, while the all gold index yesterday soared by 76 points to close at 2095.

The sharp rise in the gold price yesterday afternoon — which extended the rise to more than \$10 on the day — came too late to influence share prices

yesterday. Barring a sudden drop over the weekend, it can be expected that gold shares will rally even further when the market opens on Monday.

Gold's rise was ignited by news surfacing from the Soviet Union that President Mikhail Gorbachev is facing a threat to his position by communist hard-liners as well as increasing social unrest in several Soviet states.

SKW 6/1/90

Market feels gold is on way to \$450

8/Dec 8/1/90
 79 70

THE gold share market is expecting a gold price of up to \$450 after the renewed flurry of buying on the JSE on Friday, when uncertainty over events in Eastern Europe sent tremors through financial markets.

Share prices in Japan, London and on Wall Street came under pressure as news that Soviet leader Mikhail Gorbachev had cancelled January meetings with foreign leaders raised questions about his political standing and sparked a gold price rally.

Buying of gold by pessimistic investors lifted the metal to a high of \$407,55 in New York on Friday. It eased to close \$7,75 up at \$406,50 after falling to a six-week low of \$394 in mid-week. The metal closed at \$404,65 in Hong Kong on Saturday.

Analysts noted that gold's rally and skidding share prices underscored the sensitivity of markets to political events in Eastern Europe. Moves towards freedom in the Soviet bloc and hopes of trading opportunities encouraged recent strength in shares, but any real threat to the Soviet leader would throw markets into confusion.

Gold's rise was also technically driven and traders said it marked a fundamental move upwards from an oversold position. Silver and platinum were also firmer.

The flurry of buying on the JSE came while many market players were still on holiday. "Back to school and back to the market will see increased activity and higher prices this week," a dealer said.

Meaningful orders are building up in all sectors and the market should be further underpinned by the shortage of stocks, especially in industrials which surged to boost the index 39 points to scale a fresh

MERVYN HARRIS

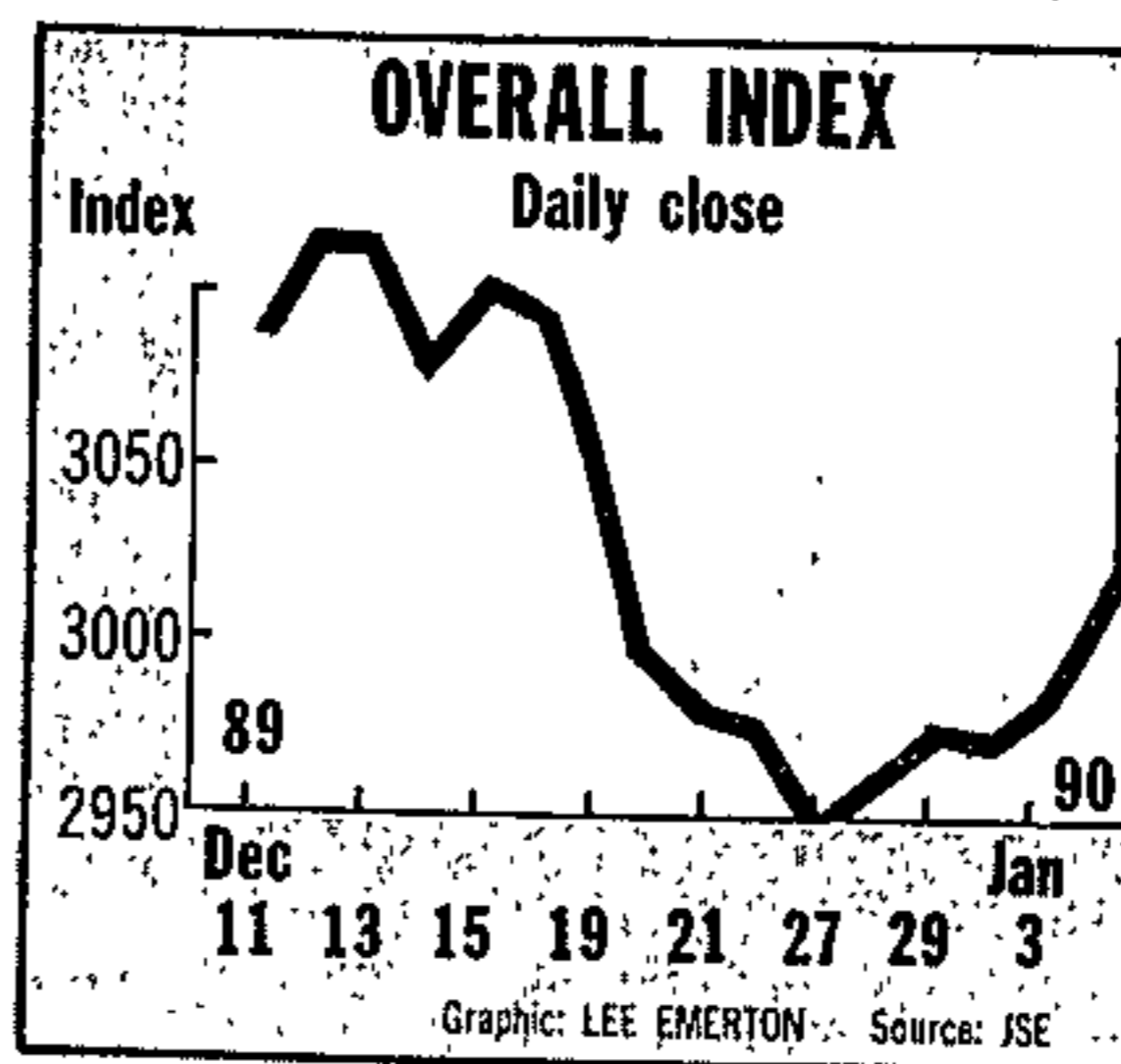
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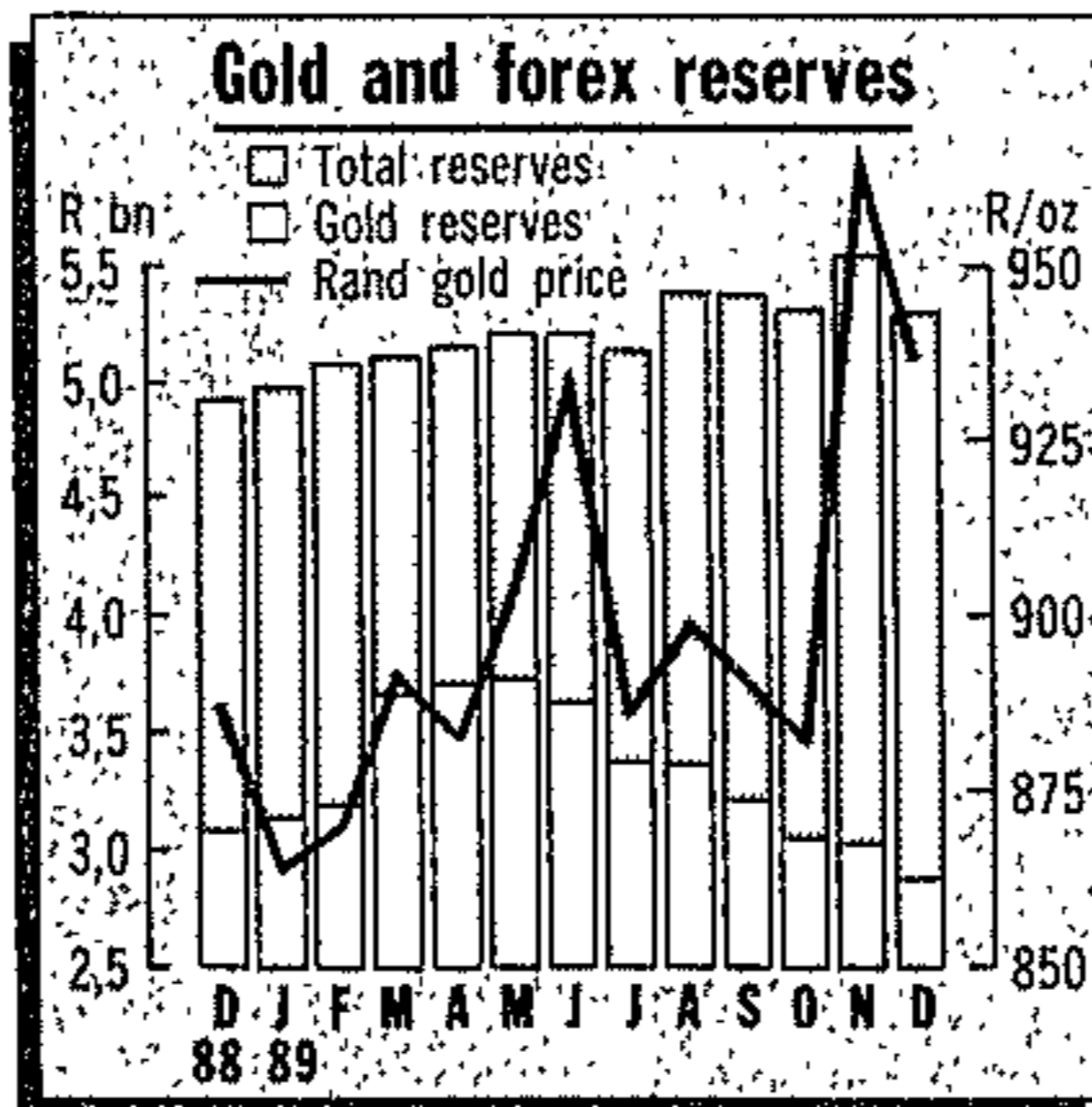
Industrials were upstaged, however, by the mining troika of Anglos, De Beers and Minorco, which suggests the market senses something is brewing in the group.

Anglos shot up 4,3%, or R5, to hit a record R120 while De Beers shrugged off lower CSO diamond sales in 1989 to edge up 15c to R65,15. Minorco gained more than 6% on the week to R60,50.

The surge helped lift the JSE overall index 67 points to 3 090, which is less than 1% off its all-time high of 3 119 reached on December 12.

Analysts cautioned that, while gold shares are discounting a higher gold price in dollar terms, the rand gold price, currently at R1 028, has not appreciated sufficiently to spur gold mine profitability.





SA's reserves are only R212m down

By Dan 9/11/90
 HAROLD FRIDJHON

THE Reserve Bank's gold and foreign exchange reserves amounted to R5,316bn on December 31 1989, down by R212m on the November month-end balances.

This is a creditable performance taking into account repayments on foreign debt and the usual battering the reserves receive at year-ends from trade, interest and dividend payments made abroad.

The gold content of the reserves — 3,076-million ounces — were diminished in quantity, down by 95 000oz, and in value.

The Bank's bullion stock, valued at R937,32 an ounce, was shown as R2,883bn compared with R3,066bn at the end of November when the valuation was at R967,05.

Gold share investors should note that the higher dollar price for gold in bullion markets was offset by the stronger rand in dollar terms.

The government's balances at the end of the year, R8,212bn, were the lowest for five months. In November these balances reached an historic peak of R11,7bn.

Part of the reduction came from a repayment of R1bn on the debt of about R4bn which the Treasury owed the Reserve Bank for providing forward foreign exchange cover.

The Treasury's debt to the Bank is reflected in the Reserve Bank's "Other Assets", which reduced from R16,6bn to R14,9bn.

NEW YORK — Fears of US inflation and concerns about developments in Eastern Europe will be the most influential factors for gold in the first quarter of 1990, industry analysts say.

Factors contributing to an inflationary scenario include rising crude oil futures prices, US Federal Reserve easing of monetary policy, lower interest rates, central bank intervention against the dollar and uncertainty about the equity sector — all bullish fundamentals for gold. Crude oil futures are breaking life-of-contract highs, and it is becoming increasingly possible that inflationary pressures could start to build, providing a backdrop for support for the gold market.

September meetings of the IMF and the World Bank resulted in co-operation among industrialised countries to intervene against the dollar, reducing its value.

With the Fed easing and interest rates declining, there was less confidence in the US economy and dollar, a metals economist at Drexel Burnham Lambert Inc Fred Demler said. In addition, the stock market was seeing "unsettling times," a chief bullion dealer and vice-president at

Twin spurs for the gold price

By Day 9/11/90

Swiss Bank Corp Denise Giordano-Powers said, "Junk bonds look worrisome... people are becoming leery of the financial markets, leaving more opportunities for gold," she said.

"The financial markets are in a very uncertain state," Demler said. "There hasn't been a clear trend since the October crash, and it's a growing view that, with the economy softening, earnings prospects aren't as strong."

Industry observers say gold will be a volatile commodity in the short term, as new positions are being established and the metal seeks to develop a foundation. Gold is in a broad consolidating phase after advancing nearly \$60 an ounce during October and November.

But one economist predicted a rally by late February or early March, after these factors began to normalise and the impact of economic softening in the US was more evident. Gold will trade in a range between

\$375 and \$425 in the first quarter, according to a survey of nine gold dealers, traders and economists. Most agreed to key support at \$395 and at \$385. Resistance would be at \$420 and \$425 with the \$400 area acting as a turning point for prices to shift in either direction.

Al Pugliesi, a chief metals dealer at bank Julius Baer & Co, said: "If gold breaks \$395 to \$396 we could see a drop back to the range of \$360 to \$390; if it holds, we'll reform a base."

One dealer who predicted a range between \$385 and \$450 said technical buying could force prices through a barrier at \$423 and upward to \$450. "But if gold drops below \$385 I'd change my view," he said.

Developments in Eastern Europe could also have a major impact on gold, although sharp price swings would probably indicate one-time movements, rather than a trend, observers said.

"Eastern Europe still needs to be monitored. With respect to the possi-

bility of a large infusion of aid, the pace of reform could be accelerated by internal political pressures, which could well provide a basis for concerted buying in the precious metals," a vice-president and senior analyst at Dean Witter Reynolds Inc in Chicago Steve Platt said.

But if governments were successful in stabilising events in Eastern Europe, "there may be some (downside) pressure coming into the metals," Pugliesi said, because gold was traditionally seen as a haven in times of unrest.

Meanwhile, investment demand for gold has remained strong, a senior corporate adviser of precious metals at Credit Suisse said.

According to the futures and options monthly report by Demler: "Investment demand has picked up in the Far East (after slumping this summer) and remains firm in the Middle East. Featured buying has occurred in Europe and the US (institutional investors)."

A vice-president and head gold trader at MFB Banking Corp Danny Weissman said there was a possibility of a "new bull market" developing when a correction occurred in the Japanese and Taiwanese stock markets.

"If the markets there are topping out, we could see substantial money going into gold," he said.

Demand from the Middle East is also likely to swell as rising crude oil prices continue to provide revenue for investment.

Other bullish factors for gold include a resurgence in gold jewellery demand, Demler said, with sales predicted to be up 15% from last year. In addition, Japanese regulators plan to allow casualty insurance companies to hold up to 3% of their portfolios in gold, he said.

Moreover, rumours continue in the marketplace that the Soviet Union may back the rouble with gold, or that it may issue a gold-backed bond. As its economic relations with the Western industrialised countries improve, the Soviet Union may find it increasingly necessary to have a convertible currency. Consequently, Soviet sales of gold may be curtailed to facilitate such a move. — AP-DJ.

Cash in a can and canine capers

REVIEW

CRITICS' CHOICE

JSE records tumble in frantic rush for shares

Stw 9/11/90

79

By Magnus Heystek,
Finance Editor

An unprecedented buying spree, which had many seasoned brokers shaking their heads in disbelief, boosted two key sectors of the JSE to record highs yesterday.

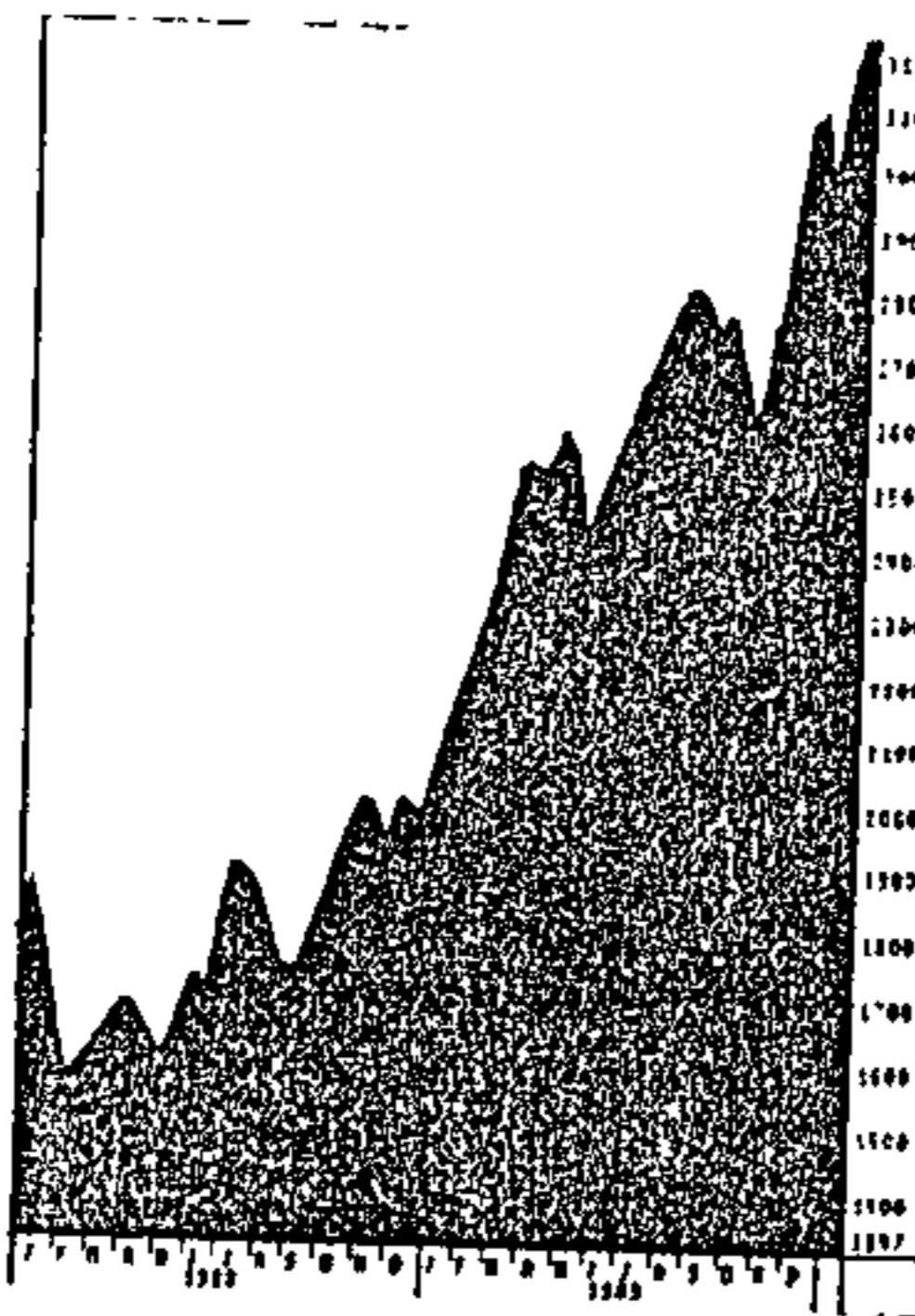
Smaller investors and institutions alike were involved in a frenzied scramble for gold and gold-related shares, while persistent overseas buying exacerbated the already acute shortage of scrip, boosting share prices further.

The overall index soared 100 points (3,23 percent) to an all-time high of 3190, while the industrial index continued its record-setting performance of recent days, rising by 39 points to yet another high of 2931.

It looks set to breach the landmark 3 000-barrier within days, analysts say.

The gold share market was extremely bullish, with investors, fresh from the Christmas break, involved in a scramble for blue chips and marginals alike.

The gold index rocketed 108 points (5,1 percent) to 2203 — the largest single-day rise in recent



The Overall index hits all-time high of 3190. Source: Wen software.

history — largely in belated response to Friday afternoon's sharp rise in the gold price to \$405 in London.

Despite dropping back over the weekend and yesterday morning in Hong Kong, the price held firm above \$400 and was fixed in London yesterday at \$403,75 in the morning and at \$404,60 in the afternoon.

After threatening to drop below the crucial \$390 level at one stage last week, gold has made a rapid turnabout to above \$400, a rise considered very bullish by technical followers of the gold price.

Analysts are convinced that the current bull market on the JSE has some way to go before a much-needed correction.

Says Mike Brown, economic consultant at Frankel, Kruger, Vinderine: "The market is currently driven by the high levels of liquidity enjoyed by financial institutions, while private investors are looking across the valley of a downturn in the economy this year.

"The behaviour of share prices indicates that a considerable re-rating of South African shares is currently taking place and that investors are now prepared to accept lower earnings and dividend yields than in the past.

"This is boosting share prices to unprecedented levels and is likely to do so for the foreseeable future," he says.

Some of the positive factors influencing the market are the perception of a better-managed economy, with a possible slow-

down in the rise of interest rates and inflation in the offing, an improved political scenario and a huge weight of investable funds.

But, cautions Johnny Solms, analyst at Mechiel du Toit, "the market is currently very volatile and a sudden drop in the gold price will remove much of the euphoria.

"A drop in overseas markets could also have a negative effect on the local market."

Marginal gold mines recorded extremely strong gains across the board yesterday and investors are discounting a gold price of around \$450.

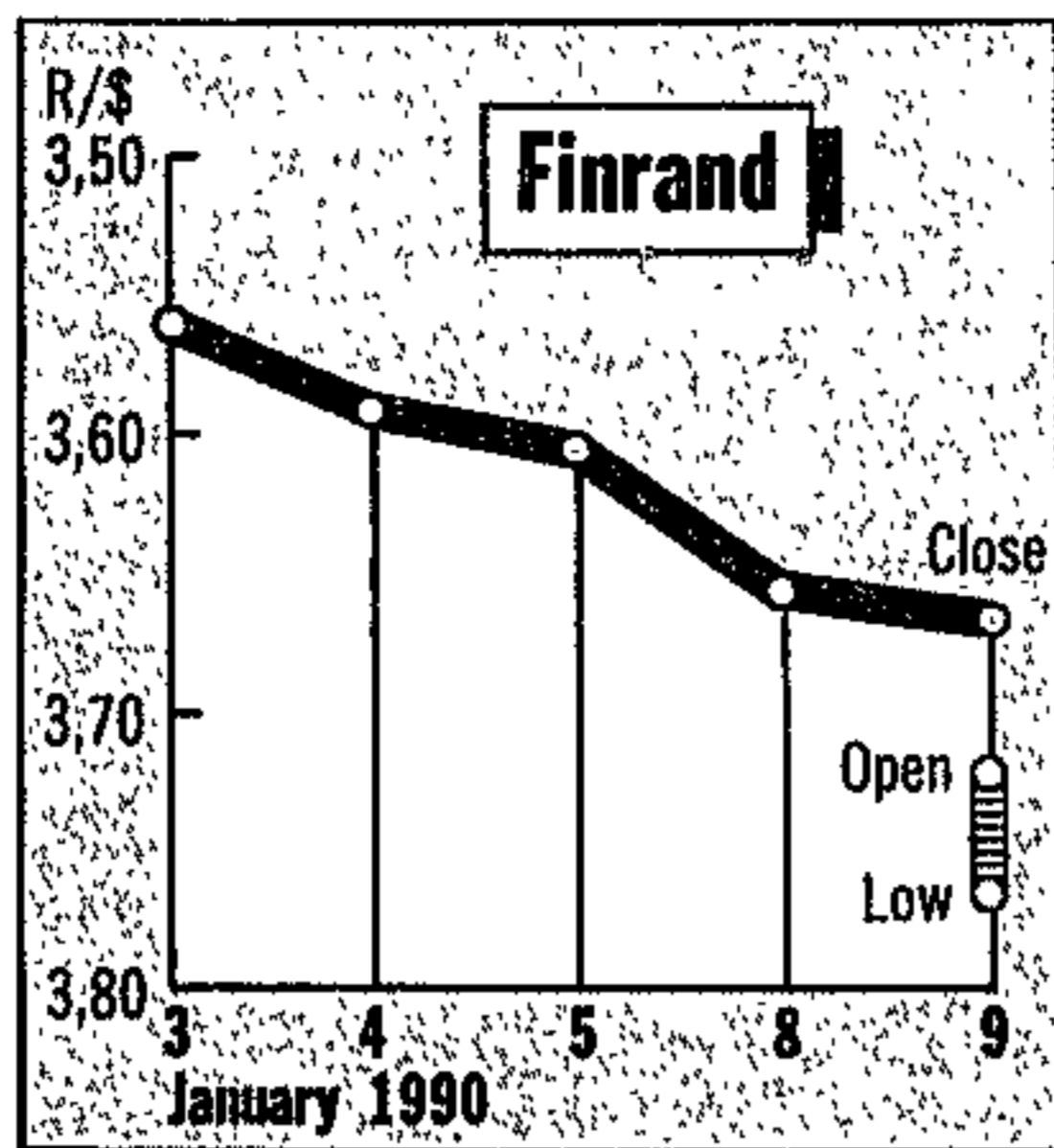
Should this not be forthcoming in the next couple of months, it could again lead to a sharp drop in prices.

Most gold analysts are expecting good quarterly reports from South African gold mines in the next number of days. But if the quarterly report of Goldfields is anything to go by, they might be in for a slight disappointment.

Gold mines in the GFSA fold in most instances battled to increase profits in the face of a steady rand-gold price and rising costs.

Finrand causes JSE flutter

MERVYN HARRIS



Graphic: FIONA KRISCH

A VOLATILE finrand and profit-taking hit mining shares on the JSE yesterday, after recent sharp gains, as nervousness crept in towards the close of trading on the failure of gold to penetrate to higher levels.

But continued demand for scarce blue chips pushed the industrial index up 34 points to post a new high of 2 967, with Iscor the pacesetter in heavy trading. The shares jumped 4,8%, or 13c, to 283c after touching 285c. *B/Dan 10/11/90*

The overall index was marginally off its record high as the all gold and mining financial indices gave up early gains to close about 1,5% lower.

The major reason for the turnaround was the fluctuations in the finrand, which

To Page 2

Finrand *8/10 am 10/11/90*

weakened sharply on strong selling from an opening R3,7175 (\$0,2690) to R3,7736 (\$0,2650) before climbing back to close at R3,6630 (\$0,2730) on heavy buying from Europe

The decline came on rumours that off-shore operators were taking capital profits on gilts, but the downturn was reversed by renewed buying.

Gold remained stuck in a narrow range

and closed 80c lower in London at \$403,85. Analysts reckoned traders were delaying new commitments until Friday's US producer price data for December, expected to reflect inflationary pressure from strong crude oil prices.

Japanese buying of gold, a key factor in the recent rally, has subsided after the yen dropped sharply against the dollar.

See Page 7

From Page 1

Higher profits for GFSA companies

REINIE BOOYSEN

79 GOLD Fields of SA's investment holding and property companies have mostly reported improved profits to end-December.

□ New Wits — which holds shares in precious metals, coal, base metal, property and industrial companies — lifted taxed profits for the six months to December by 55% to R11,6m (R7,5m). It has declared an interim dividend of 17c a share (trading at R20,25). Bidam 111190

□ Selected Mining Holdings — with shares in listed precious metals, diamond and coal mining companies — lifted profits slightly, to R404 000 (R376 000), for the six months to December, and declared a dividend of 25c a share (trading at R14,00).

□ Vogelstruhsbult Metal Holdings — which has shares in coal, copper, lead, silver, tin and zinc producing companies — lifted taxed profits to R20,9m (R12,2m) in the year to December. A final dividend of 35c a share has been declared — bringing distribution to 60c a share (trading at R6,50).

□ Gold Fields Property Company — with property holdings and a share portfolio — lifted taxed profit by 84% to R11,7m (R6,4m) in the year to December. A final dividend of 24c a share (trading at R4,80) has been declared, for 42c a share (36c).

□ Witwatersrand Deep's profit declined to R1,7m (R2m) in the six months to December. An interim dividend of 13c a share has been declared.

GuardBank sounds note of caution for equities

Monday 11/1/90

GOLD boosted both GuardBank Growth Fund and GuardBank Resources Fund in the December quarter, but the unit trust group's portfolio managers predicted the market could turn "extremely volatile".

Despite positive factors — a more favourable political outlook, signs that the bear market in gold ended at the \$356 level, and prospects for further rises — they sounded a note of caution on the future behaviour of equities.

The 57,7% rise in the all-gold index in 1989 was fuelled to a significant extent by overseas buying on a scale not seen for many years.

Gold shares were discounting a significant increase in the price of bullion and, should the anticipated price rise not take place, the current international enthusiasm for gold shares may wane, GuardBank portfolio managers said.

Investors must appreciate that, in 1990, the equity market in gold mining shares is likely to be extremely volatile and this high level of volatility could well extend to all sectors of the market.

They said although the gold price rose by no less than 9,6% over the De-

LIZ ROUSE

cember quarter, its performance in 1989 overall was disappointing, being a marginal decrease of 2,2%.

GuardBank Growth Fund had another satisfactory quarter as a result of its concentration on prime blue chip counters in the mining financial, financial and industrial sectors.

The equity content of the fund was increased slightly to 83,8% at the end of the quarter from 82,06% at the beginning, primarily as a result of the addition of a new holding of 7,5-million Iscor shares. In addition, the rights issues by Rand Mines and GFSA were followed by the fund.

Declined

During the quarter the remaining holding of 300 000 AECI was sold and reductions made to the holding of Gencor and Sappi.

Advantage was taken of the sharp downward movement in capital market rates which took place during the quarter to dispose of the holding of R14m RS/ 14% 1993 stock.

The Growth Fund's top 10 holdings at the end of December were, Richemont,

De Beers, Gencor, Libhold, Wooltru A, Barlows, SA Brews and Remgro. Total assets grew to R848,8m (R796,5m) while liquidity declined to R137,5m (16,2%) from R142,8m (17,94%).

The clean repurchase price increased by 39,83% over the year. An income distribution of 42,31c a unit has been declared, bringing total distribution to 77,78c a unit. Overall return including both income distribution and capital appreciation, was 46,5% over the year.

GuardBank Resources Fund had an extremely satisfactory quarter.

In anticipation of the impact on the market of the more promising outlook for gold, the equity content of the fund was increased from 74,38% at the beginning of the quarter to 86,7%.

Equities accounted for R48,4m while cash resources and liquid assets were down at R7,4m.

Resources Fund acquired two new counters, Anglovaal and Iscor.

Major additions were made to holdings of Amgold, Lindum, Marlin, Vansa, Lonrho and Sasol.

Top 10 holdings were Anamint, De Beers, Lindum, Anglos, Rand Mines, East Dagga, Lonrho, Amgold, Rusplat and JCI.

Gold may aid Boymans' recovery

Boy 11/1/90

79 20

BOYMANS share price slipped to 165c in December, the lowest level this counter has traded at since 1987. However, it has since recovered to reach 180c.

The share's recent poor performance suggests results for the 14 months ended February 1990 may be short of budgeted figures. However, this group controls some well-known retailing chains which should respond rapidly to an improvement in economic conditions.

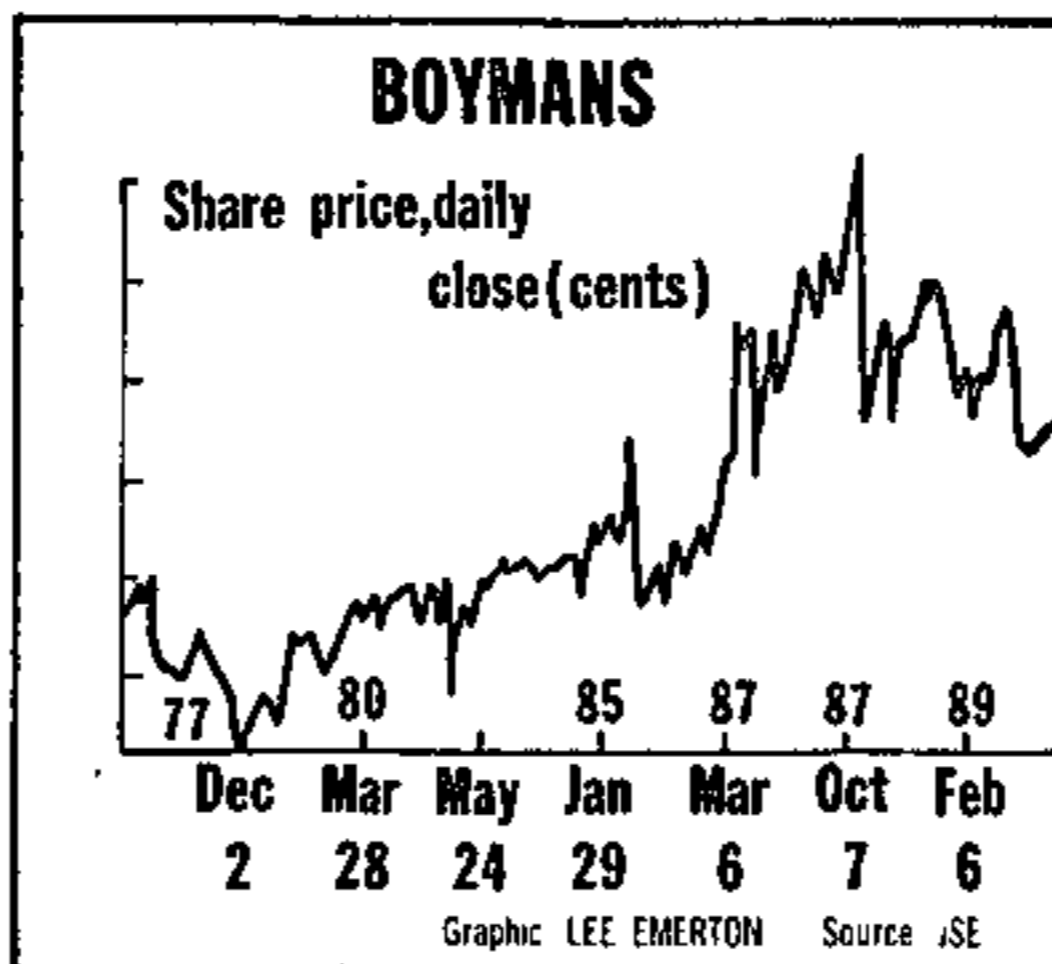
Boymans is primarily involved in the retailing of family clothing through its Levisons, Deans, Cyrils, Woolfsons, John Orr's and John Scott outlets.

Earnings have come under pressure recently from the decline in consumer spending. High interest rates have also been a headache for Boymans as long-term interest-bearing debt jumped to R23,7m at June 1989, which compares with R2,9m in December, 1986.

The majority of this debt bears interest at rates which are closely linked to movements in the prime rate. Interest payments during the past few years have soared to R3,2m for the 12 months to end-December 1988, compared with only R949 000 during financial 1986. This trend was repeated during the latest interim period as interest payments rose to R2,3m for the first half of 1989, compared with R1,4m for the corresponding period of 1988.

Joint MD Hymie Regenbaum points out that "the additional debt was for the acquisition of 12 Uniewinkels department stores plus the two John Orr's department stores which have boosted group turnover from R47m in 1986 to

ANALYSIS STEPHEN RICHTER



R132m in 1988". He said Boymans should reach sales of R160m for the 12 months ended-December 1989.

The directors are positive Boymans can perform well despite the heavy debt burden, provided all operating divisions work at satisfactory levels. That does not appear to be the case for this financial year, which will cover the 14 months to end February, 1990.

At the interim stage, Boymans was confident the economic environment existing at that time would permit the group to produce real earnings growth for the rest of financial 1990. However, management indicates that sales during the six months to December 1989 were disappointing.

Its John Scott chain was hit by a decline in consumer spending in the

Western Transvaal mining towns.

There was a tendency by consumers to spend cautiously. For Boymans to maintain market share, it had to join its competitors with special promotions, which reduced group profitability.

Although investors seem justified in avoiding Boymans shares for the time being, a more optimistic long-term picture emerges when considering the recent performance of the gold price. Assuming bullion maintains its uptrend, thereby increasing optimism and profitability for the mining industry, this should have a direct and positive impact on consumer spending at the same John Scott outlets which have been performing poorly recently.

Interest rates are also expected to decline in the not too distant future, and this will translate into lower interest payments, helping to ease the pressure on Boymans bottom line. Management is making a serious effort to bring down debt levels by cutting stocks, watching debtors and planning no expansion until economic conditions improve.

Once consumers gain more confidence to spend, Boymans should benefit almost immediately as its retail outlets are highly regarded by its loyal customers who place emphasis on quality.

It appears the group may struggle to equal the 38,4c earned in 1988, even though the current financial year contains an additional two months.

Given that NAV was in excess of 220c at the end of the previous financial year, the shares would appear to offer value for patient investors.

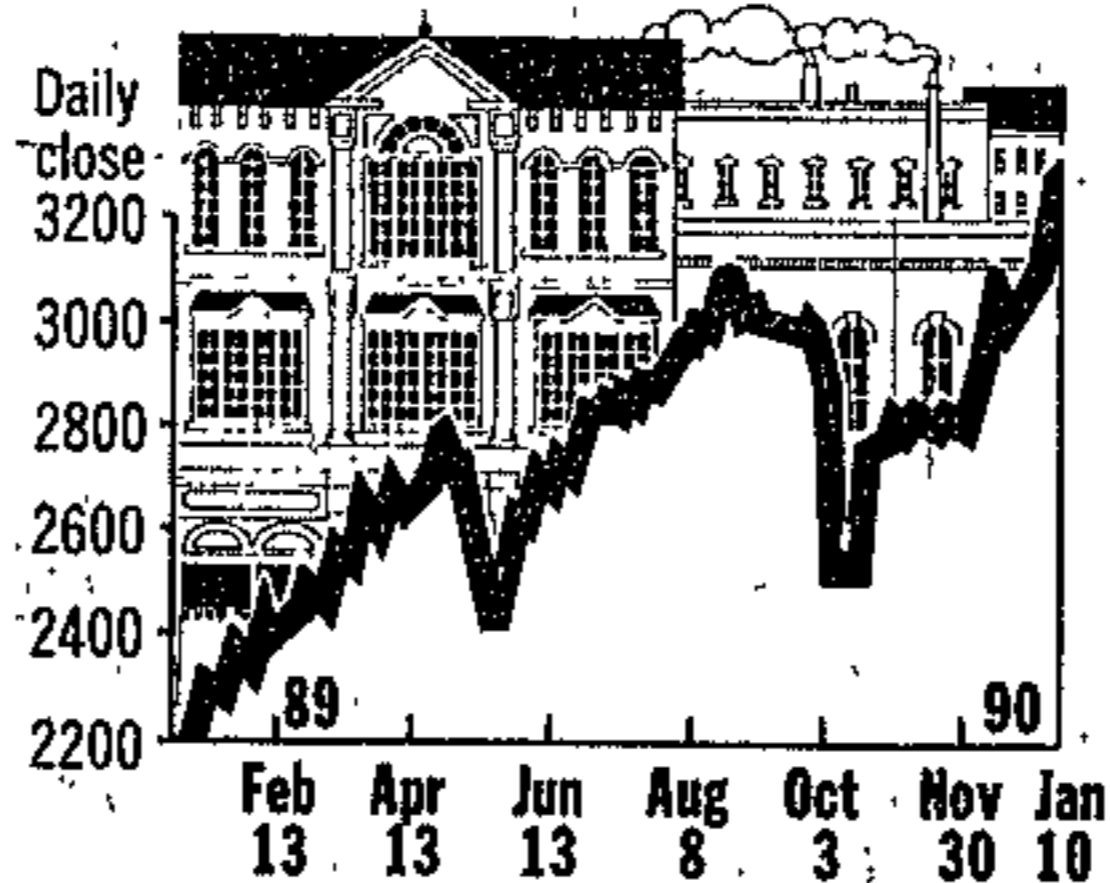
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NY Times 11/17/70
Gold soars in New York to \$412,25⁷⁹

NEW YORK. — Gold soared here yesterday, to close at \$412,25 against Tuesday's close of \$404,25. Earlier in London, gold was pitched at an afternoon fix of \$409,10, up from its opening \$405,35/405,85 and Tuesday's \$403,60/404,10 close. Dealers said gold resumed its firmer trend following New York's lead and an easier dollar. US commission houses and Swiss-based traders were notable buyers. Towards the close, earlier gains were pared slightly by a firmer dollar and closed at \$408,50/\$409. Dealers said gold's earlier rise was mainly due to a weaker dollar coupled with Far East and European buying interest. — Reuter

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Financial & industrial index



Graphic: FIONA KRISCH Source: JSE

Gold pushes firmly through \$410 level

MERVYN HARRIS

GOLD breached the \$410 resistance level in New York last night as renewed Japanese buying, fanned by concern over the continued slump on the Tokyo stock market, boosted sentiment.

The metal, which was trading at \$412, was also buoyed by Wall Street resuming Tuesday's late sell-off on expectations of disappointing fourth-quarter profits.

Only gold mining issues went against the softer trend. *79* *11190*

But gold shares on the JSE closed marginally lower as unfounded rumours that jailed ANC leader Nelson Mandela had been released pushed the finrand investment currency sharply higher to hold share prices back for most of the day.

The rumour had no foundation but a big buyer entered the market for finrands, keeping the currency at its higher levels. The finrand strengthened from R3,6630 (\$0,2730) to RR3,5450 (\$0,2820) to the dollar.

As the gold price began to firm towards the close of trading on the JSE, share prices recovered part of their early losses.

The overall index recouped an early nine-point loss to close 10 points up at 3 182.

Dealers reported good demand for SA shares from London and the Continent and the industrial index rose 15 points to a fresh peak of 2 982.

Gold closed almost \$5 firmer in London at \$408,75 as a firmer dollar pared gains from its early high of \$410,25.

The dollar firmed as the Mark eased on unsubstantiated rumours that central banks were in the market supporting the yen. The dollar rose from DM1,6818 to DM1,6825, and closed at 145 yen from 145,20 yen. Dealers said the strong dollar against the yen had earlier limited Far Eastern demand for gold.

● See Page 10

Gold up as Russia (79) lifts jewellery price (79)

9/21/79
Finance Staff

Gold rose to \$412.40 in New York last night after closing in London at \$408.75 and opened nearly \$6 higher in Hong Kong today amid speculation that the Soviet Union will eventually introduce a gold standard.

The bullion price rally, which brought it back to the level reached in mid-December, followed reports that the Soviet Union was doubling the price of gold jewellery in a desperate effort to cool buying stemming from political and economic uncertainties in Eastern Europe.

Analysts said the continued drop in Wall Street stock prices also ignited a flight to hard assets such as gold, Reuter reports. The Dow Jones industrial average ended with a loss of 15 points yesterday.

Neil Behrmann, The Star's financial representative in London, reports that people in the USSR, fearful of rampant inflation and erosion of savings, have been queuing up to buy gold.

They were prepared to pay more than \$2,000 an ounce for their gold, analysts said. It is preferable to hold hard assets at any price when there is a possibility of a substantial devaluation of the rouble.

According to some estimates about 460 billion roubles are in savings ac-

counts earning only two to three percent a year.

Following a visit to the Soviet Union by Federal Reserve Board chairman Alan Greenspan and Fed governor Wayne Angell, a growing band of economists and officials believe the USSR will be forced to issue a new rouble which is at least partly backed by gold.

Angell told Forbes Magazine that his advice to the USSR was: Go on a gold standard and make the rouble competitive with the hardest currencies in the world. He added that such an event would not have a significant impact on the international price of gold.

Soviet gold exports are estimated at 250 tons.

Yet if the rouble were converted into gold, it would become true money and Soviet citizens would be prepared to hold it rather than go on a buying spree. Similarly to the creation of a new currency in post-war Germany, shortages would soon disappear and people would be prepared to work for money that is worth something.

Whether the Soviet Union accepts the advice or not, the announcement of the local price increase coupled with uncertainty about the nation's political and economic crisis, were sufficient to generate buying of gold.

Southern units riding high on gold's demand

B/Dam 12/11/90

232 214 79

SOUTHERN unit trusts' long-term outlook on gold shares has paid handsome dividends on the strong performance of gold, and the funds were active in the market in the December quarter.

Both Southern Equity Fund and Southern Mining Fund reduced their liquidity levels during the quarter — the general equity fund's liquid assets were down to 11,6% from 15,3% as industrial shares followed the lead of gold while the mining fund's liquid assets declined to 13,3% from 21,1% of total assets.

Both funds handsomely outperformed inflation.

Investors in Southern Mining Fund received a return of 49,9% for the 12 months ended December, while Southern Equity Fund posted returns of 42,6% over 12 months.

Portfolio manager Carel de Ridder says sentiment towards gold moved strongly positive when the dollar price recovered late in the quarter and the gold price rose significantly.

De Ridder says the performance of both portfolios has supported Southern's belief that gold shares offered relative value.

However, while sentiment towards

LIZ ROUSE

gold has improved, the fundamentals remain weak and gold needs to move above R1 200 an ounce for this situation to improve.

Commenting on economic issues over the quarter, De Ridder says the rapidly changing political environment both locally and in Europe has led to improved business sentiment and economic activity in general.

The strength of the financial rand towards the end of the year was indicative of the change in sentiment towards SA. While this may depress

certain shares in the short term, these events will be positive for the economy, predicts De Ridder.

He expects strong share prices in the year ahead, although he cautions that it will be necessary for fund managers to be more selective.

The value of mining-related counters in Southern Equity Fund increased from 46,6% to 51,9% of the portfolio in the December quarter, while financial and industrial stock was reduced to 36,5%.

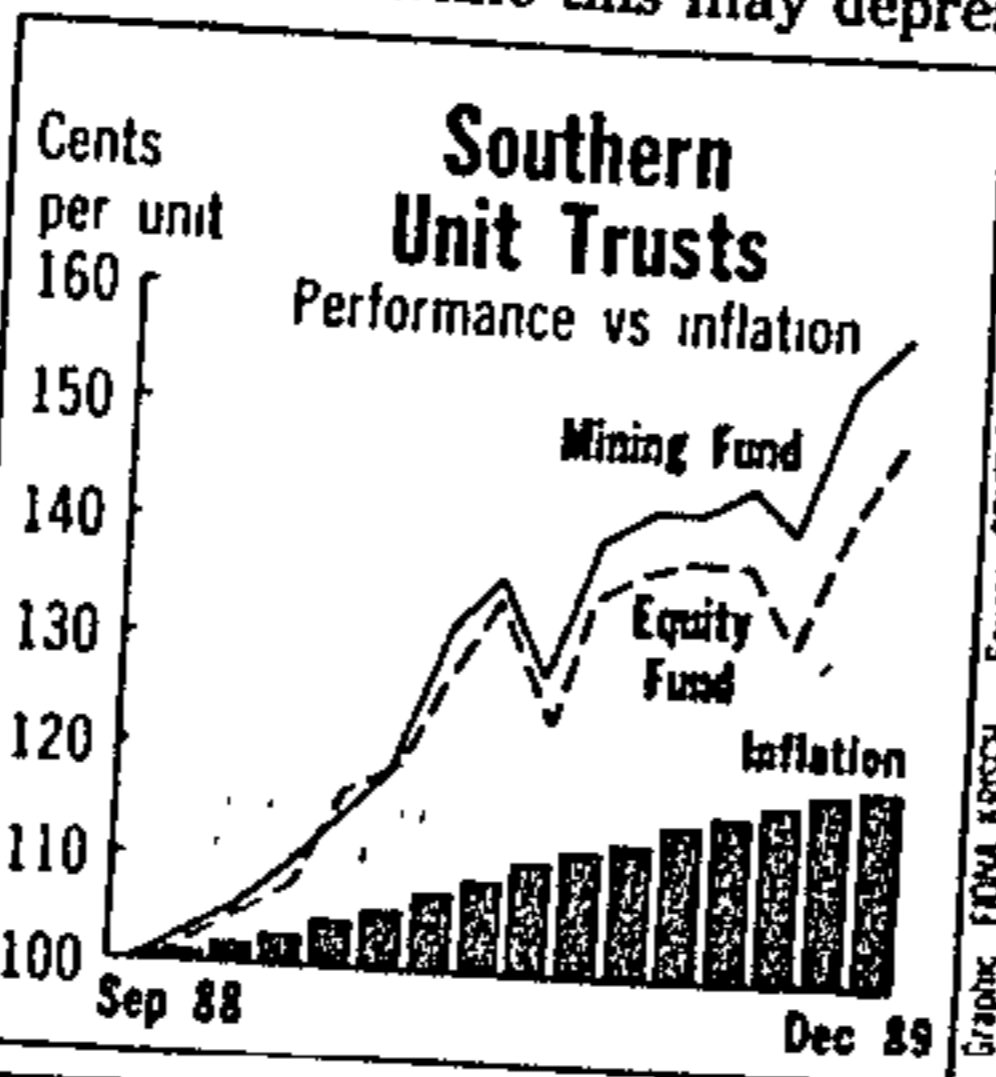
Equity Fund's holdings in Driefontein, Elandsrand, Western Deep, Arncliffe and Genbel were increased and Apex Property Trust and Iscor (334 200 shares) added to the portfolio.

Amcoal, AVI and D & H were sold out of the portfolio and the Plate Glass holding reduced further.

Southern Mining Fund increased holdings in De Beers, Elandsrand, Western Deep, Keeley, Amgold and Minorco and added Vaal Reefs, Ofsjil and Iscor to the fund.

Holdings in Amcoal, Freddev and Randex were sold.

Market value of the assets in the funds rose by R4,5m to reach R39,6m at the end of December.



Graphic FROM MRSCH Source SOUTHERN LIFE

79

SURVIVING THE YEAR-END CRUNCH

79

Gold and foreign exchange reserves held up well in December in the face of large foreign debt payments. Despite a US\$180m capital repayment on December 15 — 1,5% of the total outstanding debt of \$12bn — and \$300m-plus interest, reserves fell just R212m (\$83m) in November to R5,3bn (\$2,1bn).

Foreign exchange reserves dropped R29m (\$11m) to R2,4bn (\$952m); gold reserves R183m (\$71m) to R2,9bn (\$1,1bn).

“The current account of the balance of payments is bearing up well,” says Azar Jammie, of Econometrix. “Exports have done well and import restrictions have taken their toll on imports.”

He believes reserves will remain virtually static during 1990 because of foreign debt commitments of about \$2,5bn. “Only in 1991, when debt repayments are less — around \$1,5bn — will the reserves pick up.”

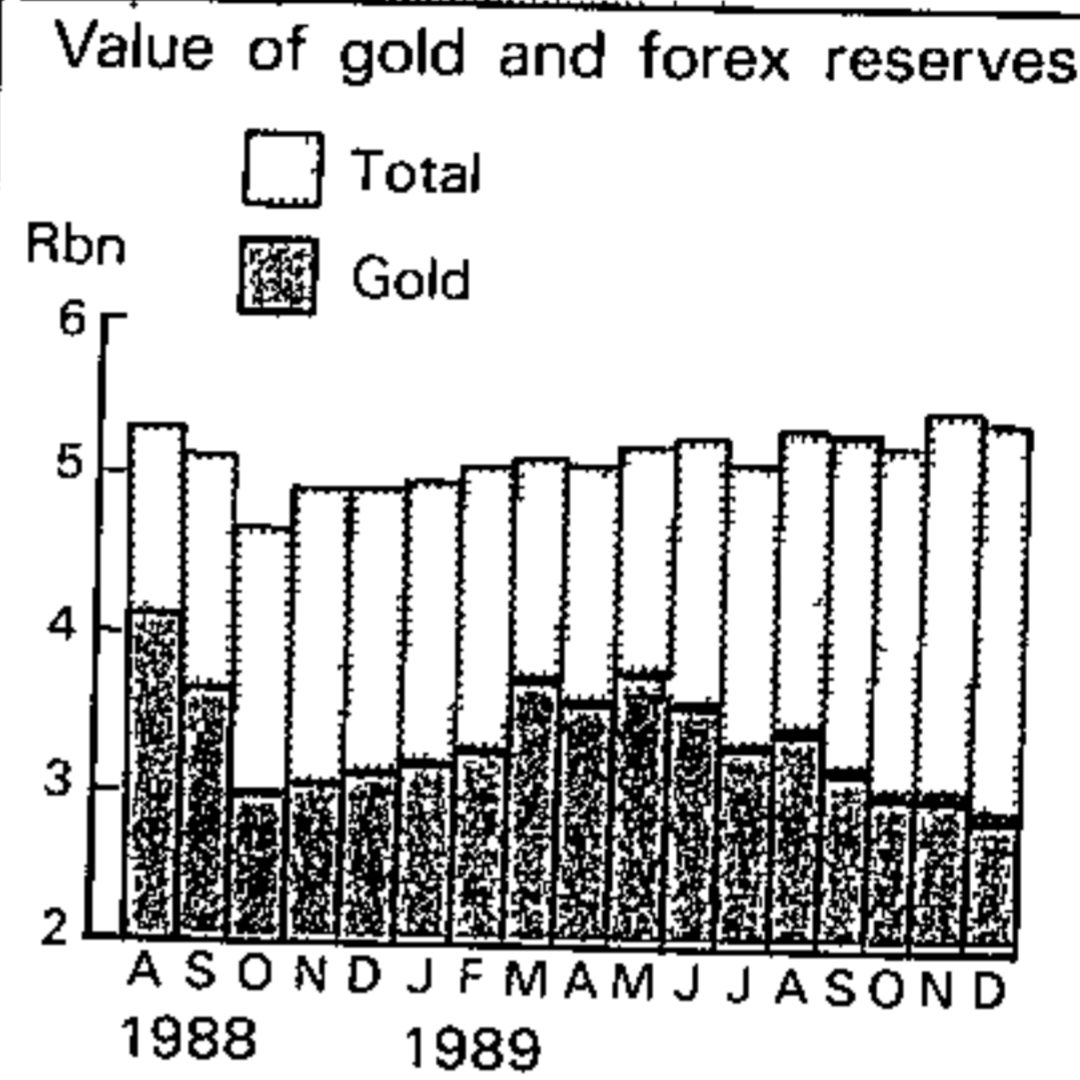
To add to the pressure from debt payments, the value of gold reserves shrank because of December’s lower gold price.

The metal was valued at R937/oz, compared with R967/oz in November. The volume of gold holding fall from 3,2m oz to 3m oz.

Gold reserves are now marginally below end-1988’s R3bn (\$1,3bn) but forex reserves are up from R1,8bn (\$778m).

FM 12/1/90

Cut by debt



Gold to peak at \$435 Trust Bank

By AUDREY D'ANGELO
Financial Editor

ALTHOUGH overseas stock markets fell yesterday, Trust Bank economists did not revise a forecast that gold would rise to a peak of \$435 an ounce by mid-year — and fall back to around \$400 by next December.

Chief economist Nick Barnardt thinks prime rate will remain at 21% until mid-year "perhaps dropping to 20% in July and August and 19% in November and December"

But he warns in his weekly market commentary that "there is still a slim chance that surging credit extension could push rates up once more.

"February-March will be an important period for monetary policy decisions, with new money targets, the Budget and figures on fourth quarter gross domestic product (GDP) and December-January credit and monetary expansion.

"Caution remains the watchword for market participants.

The commentary, in which Barnardt is assisted by Jacques du Toit and Johann Els, suggests: "In spite of a number of favourable factors impinging on the capital market, rates could well correct upward as the market digests strict money targets and the realisation

that falling short rates are still far away."

Barnardt points out that, in spite of help from the Reserve Bank, the money market shortage reached historic highs this week after foreign payments, taxes, note outflows and Reserve Bank forward foreign exchange profits drained the system in December and early January.

But, he continues: "This extreme tightness could be seen as a passing phase, with note inflows and a balance of payments surplus expected to feed the system in coming weeks.

"There will probably also be a slight rundown of Exchequer funds into the market. Nevertheless, the Reserve Bank is expected to keep the market tight for months to come. No substantial easing of liquidity conditions can be expected before mid-year."

Pointing out that the rand survived large foreign exchange repayments "surprisingly well" last month, Barnardt warns that its rise against the dollar could spell trouble for exporters.

"Further strengthening would damage exports in the course of this year and into 1991. It could also limit the import decline required in the domestic economic downswing in the next 18 months."

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Crackerjack performance by unit trusts

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Stew
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MOST investors in unit trusts have just had an extremely rewarding year. Only the most unlucky will not have received a return of more than 40 percent on their units in 1989.

Figures prepared by the University of Pretoria show that five unit trusts — UAL, Old Mutual, Momentum, Standard Gold and Old Mutual Mining — provided their unit holders with returns of more than 50 percent if the reinvestment of dividend distributions is taken into account. Another 13 provided returns of between 40 percent and 50 percent.

Altogether more than 75 percent of the equity and specialist unit trusts increased the value of their investors' holdings by 40 per-

DEREK TOMMEY

cent or more.

While the unit trusts were not creating instant wealth — they came pretty close to doing so.

UAL was the top runner in the equity trusts, showing a 56,16 percent growth. UAL also deserves to be commended for bettering the overall market increase of 55,5 percent. No other trusts managed this feat.

Standard Gold was the bright star in the specialist trusts with a total return of 56,5 percent.

Even the income funds were able to show fairly high returns, though they invest most of their money in fixed interest stocks.

Senbank Gilt had a growth in income payments and capital appreciation of 25,19 percent while Senbank High Yield showed a return of 23,79 — in both cases attractive figures.

However, it must be said that measured against the recent past, 1989 was an exceptional year for investors.

Depending on which yardstick one uses, the JSE came either second or third in the world for capital appreciation last year. And what happens on the JSE has a direct effect on the unit trusts.

The returns received by long-term investors in units also show that the 1989 figures were something out of the ordinary. Nonetheless, those who have held units for seven years or more are showing highly acceptable average annual returns.

The average annual return in the past three years from Old Mutual units has been 23,41 percent. But if you had held them for the past seven years you would have had an average return of 27,49 percent, and if you had held them for

12 years the average return would have been 30,7 percent — more than double the inflation rate in this period.

HOLDERS of GuardBank units have been similarly rewarded. The average annual return from GuardBank units in this 12 year period has been 30,52 percent — the same as the All Share index.

The specialist funds have also looked after their long-term unit holders. Those who have held UAL Mining and Resources units for the past 12 years have received an average annual return of 27,12 percent while Sanlam Industrial has shown an annual return of 26,19 percent in this period.

Several factors combined to make 1989 a bull year on the JSE. The sliding value of the rand in 1988, coupled with a sharp improvement in economic activity overseas, boosted South Africa's exports and the earnings of any company with foreign interests.

Then, just as the industrial and non-gold mining boom showed signs of slackening, the price of gold, which had been heavily oversold, started to recover. This, plus an improvement in foreign investor sentiment towards South Africa, sent gold shares into orbit. The visible result was a 58 percent rise in the gold share index in less than three months.

On top of this, signs that the Government is actually doing something about curbing inflation and creating a strong base for greater economic expansion in say a year's time has also led to heavy buying of some of the major industrial stocks.

Looking further into 1990, there seems a good chance that the share market will remain strong. The Government's anti-inflationary measures should ensure that

the export industries remain competitive and prosperous. Although there are signs of an economic downturn overseas, demand for South African goods is still expected to remain strong.

Gold price

The price of gold is also expected to gently firm as the year wears on, helping the local gold mining industry. Consumer demand for jewellery — the factor that determines the strength of the diamond market — now seems to be the major determinant of the gold price.

In the past few years consumers have quite happily accepted 10 percent to 15 percent increases a year in diamond prices; so it is to be expected that they will not jib at similar increases in the diamond price and put a floor under the metal at between \$440 to \$460 an ounce.

Finally, there is a dark horse which must be considered — foreign investment interest. If this continues to strengthen as it has in the past month or so, the South African economy will receive a very healthy boost later this year.

It could even lead to foreign creditors deciding not to take payment of the \$2,5 billion (R6,25 billion) loans due to be repaid this year and roll them over instead.

Were this to happen it would leave South Africa with a firm rand, healthy balance of payments and substantial foreign exchange reserves — all of which could open the door to a major jump in the economy.

This does not seem to be the time for investors to take profits in their units. Instead, it would appear that this is still the time to buy.

by **JULIE WALKER**



OLD Mutual has turned bullish on the gold price.

Assistant general manager of investments Rob Lee says gold has broken out of its two-year bear trend and should head higher this year.

Its prospects are buoyed by the potential for lower American interest rates and events in Eastern Europe.

Mr Lee says that further falls in US prime rates are likely as the Federal Reserve Bank acts quickly to prevent the onset of a recession.

"Not only should lower rates be good for gold, but the traumatic changes in government in Eastern Europe will also provide support," he says.

ROUBLE

Another plus factor is Russia, which could build up its gold reserves as a precursor to making the rouble fully convertible. It would mean lower Soviet gold sales and a fall in the supply reaching the market.

Having broken the technical bear trend, gold looks historically cheap, particularly in terms of major cur-

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Gold out of the bear pit

rencies, such as the yen and mark.

Mr Lee says the markets are signalling a fundamental change in prospects for gold — a trend he believes will remain intact.

SA can expect four or five new gold mines to be announced in the next few years. But Mr Lee says the authorities must make urgent reforms to gold-mining taxation to ensure a reversal of the falling trend in SA output.

Gold is a leading foreign-currency earner and employer, and new mines will be encouraged by a more favourable tax system.

INDUSTRIALS

Mr Lee believes that industrial shares could face a major test around mid-year as corporate profit growth slows.

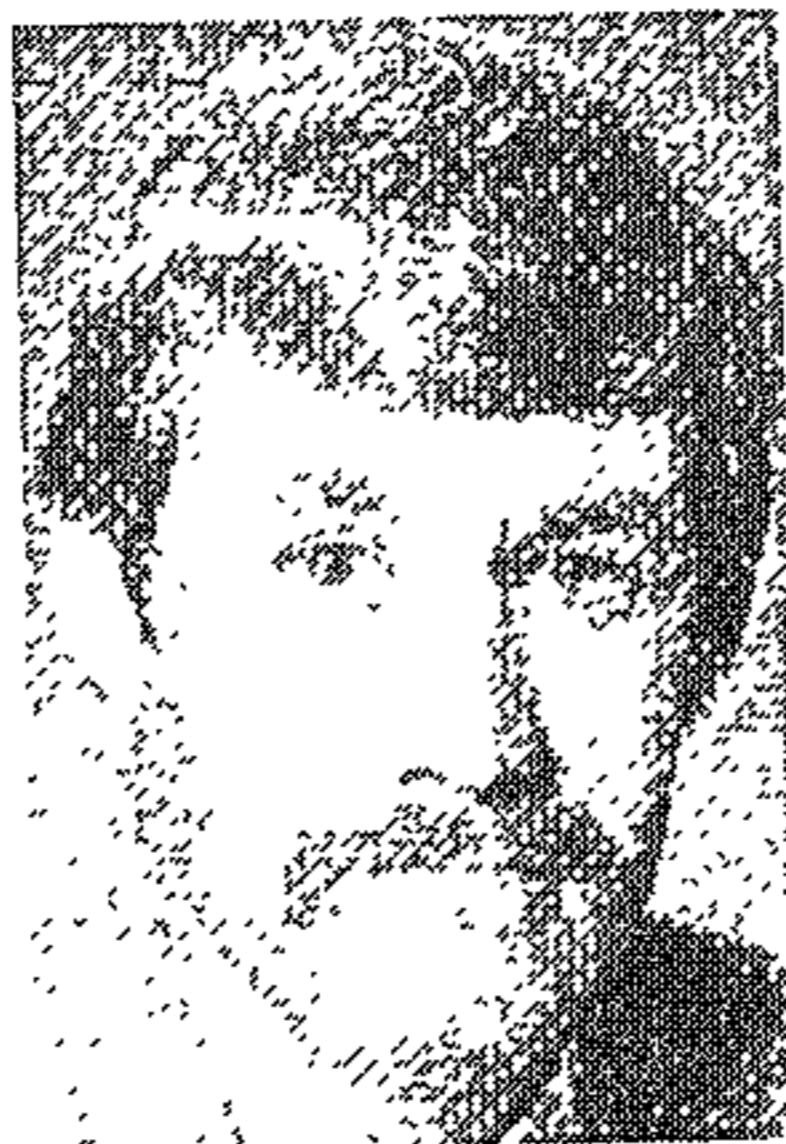
"When the trend changes, the move is usually more dramatic than forecast and the shares could soon reflect the lack of growth in the economy as the authorities impose financial restraint."

However, continued positive political developments could increase foreign interest in SA's markets and offset the impact of falls in corporate profits.

The strong financial rand held back some share prices early in the new year, but this should be seen as reflecting the improved foreign view towards SA.

Short-term interest rates are more likely to rise than to fall if they move in the next few months. There may be some decline after June, but given foreign debt repayments and the low level of SA's reserves, any fall will be limited.

Mr Lee says it is possible to be bullish about world growth in the 1990s. But in



ROB LEE ... gold cheap in the major currencies

the short term, interest rates will rise, so there is almost the same contradiction in world equity markets as in SA.

He regards the US trade and Budget deficits as time bombs which are not being tackled effectively. Another risk area is the Tokyo market, which displayed the jit-

ters last week in reaction to internal politics in the Soviet Union.

But if the markets are right in forecasting a soft landing with low growth cooling inflation, but no recession, followed by resumed growth, Mr Lee says shares are not expensive.

He does not believe that major tax cuts are likely in Barend du Plessis' Budget. Government spending needs to be pruned heavily before cuts are possible, and although defence spending is down, more is required.

Further tax reform is likely.

High interest rates and falling earnings will preclude many new listings this year, and no major privatisation issues are likely.

Mr Lee expects more rights issues from gold producers and from the banking sector.

"Overall, there is plenty of cash underpinning the market and disinvestment has slowed."

UAL leads unit trust runners

UAL unit trust was the top performer in 1989.

On a repurchase to repurchase, the price of units rose by 55.6%, handsomely beating the Old Mutual Investors into second place. OM Investors climbed by 52% and third-placed Momentum by 51.8%.

The returns include capital appreciation assuming distributed income.

STANDARD

The one-year comparisons have been made by the the Association of Unit Trusts, and those of more than one year by the Graduate School of Management at the University of Pretoria

Bottom of the pile over a single year was Sanlam

Trust, which managed a rise of only 36.8%.

Among specialist equity trusts the Standard Bank gold fund sneaked into first place because of the rapid rise in golds in the last quarter of 1989.

Being the only pure gold fund, Standard is the most highly geared to changes in the gold market. The units rose by 55.7% last year.

Old Mutual Mining also grew by more than 50%, followed by newcomer Southern Mining and by UAL Mining & Resources.

Sanlam again took last place with growth of 26.9% on

its Dividend trust. UAL Selected Opportunities did a fraction better at 27%. It contains many non-index stocks which have so far been shunned by most investors

The income funds again floundered when compared with the equity trusts. UAL again took pole position with a climb of 22% - less than half of the appreciation shown by the leading equity fund. Senbank's Gilt trust picked up a shade under 22%, and its High Yield fund 21.8%.

Standard Bank Extra Income fund managed growth of only 17.6%.

The Pretoria survey measures performance over three, five, seven, 10 and 12 years. In each case, Old Mutual Investors takes No 1 slot. Over 12 years, the fund has grown by a compound 30.7% a year, pipping Guardbank by a whisker.

UAL Mining & Resources was the best specialist fund over 12 years, growing at 27.1% a year, slightly ahead of Sanlam Industrial Trust.

The longest-standing income fund is Standard's. Over 10 years it has grown at 12% a year, but the consumer-price index was measured at 14.6% in the same time, says the survey.

I don't suppose the poor-faring Sanlam will run a series of advertisements on the outcome of this survey.

S/Times 16/11/90

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Gold on the skids as stock markets roar

LAST year's gold rally is in danger of running out of fuel.

The 190-point drop on Wall Street on October 19 last year was supposed to prove that stock markets were unsound and that October 1987 was not an accident after all.

With one eye fixed on the stock market, the gold investor's other eye eagerly sought out the slowing US economy and a Fed-led lowering of short-term interest rates. Traditionally, that signals both a lower bonding cost of gold and higher inflation ahead.

If the gold investor had a third eye, it would be lovingly contemplating Eastern Europe, and especially Russia, where things surely must get much worse without too much chance of their getting better.

Well, the gold bugs' premonitions continue to be wrong. Wall Street is again rearing ahead, rising above 2,800 and Nikkei Dow reached nearly 39,000 before correcting.

The British stock market has recovered well after its six-week nosedive from late September. Its depressants were an economic outlook clouded by dreadful balance of payments data, a fur-

ther increase in base rate, Nigel Lawson's departure, Mrs Thatcher's stumbling and sterling's headlong crash against the mark.

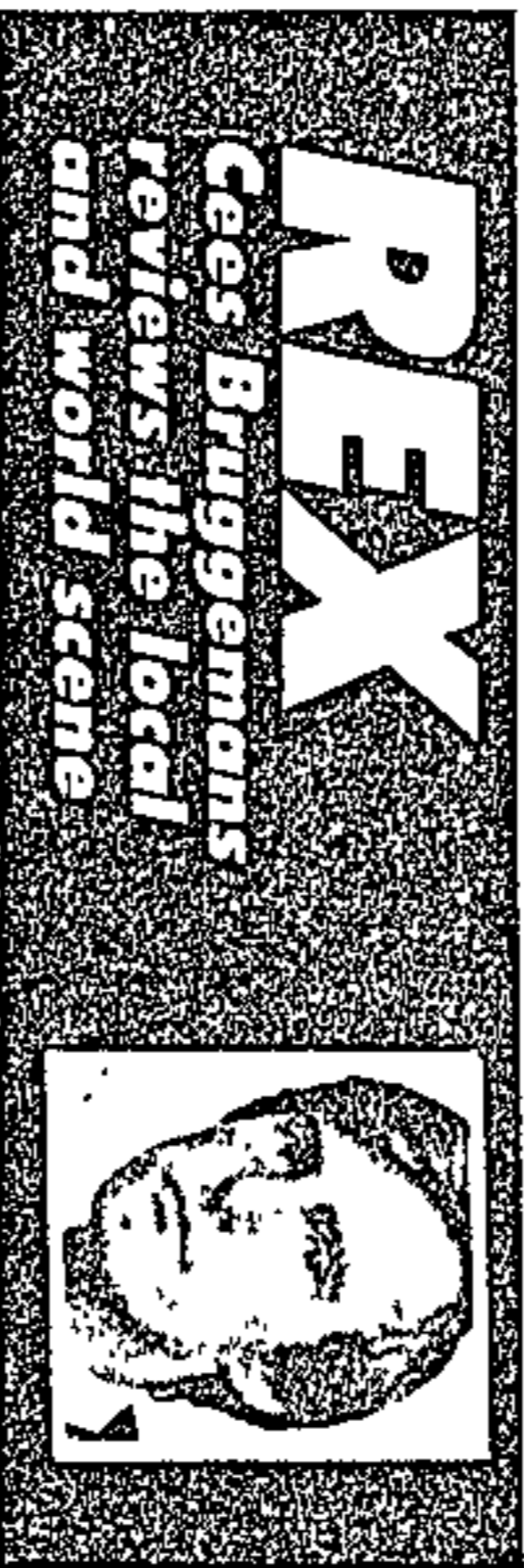
Now it all appears to have been frightfully overdone. After the Wall Street recovery and Mrs Thatcher's resurgence, Thompson Street is once again on the mend and the FT 100 index is back above 2,400.

So the gold bugs' knee-jerk reaction to stock-market events was all in vain.

It could take longer for the other knee-jerk reaction to be discredited. If one believes in interest-rate cycles predicting gold-price cycles through a link with business cycles and returning inflation cycles, one is of course relying on history repeating itself.

REX

Cees Bruggemans reviews the local and world scene



but at least with real interest rates, there are a few questions going begging.

If the US and UK business cycles are in retreat, commodity prices trending lower and international competitive pressures remain the real disciplining power over labour forces and companies every-where, pray, where is the inflation fuel?

Admittedly, the industrial world is short of capacity, judging by utilisation levels. But the Germans and especially the Japanese are adding ferociously to capacity through their fixed investment activity. US business spending is still positive though slowing, and only the UK fears a downturn in such spending. These trends argue for a cyclical peak-

profit margins, only to slim them again once this currency aberration had been corrected.

Let us not write off the discipline of the international market place. If the mark is rising against the dollar, but the yen is not, German exporters don't stand a chance of maintaining their mark prices in the US market.

But even if the yen were strengthening, too, do not expect foreign comfort and automatically higher US prices because it would imply returning market share to American producers, something that will not take place without a fight.

US inflation is not going to pick up. If anything, it is falling. It is premature to suggest that a cyclical error by the Federal Reserve is under way.

To some, US interest rate easing has been too slow, with recessionary overkill now a certainty. To others, the recent easing and what is still to come can only rejuvenate the US economy and underpin its inflationary momentum. Watch the Federal Reserve which is ever so keen not to make a mistake on either side of this thin line.

The US capital market remains stable, although expectations for later this year are starting to discount an economic upturn, higher short-term interest rates and/or a weaker dollar keeping foreign investors and their capital at bay.

In addition, the flight-to-quality from the stock market is again reversing. This suggests stickiness at the 8% yield level for 30-year bonds.

Lastly, the communist economic performance can get worse and probably will. This is not putting off the Western hordes pouring into West Germany, mainly because it will reap most of the 1992 integration benefits and the Eastern restructuring through greater demand for capital goods on loan its flanks.

This is likely to take the mark even higher, provided Mr Corbachier continues to prevail.

Gold in dollar terms is not particularly strong around \$400, silver and platinum already having lost their entire recent rises.

In yen terms, gold still looks fairly impressive. But that is entirely because the yen continues its weird act of wanting to be the weakest when it should be the strongest.

In sterling terms, gold is strongly reversing, mostly because the pound has been recouping some ground against the dollar.

But it is in German terms that the gold rally has been entirely reversed, the metal once again at 680 marks.

Not fair, perhaps, seeing that it is the mark that is now being lovingly overrated, rather than gold being undervalued. However, the US and UK economies are in retreat while Germany and Japan are still strong.

That is sound divergence which will ease balance of payments positions. Meanwhile, tight money policies are containing the inflation threat.

The stock markets nearly everywhere are loving it and want to go higher. If need be through lower risk premiums and therefore higher price-earnings multiples as they discount a rosier future.

If gold wants to sustain last year's rally, it better think of something quick, because what we have on the table now should be unable to sustain last year's rally for long.

By Robyn Chalmers
GARLICKS, SA's oldest family-owned retail
chairman is
investment
Consortium
share profits
have disclosed

(79)

'SA's dependence on gold has decreased'

THE SA economy has been undergoing a structural adjustment in the 1980s in the form of reduced dependence upon gold export earnings in its total export mix, the Bank of Lisbon International says in its Economic Focus for December last year.

In spite of the onset of trade sanctions, which might have been expected to lead to an even greater dependence on gold exports, which are sanctions-proof, the opposite has occurred, Economic Focus says.

"This can be attributed to falls in domestic gold output and dollar prices of the metal, as well as a resurgence in merchandise exports since the end of 1987."

The report says the irony is that this growth in merchandise exports would appear to be partly the product of trade and capital sanctions, which forced exporters to look for new markets.

Exports have also been strengthened by the competitive position of the rand. From a high point of 44,5% in 1980 the

RIAAN SMIT

share of the country's net gold export earnings in its total export earnings from goods and services contracted to 33,3% in 1988.

Economic Focus says that during the first half of 1989 this percentage fell further to 28% because of a strong rise in merchandise exports, and a fall in the dollar price of gold.

The share of aggregate mineral exports in total exports of goods and services has similarly declined from around 59% in 1980 to approximately 50% in 1987, it says.

Merchandise exports increased in volume by 7,3% in 1988 and possibly 10% in 1989.

The report says although obstacles remain, an export culture may be emerging for the first time in which business outside the mining and agricultural sectors are focusing more attention on exporting as an ongoing business.

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B/DAY 15/11/90

Gold producers adopt survival tactics and come up smiling

Spec 16/1/90

By Derek Tommey

The gold mining industry is showing it can produce the goods when the chips are down.

And it is showing it is at last aware of the significance of lower costs and increased grades.

This emerges from the sharp increase in profits in the December quarter reported today by previously loss-making and low-profit-making mines in the Rand Mines and JCI groups.

The higher gold price towards the end of the quarter tended to have only a marginal impact at most of these mines.

One of the best achievements was by JCI's struggling Western Areas. It reported a profit turn-around of R18,7 million — from a loss of R18,3 million in the September quarter to a profit of R409 000.

Another JCI mine, **Randfontein**, also scored a major triumph, boosting its taxed profit by more than R11 million, or 30,4 percent, from R33,8 million to R44,1 million.

Marginal mine

In the Rand Mines group, the extremely marginal mine, **Durban Deep**, which was facing closure a few months ago, reported a R1 million profit, against a loss of R4,5 million in the September quarter — a swing of R5,5 million.

However, Durban Deep's September results included R4,2 million paid in retraining benefits.

In the Free State, **Harmony** earned R21,0 million — more than double the R9,8 million



Mid-1989 Durban Deep's share price was languishing around R8,50. Yesterday it closed at R32,50.

Almost all these improved results can be ascribed to a drive by mine management to cut costs, to mine more efficiently or, put bluntly, to survive.

Undoubtedly, there was much scope for economies.

The good times in the past and an extremely high tax rate of 70 percent led to many wasteful practices and the accumulation of a large amount of fat.

The situation was summed up by one senior mine official, who does not belong to either JCI or Rand Mines, after his own high-

created from R4 million to R7 million.

Blyvooruitzicht, which is also in the Rand Mines group, had taxed earnings of R2,1 million, against R3,6 million in the September quarter.

Another new mine to report today is JCI's Joel. Investors could also be a little disappointed at first sight in the mine's development results.

These showed a drop from 724cm-g/t to 609cm-g/t in the metres sampled.

But a director of the mine, Dr CJ Fauconier, says most of the development is aimed at opening up the east and left flanks in a bid to get to the ore body as soon as possible and that there has been little development on reef.

He says gold values at Joel were highly variable.

Dr Fauconier says that if the grades on reef are as expected, Joel should start breaking even in the June quarter or the September quarter.

Features of today's quarterlies are:

Randfontein — WA Nairn, a director of the mine, says great efforts were made in grade control and that the improved grade should be maintained.

The company is erecting a R26 million carbon-in-leach

plant to replace the existing Cooke plant. The new plant will improve recoveries and reduce maintenance costs.

Western Areas — Development results from the southern part of the mine showed a significant improvement in grade, but there was an even greater improvement in the northern part.

Durban Deep — The improved results were materially assisted by the closing of uneconomic working sections, rationalisation and cost-cutting.

Blyvooruitzicht — A number of sections have been closed to improve profitability, says Paul Forbes, deputy chairman of Rand Mines' gold and platinum division.

This has meant that the number of workers has had to be trimmed and people are being re-allocated within the group and within the mining industry.

ERP — The lower grade was disappointing, says Mr Forbes. Investigations are being conducted into the grade situation and, as a result, stopping operations have been suspended in certain sections.

Barbrook — The metallurgical plant has been commissioned. The mine's first gold was poured on December 13 at City Deep.

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SA defies softer trend as gold tests new high

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MERVYN HARRIS

DIAGONAL Street yesterday defied the softer trend on global stock markets to post fresh peaks in most sectors as gold tested new highs in Europe before retreating in early New York dealings.

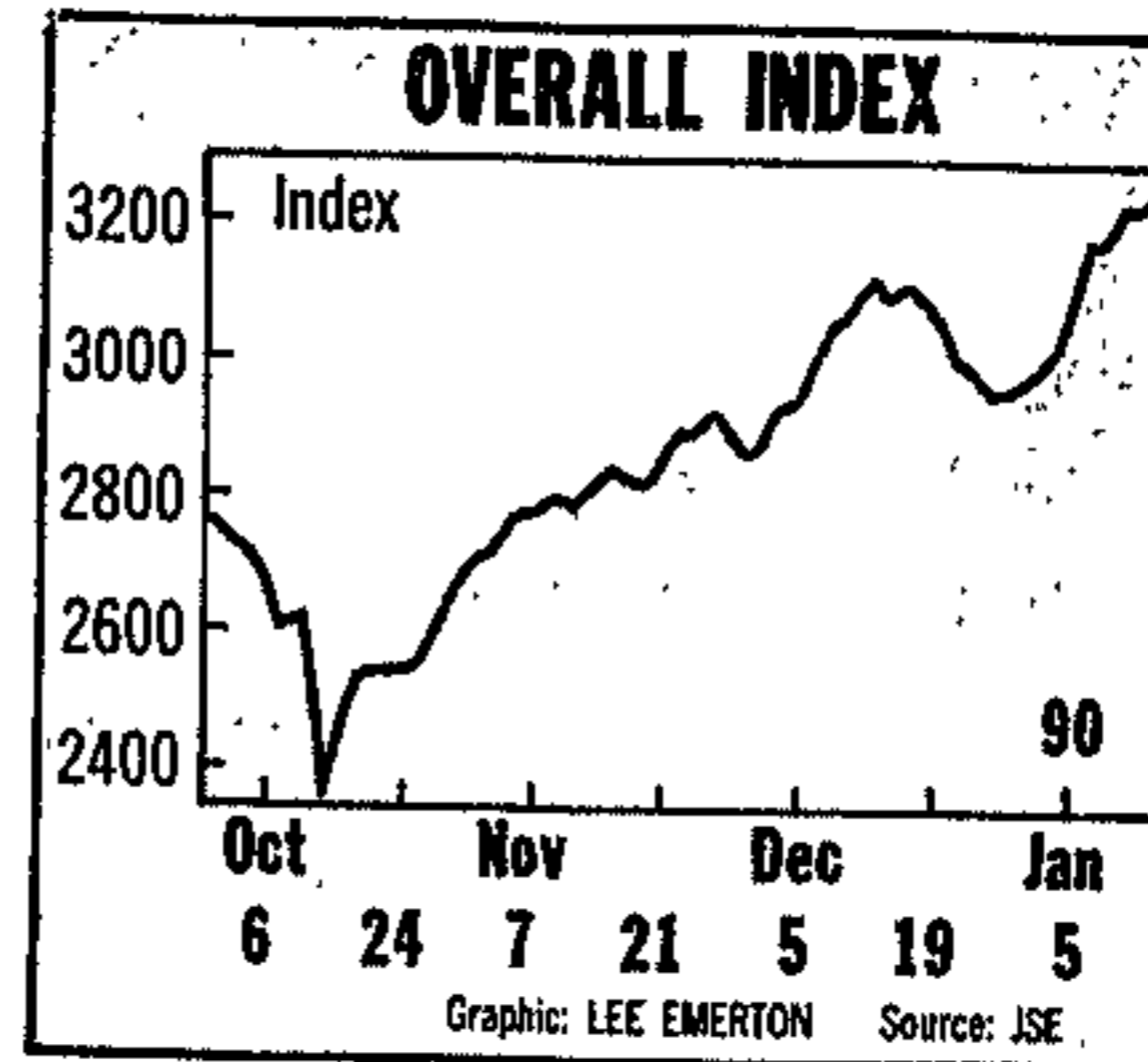
Gold surged to \$416,75 to approach its highest level of \$418,25 in London since December 1988. It fell back to close at \$411,75 on profit taking and a firmer dollar.

Dealers said profit taking was inevitable when the metal encountered resistance at the higher levels on a lack of follow through buying in thin conditions.

Dealers detected a measure of caution on the JSE with the closure of the Tokyo Stock Exchange, the US bond market and some major banks for a public holiday, adding to the uncertainty.

While Wall Street opened slightly lower to end Friday's headlong fall, analysts said it could be vulnerable to any further weakness on the Tokyo Stock Exchange where the slide helped set off selling waves on other stock markets.

A barrage of US economic data due for



release this week, including US trade figures and the consumer price index, will keep financial markets on edge.

The firm trend on the JSE came despite continued strength in the finrand investment currency which rose from R3,4200 (\$0,2923) to R3,3650 (\$0,2971) to the dollar. □AP-DJ reports that the dollar ended at 1,6965 marks from the previous close of 1,6785.

Disenchantment with golds

LONDON — Disenchanted with flat quarterly results, a small number of London stockbrokers are becoming cautious about South African gold shares.

"In dollar terms SA gold shares have increased by more than 60 percent since the bullion market turned in October," says Robert Davies of Shearson Lehman Hutton.

"But on fundamentals they now look expensive. Price earnings ratios are 10 to 30 and dividend yields are presently in low single figures."

"Although we remain positive about the gold price, we only expect it to trade in a \$400 to \$450 range."

"Moreover a firmer gold price has already caused an appreciation of the rand and this trend is expected to continue."

"Further upward pressure on the rand may come from South Africa's improving foreign debt position and a less hostile attitude towards the country."

"South Africa's debt is now less than 25 percent of gross domestic product compared with the 32 percent pertaining to Australia," says Mr Davies.

"A higher rand will negate most of the revenue benefits from the higher dollar gold price. Although domestic inflation

79 NEIL BEHRMANN

appears to be more favourable, in the short run mines must still cope with cost increases of 15 percent.

"Since locals cannot invest abroad, they are bidding up gold shares to price earnings ratios of 30 or more," he says.

"There is no reason why foreigners should compete with them."

For foreigners who can buy gold shares at a discount of 25 percent, estimates Mr Davies, prospective 1990 price earnings ratios of Driefontein are 24, Kloof 30, Deelkraal 16, Harties 27, Elandsrand 26, Randfontein 19, Vaal Reefs 9 and Freegold 8.

Before a 15 percent withholding tax, dividend yields of Driefontein have fallen to 4.2 percent, Kloof 3.7 percent, Deelkraal 5.7 percent, Harties 3.5 percent, Randfontein 5.2 percent, Elandsrand 3.9 percent, Freegold 11.1 percent and Vaal Reefs 7.1 percent.

The calculations are based on an average gold price of \$400 an ounce. He is advising his international clients to switch into De Beers, a company with a wide portfolio of gold shares.

metal. Fintech. Rhoex is expected soon to announce details of its plan to buy or selling activity inject Rhombus Mining, this week there was just about no news of any deals on the go. Rhoex, putting the mining exploration arms together Myles says there are a few currently being discussed but it will result in Rhoex becoming a week or two before he can reveal any details. the holding company of Nigel.

Record trading in 1989

SVEN LUNSCHÉ

THE total value of shares traded on the Johannesburg Stock Exchange surged to a record high last year. Figures released by the show that during 1989 shares valued at R20,72 billion changed hands, an increase of 84.3 percent on the 1988 figure of R11,25 billion.

The total volume of shares traded rose by almost 1 billion in 1988 to 2,78 billion last year, as the number of shares surged from 731 249 to 902 223. Capital market dealers also had to smile as the total nominal value of gilts traded improved a record high of R195,371 billion compared with R175,763 billion in 1988. Predictably the most active stock was steel giant Iscor, which listed only in November, but attracted about 300 000 investors.

Second in the table is the Allied Group with 45,76 million es traded, followed by Knights Gold Mining with 45,18 million es. Completing the list of five most actively traded stocks are Richt (44,15 million) and De Beers (43,94 million).

The number of new listings fell further last year. Only 21 corporations were listed, including one on the Development Capital Market and two on the newly formed Venture Capital Market.

R1000 a month.

other choice.

Star 23/1/90

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Gold heading for \$500 this year?

By René Hochreiter, analyst Anderson & Wilson

The 22-month gold bear market ended in early October 1989. It seems to have been triggered by British Chancellor of the Exchequer Nigel Lawson's resignation, the resulting crisis for the Thatcher government, the early days of Eastern Europe's revolution, and the Wall Street hiccup.

Technically, gold has broken through its long-term resistance level, with major long-term moving averages crossing in mid December 1989 (right hand graph).

Positive implications

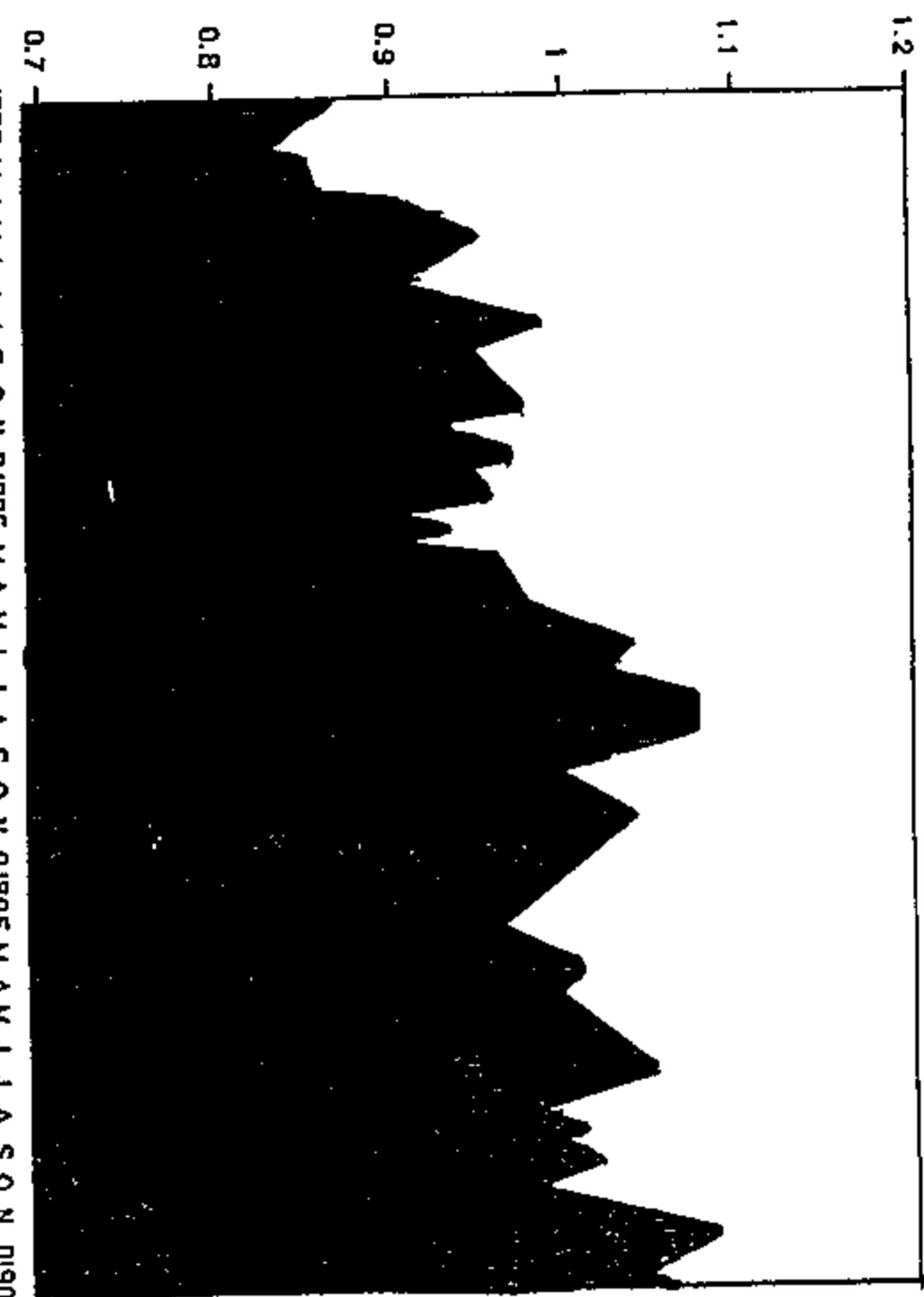
Eastern Europe's revolution has several positive implications for gold.

Should Gorbachev be toppled, huge uncertainty (a factor on which gold thrives) will result. It has also been suggested, however, that Russia could institute a gold backed rouble, thereby reducing supply of gold to the market.

Also, the West may begin switching aid to this area, as it appears a far better bet than either South America or Africa. The ability of the Third World to service its debt may accordingly be impaired.

Recent strength

The US economy appears more vulnerable than in 1987. The rate of decline in the M3 money aggregate is slowing while M1 and M3 appear to have bottomed. Interest rates are declining, and the dollar appears set to go lower, despite its recent strength. US policy-makers, and the Fed-



eral Reserve in particular, are faced with a major dilemma: a more accommodative monetary stance would fuel inflation while a tighter policy would cause havoc in the debt-laden economy.

The Fed's balancing act is accordingly becoming more difficult; any slip could fuel uncertainty with a resulting flow of funds into gold.

Inflation on a global basis is again gaining momentum. Oil prices today are almost 30 percent up on a year ago.

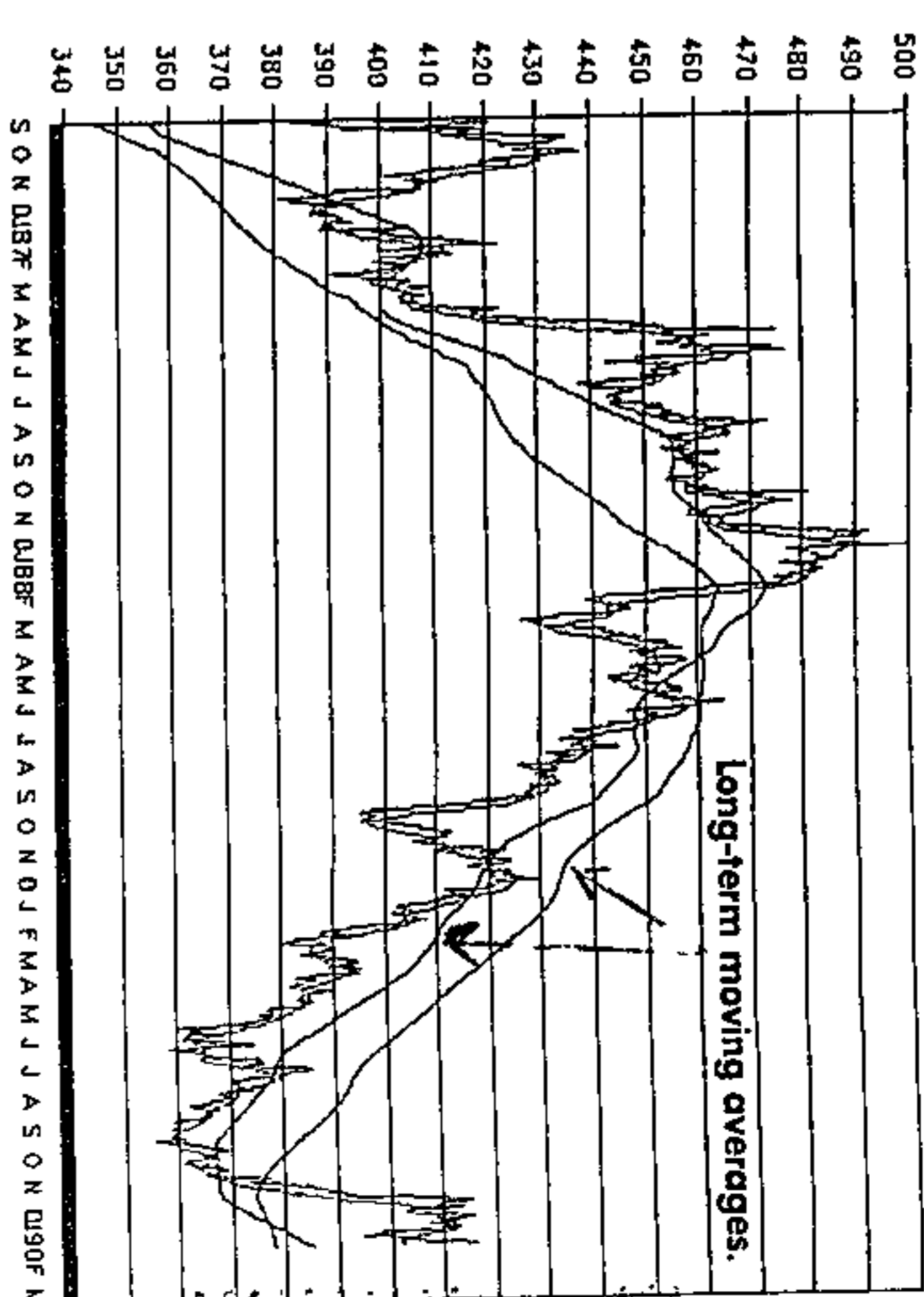
We expect the bullion price to average \$440 per ounce during 1990. Considering that the average price for 1989 was \$380.80 and that the average inflation rate in South Africa in 1990 is expected to be 14 percent, a dollar gold price of \$434 an ounce will be required to maintain current profitability, as-

suming a rand-dollar exchange rate of 2.70 (1989 August: 2.625).

In rand terms, the gold price averaged R32 102/kg for 1989. A 14 percent increase to maintain the gold industry's status quo would require a price of R36 596/kg. Our forecast average for the year of R38 250/kg therefore indicates that a small measure of increased profitability is possible. (The increase in the rand price of gold has been fairly constant historically — See top graph).

Platinum

Technically, resistance exists at the \$430 an ounce level with a first move to \$437 being indicated. The next major resistance level is \$500 an ounce, at which stage a breakthrough would trigger a



move to \$720 an ounce.

In terms of timing, the \$500 level is expected to be reached towards the end of 1990.

The platinum price averaged \$509.57 an ounce in 1989, and the platinum:gold ratio averaged 1.33 for the same period. (The link to gold is an historic fact and unlikely to change, excepting that in major bull markets the ratio is greater than unity, and vice versa in bear markets.) The environmental-hedge nature of platinum shares is an important aspect.

Demand remains extremely strong in the face of tightening European and US environmental laws and with the 1992 European auto-catalyst deadline looming, the shortfall scenario remains intact.

South African producers confirm that demand is strong. Re-

ports indicate that a possible auto-catalyst for diesel engines is being considered and that stationary industrial engines may also be subjected to emission control.

The enigma that the platinum price has remained fairly constant in the face of intense demand can be explained by the fact that future traders and precious metals dealers take their lead from gold.

Fundamental demand

The platinum price therefore does not reflect the fundamental demand for the metal. Most producers, furthermore, have their production tied up contractually. The price-level of the shares, therefore, often reflect the perceptions of the investor for the outlook of the platinum group metals.

Gold shares gain upper hand

By Jabulani Sikhakhane

After substantially underperforming the industrial index, gold shares have now gained the upper hand and analysts expect this trend to continue for the foreseeable future.

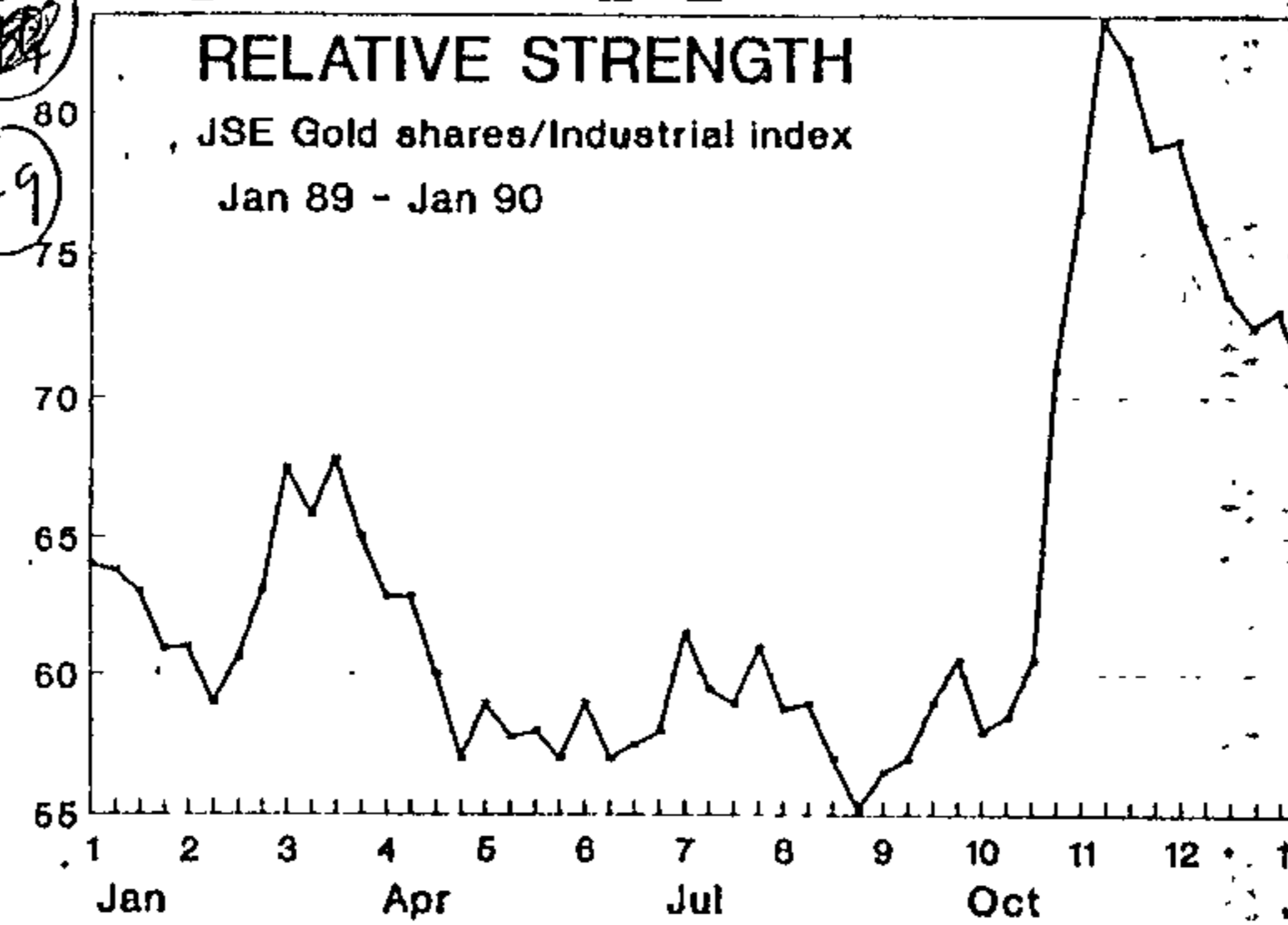
In its latest newsletter, stock-broking firm, Senekal, Mouton & Kitshoff Inc., says gold shares are driven by sentiment, which is currently very positive and is likely to remain so as long as the gold price holds firm.

South African gold shares are also far cheaper on a dividend yield basis to a foreign investor buying at the financial rand discount and receiving dividends through the commercial rand. This has led to increased buying pressure from foreigners.

The report says gold has broken out of the bear phase which lasted for two years and now seems to be consolidating above \$400 and it would not be surprising if it breaches the \$500 level within the next 12 to 18 months.

The turnaround in the bullion price was caused by the nervousness in the international stock markets reflected by the mini-crash on Wall Street in October 1989, the reaction to continued uncertainty in Russia and Eastern Europe and the weaker dollar falling below the DM.

Other factors were the potential threat of continued high levels of



indebtedness in the Third World and US to the stability of the financial system; declining gold supplies to the world bullion markets due to substantially lower levels of forward sales by gold producers and the drying up of gold loans.

These fundamentals, coupled with the decrease in dishoarding of gold by Western world banks and the fact that short-term insurers in Japan are now allowed to hold 3 percent of their assets in gold, are likely to continue having a beneficial effect on the gold price for the foreseeable future.

The report says that although the gold index will outperform the industrial index for the foreseeable

future, industrial shares are not likely to decline significantly.

It says blue chip companies generally have low levels of debt making them less vulnerable to high interest rates and the benefits of a higher gold price are likely to cushion the effect of the restrictive economic measures.

The fact that senior management has previous experience of coping with any downturn and is therefore well prepared to protect profitability as far as possible, coupled with a continued shortage of quality scrip on offer, should provide some cushion, the report said.

GOLD shares made a sharp about-turn at noon yesterday on perceptions of an improving gold price. A report of the imminent release of jailed ANC leader Nelson Mandela helped fuel aggressive buying.

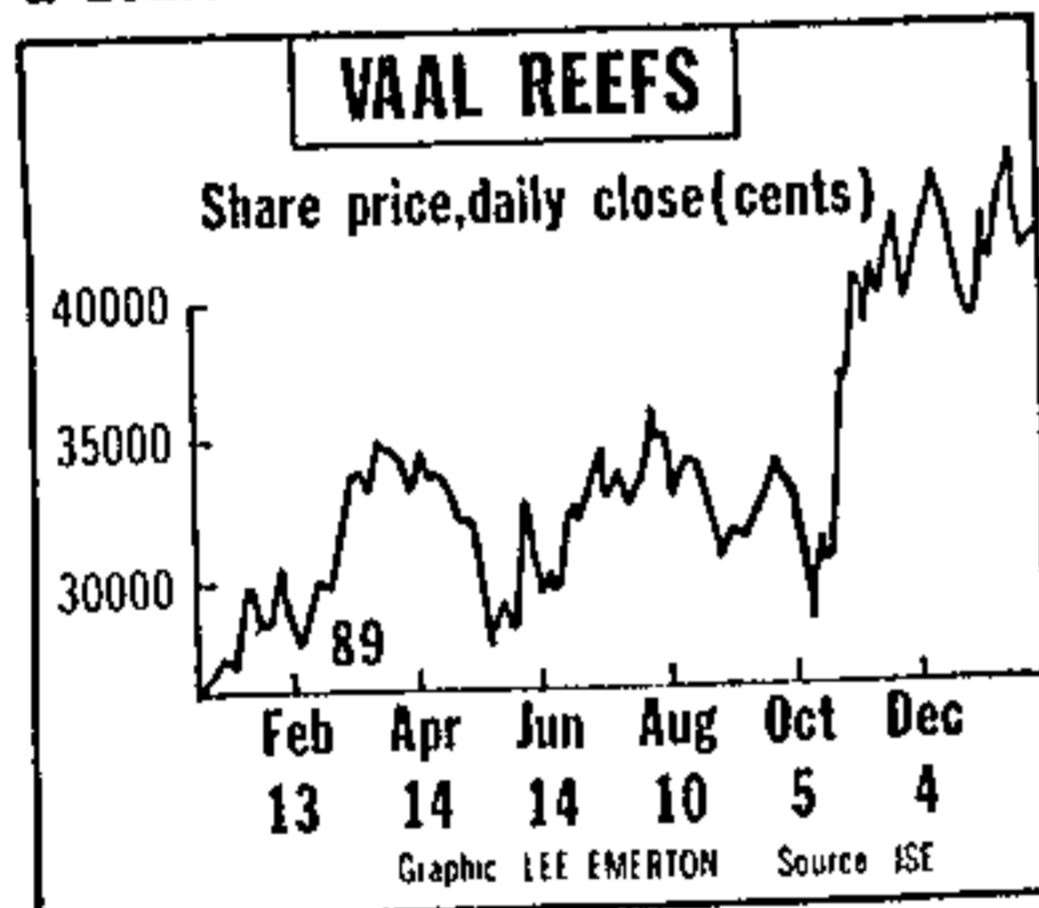
The market opened softer but heavyweight and other selected gold shares held up well on a combination of a weak finrand and initial buying from the Continent.

Buying picked up later and some dealers described demand for golds from overseas and local investors as "aggressive". The Mandela news caused a sharp rally in the finrand investment currency but shares held on to their gains.

After easing four points to 2 050, the JSE all gold index climbed to 2 092, a gain of 38 points on the day, enabling the overall index to turn around from a 13-point fall and close six points up at 3 114.

Leading industrials came off their lows but the index fell 18 points to 2 897 on nervousness over the slide on global stock markets.

"The gold market has had a correction and could be on its way again but I do not think we have seen the end of weakness among quality industrials," a dealer said.



Dealers reported indications of a good market in SA shares overseas. This was reflected in ASA — a company with assets consisting largely of SA gold shares — which rose on Wall Street on Monday as the Dow Jones plummeted 77 points, its 10th largest one-day fall in history.

Gold rose nearly \$3 to a London morning fix of \$408,60 on fresh buying sparked by a weaker dollar and concern over further falls on Wall Street. A firmer silver market aided the trend.

Star performer on the gold board was STILFONTEIN, which surged 25% or 475c to a new high of R23,50, more than double its May low of R11. The company paid a 200c interim and is cum dividend with a final of 130c. The shares are mainly favoured by overseas investors.

Heavyweight VAAL REEFS

Foreigners prompt surge in SA golds

closed R11 up at R425, but off a high of R427, and DRIES recovered early losses to end 125c up at R54,50. Lightweight golds, which had suffered most in the recent downturn, made the largest gains.

BLYVOOR climbed 13% or 150c to R13; HARMONY, which reported substantially improved December quarterly results, maintained its up-trend with a rise of 10,3% or 375c to R40,25, while LORAINÉ jumped 6,9% or 85c to R13,25.

Mining holding leader AMGOLD rose 700c to R372, but JOHNNIES continued to lose ground in the mining house sector. The shares eased 100c to R50m, for a decline of 18% from its peak, a week ago, of R61.

ANGLOS eased 75c to R128,75 but CHARTER came off its bottom with a gain of 110c to R26,35. Diamond leader DE BEERS was weaker, in line with Wall Street's slump. The shares closed 25c off at R62,25.

SASOL was the most actively traded leading industrial, but the price declined 25c to R13. SA BREWS recovered a 50c loss to close unchanged at R30.

Retailers and wholesalers was the only firm sector on the industrial board as EDGARS rose 200c to a fresh peak of R32. This is almost double its 12-month low of R16,50 in April.

CONSOL rose 45c to a new high of R18,25, placing the shares on a historical dividend yield of 1,8%. The rise came on news that its tyre manufacturer Tycon (formerly Goodyear) has merged with Tredcor to form a tyre giant.

Troubled INBOARD came off its low of 20c on a 5c rise to 25c on evidence to the Supreme Court that the group's financial position is strong despite strains on cash flow.

MUTUAL & FEDERAL was the bright spot in the insurance sector on a rise of 75c to a fresh peak of R14. SANTAM firmed 10c to 280c.

SAAMBOU, up 4c to 100c, was the only share to show a rise in a weak bank sector. ALLIED fell 6c to 130c while UBS continued its decline from last Thursday's peak of 665c. The price eased 15c to 620c.

MERVYN HARRIS

Old Mutual starts new fund for gold

CAPE TOWN — Old Mutual has launched a new gold fund — the second in SA after Standard Bank's Gold Fund — for investors who are prepared to take high risks with potentially high returns.

Investment GM Rob Lee said yesterday the life office had taken a cautiously optimistic view on the gold price in dollar terms.

He said the rationale behind the fund was to follow the gold price over the longer term rather than to try and cash in on short-term bull runs like those seen over the past few months as the metal responded to signs of renewed investor interest.

Influence

He said current gold share prices, which had risen in expectation of a higher gold price, could only be sustained if the gold price continued to rise.

Factors which could influence it positively were a weaker dollar, growth in world gold production peaking beyond 1990, increased demand from Eastern European countries, decrease in gold

LESLEY LAMBERT

loans and forward sales and a strong jewellery and industrial demand, he said.

Negative influences like a neutral view on world inflation and continued positive real interest rates, were likely to prevent the metal achieving price increases similar to those seen in the 1970s.

The gold fund will invest in a range of quality gold shares as well as mining financials and exploration shares and will maintain very low levels of liquidity.

It will give smaller investors the opportunity to invest in the highly priced heavyweight gold counters with a relatively small capital outlay.

The fund will open for investors at the published unit price on February 5.

Income will be distributed six-monthly. The minimum initial lump sum investment is R1 000 and the minimum monthly investment is R100.

Investors are advised to invest for at least five years to iron out the fund's risky nature.

25/1/90
B/P/DM

Bearish markets are unlikely to hold back gold

Star 25/11/90
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Yesterday's surge in the gold price to above \$420 an ounce confirmed that the metal is likely to benefit from the current state of uncertainty in world equity markets.

Jittery world stock markets have prompted gold watchers to fear a repeat of the October 1987 maxi-crash and the October 1989 mini-crash, when gold shares plunged in line with industrial share markets.

When gold entered the 1990s by bursting through the \$400 mark for the first time in two years, investors climbed into gold shares with scant regard for the prices they were paying — prices which were already discounting gold at \$440.

An aura of euphoria was prevalent, with widespread predictions that gold was on its way to \$450 and even \$500 and beyond.

James Capel's Robert Weinberg, after having forecast gold at \$300 two months previously, experienced a complete about-face, suggesting, instead, that gold was on its way to \$450.

Such fickleness encapsulated the stance of many investors the world over.

Too many bulls invariably spoil the market broth and it was therefore inevitable that those who bought lower down would take advantage of the bull run and sell into strength. Simultaneously, countries like Russia, needing to generate foreign exchange, saw the market's buoyancy as a selling opportunity.

The resultant correction to \$406 removed some of the bullish froth and this, together with Wall Street recent sharp two-day decline (from 27536 to 26975 on the Dow) and Tokyo's similar weakness, added to the JSE gold market's already nervous undertone.

Hence, the gold share index fell from



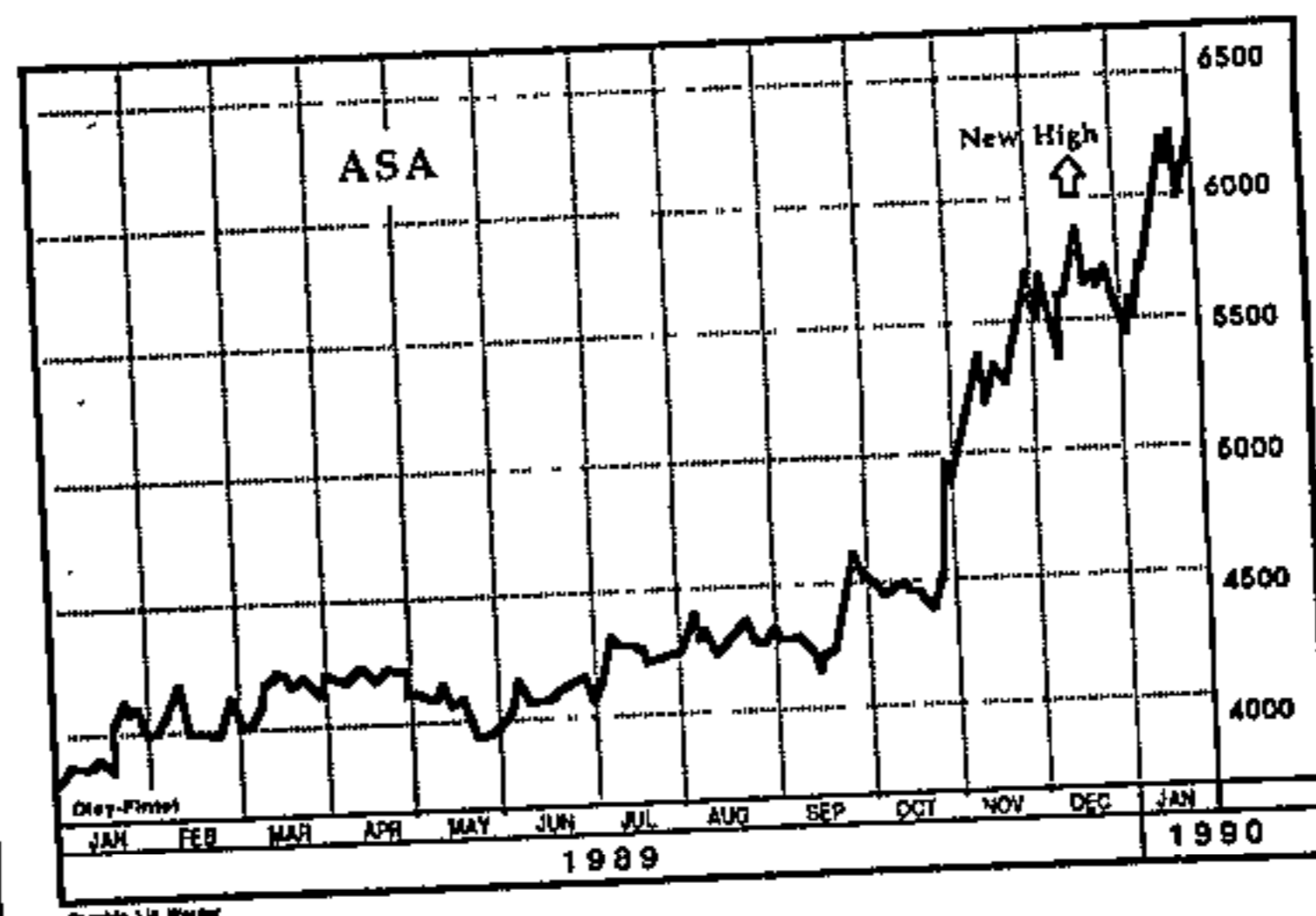
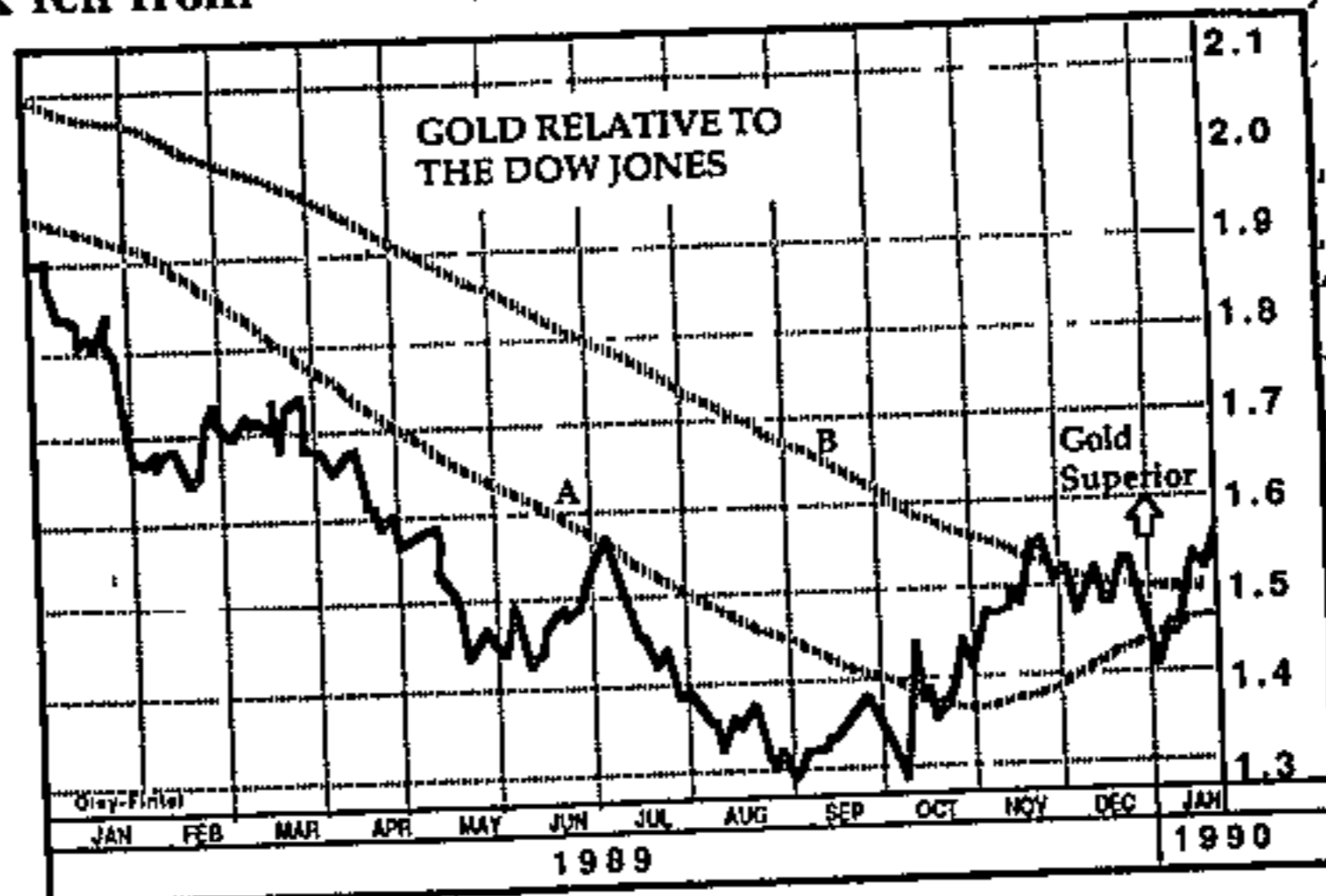
2230 to 2054 in the same period. What can be expected in the near future? The answers lie in the two accompanying graphs.

The first measures the strength of the Dow Jones industrial average relative to the gold price. For the two years subsequent to the October 1987 crash, gold steadily lost strength against the Dow. In the past three months, however, the relationship has altered; gold is gradually getting the upper hand.

The stippled line A measures the short term relative strength and B the long term relative strength. When A crosses B, the graph will denote that gold has conclusively overcome the strength of the Dow, indicating that global investment funds are flowing from industrial equities into the precious metal. This should occur in the next few days.

The second graph, that of ASA (the NYSE-listed US investment trust whose portfolio comprises largely South African gold shares), is strongly positive. Following the creation of an extended base, the share broke up in September last year and, with the exception of some minor corrections, has been advancing ever since.

International investment funds are clearly favouring gold shares, with an encouraging preference for those located in South Africa. Gold and gold shares are unlikely to be influenced by bearish world markets and are now a superior investment.



Gold puts on spurt to a 13-month high

Star 25/11/90

By Derek Tommey
Gold surged yesterday to a 13-month high, closing \$8.25 higher in London at \$421.50 after hitting \$423 in early New York trading.

However, gold fell back later to a close of \$417.50 in New York.

On the Commodity Exchange (Comex) the February gold futures price was also failing to stay above \$420, which some analysts believe could be the trigger for further significant advance.

The rise in the metal price came after a sharp drop in share prices in New York, London, Frankfurt and Tokyo, although the Tokyo market rebounded slightly this morning.

Many factors favoured an increase in the gold price, London broker Tim Williams of Corporate Broking Services said last night.

The latest rise in the gold price was more the result of a weaker dollar than any inherent strength of gold, he said.

But recent developments in Japan, Europe and the US suggested that gold could soon start to run.

He said investors overseas believed the

US was heading for stagflation, which was behind the drop in US share prices and the decline in the dollar.

Investors were desperately seeking safe alternative investments away from the equities and government bonds.

This had led President George Bush to say yesterday that the US remained the best place for investment despite signs of weakness in the economy and attractive interest rates abroad.

His comment reflects American concern about the possibility of large-scale foreign disinvestment as a result of a lower share market and a lower exchange rate.

Mr Williams said the general view was that the US would seek desperately to avoid a major recession.

Instead, by keeping interest rates low, it would try and keep the economy moving until the upsurge in activity in Eastern Europe in the next three years led to a strong demand for American goods.

However, there were doubts about whether this policy would work, and the feeling was that it could merely lead to stagflation.

He said a leading US gold fundi had not yet noticed any significant swing to gold by Americans. But there had been a fair amount of "quiet" interest.

On the other hand, the recent increase in the price of silver, was encouraging for gold.

Americans tended to buy silver when they were concerned about the dollar and the economy because they "got more for their bucks" that way. But an increased demand for silver usually led to greater interest in gold.

Another encouraging sign was the rise in the Swiss franc gold price. This price has been fairly steady in the past year.

But recently gold was trading at around 628 Swiss francs — the top of its range.

If gold were to rise to \$630, he believed it could then go to \$700.

The strength of South African gold shares reflected considerable buying by British financial institutions. As they are not allowed to buy gold, they invest in gold shares as a substitute.

Mr Williams said that technical factors could affect the gold market. Papua New Guinea was opening three million ounces of gold a year, he said.

Some analysts suggested that the best that could be expected in the short term was for gold to hold onto Wednesday's gains or the price might drift down a little, the Star Bureau in London reports.

Rhona O'Connell, precious metals analyst with Shearson Lehman Hutton, said: "I feel the price will come back a bit. There is no genuine retail demand in the US or demand from money managers worried about the gold price running away from them. There has just been a lot of hot money switching from other sectors."

Michael Spriggs, analyst with Warburg Securities, said: "People reach for their gold bars when they feel stock markets are due for another correction."

Andy Smith, gold analyst with UBS Phillips and Drew, pointed out that the market was now watching to see if the gold price could hold onto any break through the \$420 barrier on Comex.

The \$420 Comex price level triggers off a great deluge of hedge selling by gold producers, Mr Smith pointed out. If gold could overcome resistance at this level, however, there was nothing much to stop it "spiking" up to \$460 before falling back to \$420.

**JSE
SOARS**

By Sven Lunsche

The surge in the gold price to its highest level in over a year, boosted gold share price on the JSE by 6.7 percent yesterday.

At the close the JSE all-gold index had gained a massive 140 points at 2232, with some marginal golds rising by up to 46 percent.

Blyvoor was up by 46 percent at R19 while Rand Mines troubled Durban Roodepoort Deep surged 20.6 percent to R41.

The mining sector's buoyancy spread to other sectors of the market.

The industrial index firmed 26 points to 2923 and the overall index surged 80 points to 3194.

Foreign investors were once again the driving force, with the financial rand strengthening to R3,325 per US dollar from Tuesday's level of R3,41.

However, local institutions, which have largely remained on the sidelines over the last few days, yesterday joined in the buying spree and boosted the value of shares traded to R215 million, compared with R129 million on Tuesday. Volume soared from 12.2 million to 17.6 million shares traded.

The JSE's surge contrasted with a decline of share prices on international stock markets, but some analysts are arguing that Wall Street's bear trend will affect Diagonal Street in the long run.

Bullion and gold shares shoot upward

By Sven Lünsche

The gold price surged to its highest level in over a year yesterday, boosting gold share prices on the JSE by 6,7 percent.

Gold closed in London at \$420,75 and reached an early high of \$423 in New York before falling back to a close of \$417,50.

The gold price reflected the movements of international stock markets. As investors sold their shares in London and New York, after the sharp fall in Tokyo yesterday, money was poured into bullion, which traditionally is a safe haven in times of financial uncertainty.

However, in late trading, most stockmarkets staged a substantial recovery — the Tokyo Stock Exchange gained about 1,5 percent in early trading today — and gold fell back.

Nevertheless, the decline came too late to affect trading on the JSE and by the close the all-gold index had put on a massive 140 points at 2232.

The industrial index firmed 26 points to 2923 and the overall index 80 points to 3194. Shares traded surged to R215 million from R129 million on Tuesday.

● See Page 22.

Recovery takes the steam out of gold

79 MERVYN HARRIS 79

A MODEST recovery in global stock markets took the steam out of gold yesterday as traders took profits after the metal's sharp run-up to a 13-month high.

Gold closed \$6,25 down in London at \$415 but dealers said another upward move could be expected soon.

Uncertainty over the short-term direction of world bond and equity markets was reflected in the retreat of UK shares in late trading yesterday. Wall Street first rose and then fell back as investors remained hesitant on taking new positions.

On the JSE, mining shares drifted lower on a combination of the lower gold price and continued strength in the finrand investment currency. Dealers said some profit-taking was to be expected after steep gains on Wednesday but the undertone remained strong.

The JSE overall index ended 35 points down at 3 159 on a 39-point fall in the all gold index to 2 193 and a marginal one-point decline in the industrial index to 2 922.

The dollar traded in a tight range on European foreign exchange markets yesterday but analysts said its direction remained bearish ahead of today's US fourth-quarter GNP and December durable goods orders figures.

The US currency ended slightly firmer against the rand at R2,5603 against the previous R2,5558, but weakened against the finrand to R3,2950 (\$0,3034) from R3,3250 (\$0,3007).

UNIT TRUSTS

F/M 26/1/90

Move towards mining



Not surprisingly, 1989 was an excellent year for the unit trust industry. Reports for the December quarter show that most of the general and specialist trusts achieved a return for the year of more than 40%, with some — such as Old Mutual, UAL, Momentum, Standard Gold and Old Mutual Mining — reporting returns of more than 50%.

The 1989 result was sufficiently strong to bolster the longer-term averages. Latest figures show that 11 of the 12 trusts reporting five-year performances have now produced annual compound returns of more than 20% (see table). Similarly, when viewed over the past decade, the total annual compound return of the 11 general equity funds in existence at the end of 1979 was 24%.

As in the past, flexibility appeared to be an advantage for fund managers. Despite the recent strength of gold shares and of the rand-sensitive commodity stocks during the year, the 13 general equity funds did somewhat better than the 10 specialist equity funds — though there was not much in it: the 12-month returns from the former averaged 46% while the specialists averaged 42,4%.

The five-year returns show the general equity trust returns have averaged 26,68% while the specialists averaged 22,2%. But every sector tends to have its day and it has yet to be shown whether the portfolios heavily weighted towards gold or other mining shares will substantially outpace the more

diversified portfolios as might be expected if bullion does remain in a bull market.

Despite the generally positive views from brokers, the portfolio managers are by no means unanimously bullish on gold equities. The quarterlies suggest that a number have preferred to take profits and lighten their gold holdings.

Of the 23 trusts listed in the table, seven ended the year with a smaller percentage of their investments in gold shares than at the end of 1988. Among these are two of the specialist trusts, Guardbank Resources and UAL Mining & Resources. The UAL general fund reduced its total holding of gold shares from R13m to R11,8m at year-end and UAL Mining & Resources shrank its holding from R38,4m to R29,9m.

Though the Guardbank general fund raised its exposure in gold equities from nil to 3% or R27,4m, the trust adds a note of caution to its report: "Gold shares are already discounting a significant increase in the price of gold bullion and, should the anticipated rise in price not take place, the current international enthusiasm for gold shares may wane very quickly. In 1990, the equity market in gold mining shares is likely to be extremely volatile and this high level of volatility could well extend to all sectors of the market."

Among those whose year-end positions reflected a more bullish stance on gold were

NBS Hallmark, Norwich NBS, Southern Equity, Old Mutual Mining and Southern Mining. Others simply maintained their proportionate holdings.

There has, however, been a marked swing towards larger holdings of equities in the mining financial and other mining sectors: 16 of the trusts enlarged their percentage exposure in these areas. One reason for the preference for mining financials is presumably that they are less risky than gold shares yet would benefit from a firmer gold sector.

In contrast, most of the portfolios kept their percentage holdings in industrial equities fairly stable over the year, with a few reductions. So in general the investment emphasis swung to the mining sectors, despite the strength of the JSE actuaries Industrial index.

While the net inflow into unit trusts of R565,5m remained well below the 1987 level of R1,072bn, the year also saw a drawing down of liquidity levels. The average liquidity of the general and specialist funds fell from 19% to 15,6%, with the net result that total liquid assets held by these funds dropped from R1,174bn at December 31 1988 to R986,9m at the end of 1989.

Running against that trend was the R1,98bn Old Mutual general fund, whose liquid assets rose from the year-ago R233,7m to R303,7m. Excluded from these figures of course are the seven high-income funds, which in general are not active in the equity market.

Even for unitholders who started investing in the trusts towards the top of the 1987 bull market, the trusts have recovered and maintained their record of producing real returns over time. But the 1990 performances are unlikely to approach those of last year.

Andrew McNulty

UNIT TRUSTS ACCELERATE

	Investments (%)						Performance (%)			
	Gold		Min Fincl & other mining		Industrial		Liquid		1-yr	5-yrs
	'88	'89	'88	'89	'88	'89	'88	'89		
General equity funds										
Guardbank	0	3	24	23	58	58	11	15	46.50	25.56

outperformed them at times. Both beat cash.

Old Mutual gets in on gold act

S/Tues 28/1/90

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GOING for gold is the Old Mutual's policy.

It has launched a unit trust which will comprise only gold shares, mining houses and gold-related assets.

Fund manager Marco Celotti says the gold fund has been launched to fill a market gap.

The timing of the fund is right for several reasons:

- The political situation in SA is improving.
- Foreign investment is returning.
- The gold price has turned the corner.
- SA gold shares offer better investment opportunities than do American or Australian mines, especially to foreigners through the financial rand mechanism.

CAREFUL

Mr Celotti says much must happen before the finrand can be abolished, and that it is simplistic to call for its demise now. He believes that the fiscal authorities which previously abolished then reinstated the finrand will be more careful next time.

The intention is to remain fairly fully invested. Mr Celotti says people who opt for the fund have already made a decision on gold's prospects, and do not need a fund manager to decide to remain 25% liquid.

But they do need to invest through a mutual fund because top-quality golds are too expensive to be bought



MARCO CELOTTI ... too early to abolish the finrand

individually. He concedes that the fund's unit price will follow the gold price over the longer term. But the challenge lies in optimising the fund's performance through ups and downs.

Old Mutual is cautiously optimistic about gold in dollar terms. Positive factors include a weaker dollar in the medium term, the growth in world gold production peaking in the 1990s, developments in Eastern Europe, the decrease in gold loans and forward sales, and strong demand from jewellers and other industries.

Clouding the horizon are continued positive real interest rates and a neutral view on world inflation.

The fund will be open for investors at the published unit price from February 5.

The minimum initial lump sum investment is R1 000, and minimum monthly investment R100.

Investors in other Old Mutual unit trusts can switch between the four funds at a reduced initial charge as market conditions and personal needs dictate.

Income will be distributed in August and February. About 65% of the portfolio will be invested directly in gold shares, 20% in mining houses, 5% in exploration and 5% in other gold-related assets.

Liquidity will be kept close to the statutory minimum of 5%.

Rande

THE life of Winkelhaak gold mine in the Evander field will be lengthened well into the 21st century by the installation of a sub-vertical shaft.

Winkels is the oldest Evander mine, the largest and safest. It is also one of the lowest-cost gold producers in SA. It rates blue chip status on the JSE, the price climbing to R124 this week.

The shaft, whose cost is estimated at R700-million is to be completed by January 1990.

Gold industry shake-out contingent on gold price

B/Dam 29/11/90

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AN ANALYSIS of mining unit costs predicts a shake-out in the industry if the rand gold price maintains its present levels.

The study, by stockbrokers Ed Hern, Rudolph Inc, says management and training inefficiencies since 1970 have been disguised by "the incredible growth in profitability of local gold mines due primarily to a rapidly rising gold price".

The study says relentless working cost inflation "continues to erode the earnings of local gold producers".

For almost two decades, the rand gold price "has increased at a rate well above the inflation rate, camouflaging this profit erosion".

Ed Hern, Rudolph Inc gold analyst Tom Dale says in addition, punitive maximum marginal aggregate tax and lease rates have neutralised any incentive seriously to address cost inflation, because, in many instances, more than 70% of the benefits realised would have been paid to the state.

"The flat rand gold price of the past 18 months is forcing the industry to confront cost escalation. Tax reform could reduce marginal aggregate tax and lease rates for the gold mines by up to 20% over the next six years providing new incentives to direct resources at reducing costs."

The main objective of the study is to identify "those operations which are likely to fully realise cost reduction potential and thus enjoy superior relative earnings prospects".

Calculated returns from 35 selected gold producers at a real gold price of R1 100/ounce — given that cost escalations are to be limited to 10% for the next three years — are graded from 1-3.

Only five of the 35 mines rate a 3 plus: Winkelhaak, Unisel, E T Cons, Beatrix and Kinross.

These mines are all managed by Gencor, except for Anglovaal's E T Cons.

ANALYSIS BARRY SERGEANT

The factors used in compiling the ratings were each mine's capacity utilisation, average depth of mining operations, outlook for mining conditions, and management.

Dale said. "There is substantial potential to reduce real unit costs and defer non-essential capex programmes in the industry. Certain mining houses are already vigorously tackling these issues."

Commenting on the analysis, Gencor's Gary Maud said the mining house started its current approach to cost control 18 months ago. (Dale notes: "Because of the size of a mining organisation, the full cost reduction process could take several years.")

Methodology

Maud says: "Gencor's cost reduction approach includes careful, intricate study of how to control costs at each mine. We have also placed much emphasis on motivation, as part of our comprehensive decentralisation approach throughout the group."

"We use quality circles and a democratic discussion methodology before teams go underground."

Maud says results to date have been very positive. "Gencor feels that there is incredible potential to be unlocked in this approach."

Dale says there is "significant potential to reduce real unit working costs in the gold mining industry".

Realisation of this potential, he says, will depend on:

□ Cost reduction receiving high management priority (Comments Maud: "A mine's basic management is the single most important factor in the unit cost context."); and

□ Training throughout the industry both to change the attitudes of indifference towards unit costs and to provide supervisors with cost control skills

Dale says: "Since 1970 these factors have been negatively influenced by the incredible growth in profitability of local gold mines due primarily to a rapidly rising rand gold price."

"This profitability coupled to lack of competition (until recent years) in the supply of gold to the international markets has facilitated the growth of bureaucracy in the industry."

"If the flat rand gold price of the past 18 months persists during 1990 we predict a serious shake-out. One result of the shake-out will be a decrease in real unit costs."

Dale says: "Although the mechanistic-autocratic organisational structures found on the mines are ideal for controlling large labour complements, bureaucrats can direct these structures to produce horrific results."

Comparisons of annual unit cost escalations (September 1988-September 1989 quarters) show that some mines experienced 20%-plus increases. Examples include East Dagga, Southvaal, Harties, Bracken and Kloof.

Over a five-year period, to September 1989, mines that have experienced 150%-plus increases in unit costs include Southvaal, Bracken, Grootvlei, Elands, Unisel, St Helena and Winkels.

Over the five-year period, the majority of mines suffered working cost escalations above the inflation rate (CPI) of 108%. However, the precise analysis of forecasting how individual mines will cope with unit costs is no fall-over.

Maud concludes: "In any kind of mining, traditionally the lowest costs are experienced in early days. These increase heavily once the learning phase of a particular mine is concluded, with costs increasing heavily in many areas, such as transport."

Gold set for rally this week

By Neil Behrmann

LONDON — Option writers and other professional dealers could precipitate a sharp rally in gold prices in the coming week, say dealers. *star 29/1/90*

Professionals trade gold, other commodities and currencies within determined ranges. Hedge and trading strategies are based on the peaks and troughs, or \$395 to \$420 in the case of gold.

Dealers believe that many professionals wrote call options at \$420 to \$425, so they are technically bears at the price. If gold rises towards \$425, the option writers could well be forced to cover their positions and fuel a further price increase.

To be sure Middle Eastern speculators fueled the rally last week when they covered bear positions.

Dealers say that the demand from investors absorbed an increase in producer sales last week. Now that the sales are out of the way, gold could rise further.

Gold is also being affected by volatility in the currency and stock markets and worries about the political situation in the Soviet Union and South Africa.

Gold rose by \$4 in late trading on New York on Friday, closing at \$420.25, amid hopes by dealers that the metal will now settle above the crucial \$420 level.

Sanlam foresees a year of shifts in the gold price

Star 29/11/90

CAPE TOWN — It would seem that 1990 will be a phase of consolidation for the world economy, with sustained low inflation, considerable fluctuations in the gold price and unstable stock exchanges.

This is the conclusion Sanlam's chief economist, Johan Louw, arrives at in the first economic survey of his company for the year.

Interest rates in the leading industrial countries will probably show a falling trend this year and the gold price should perform firmly, inter alia because of strong industrial demand for the metal.

Other positive features for the gold price are the considerable investment demand for the metal in the Far East, political uncertainty in Eastern Europe, nervousness on stock exchanges, a decline in the importance of so-called gold loans — advance sales of gold — lower real interest rates and a weaker dollar.

"It is nevertheless debatable how permanent the higher gold price will be in view of expectations that inflation — an important determining factor of the investment demand for gold — will maintain fairly low levels in the world economy."

As regards the South African economy, Mr Louw says there are indications that the slowdown in general economic activity experienced in the past 12 months will not only continue this year, but intensify.

Although the higher gold price has given the authorities a breathing space, it seems unlikely that the restrictive government policy will be eased appreciably in the next few months.

South Africa's foreign reserves are still far too low for that.

"John Citizen will have to be satisfied with a salary and wage adjustment this year which will probably barely keep pace with the inflation rate.

"Moreover, there is little chance of significant tax relief. This is the price that will have to be paid to make essential adjustments to the economy and so lay the foundation for a better future for all," says Mr Louw.

An average inflation rate of about 14 percent may be expected for 1990, compared with 14,7 percent in 1989.

As far as the balance of payments is concerned, the favourable trend in South Africa's net foreign trade position continues, he says.

— Sapa.

WITH gold touching 13-month highs, it should be recalled that this time 10 years ago most South Africans probably suspected that some wonderful, unsolicited Age of Aquarius had dawned. But the next 10 years brought cruel disillusionment.

During the first 21 days of 1980 the international gold price embarked on the most astonishing ascent in its history, from an average of \$304 for 1979 (itself a record), to a peak of \$850 on January 21.

After that it roller-coastered downwards like a runaway train, defying the initial period of glory, and dashing the dreams which gave the first half of the decade its unique flavour.

Gold miners, like the rest of us, remember the good times better than the bad, and who could have blamed them for dreaming of fortune and empire after the gold price averaged \$612 in 1980?

The mere possibility that gold might once again return to \$850 was enough to sustain the hopes of the entire SA gold mining industry.

Gold miners were not the only people who overdosed on the euphoria, however. The mood was endemic throughout the nation, from Messina to Hermannus. Some of the happiest people were in Pretoria, where government's piggy bank was quickly bloated, with tax revenue from the gold mining industry.

In 1977, when the gold price started building up steam (at around \$150 an ounce) for the final assault on \$850 three years later, government's revenue from the gold mines was R235m — or 4% of total government revenue of R7 075m.

Three years later, when the average gold price was \$612 an ounce, tax revenue from the gold mines was more than eight times higher at R2 374m — representing 18,6% of total government revenue of R12 771m.

Gold and the decade of disillusionment

REINIE BOOYSEN

The real contribution from the gold mining industry was much higher than 18,6%, however. This figure takes no account of the multiplier effect, of the multitude of industries and fields of endeavour which take succour from the gold mining industry, and also pay tax. More than at any time before or since gold represented the very pulse of all activity, the central cog of the national engine.

Almost overnight the national psyche changed. The Soweto riots were the big feature of the '70s, and South Africans went through a period of political turmoil. The rise in the gold price was a new talking point after the upheavals on the political front. It was almost as if SA had nothing to fear, the splendour and glitter of gold would ensure the country's future, come what may. Times were so good that people started saying this would become the first country in the world without personal tax.

That was January 1980. For the few short years while the intoxication lasted, it was fun. In retrospect, however, it is clear that the high gold price precipitated some of the most serious economic problems the country has endured in modern times. Worst of all, the brief deluge of

money caused budgeting laxity in almost every sphere — and worst of all in central government. Instead of lowering taxes and promoting the wealth-generating sector of the country's economy, government went on the wildest shopping spree in SA history, and bankrolled projects like the State Theatre in Pretoria, and the Sand du Plessis Theatre in Bloemfontein, to be patronised by the new class of elite civil servants. With a gilded age ahead, it was as though the time was ripe for high culture in the Viennese tradition.

The Reserve Bank's figures on current income and expenditure of general government tell the story. In 1980, before government could dream up ways of ridding itself of its

hoard, its total net savings almost trebled, from R723m to R2 026m. In 1981, when the average gold price was still fairly high, net savings were still a relatively robust R1 404m.

And then the rot set in. Dissaving became the order of government's day, starting slowly, but soon building up to alarming levels. In 1982 government's current expenditure was R40m more than current income; in 1983 R1 036m more; in 1984 R2 531m more; in 1985 R1 688m more; in 1986 R1 836m more; in 1987 R3 560m more; and in 1988 R732m more. As with any bad habit, once the big spending was started it was difficult to stop — despite the increasingly disappointing gold price.

So SA started living on borrowed money. In 10 short years, government's total debt rose from R16bn in 1978 to R67bn in 1988.

This happened in spite of desperate attempts to boost fiscal revenue after the gold price started falling. The 1980s became the decade of GST, of import surcharges, of ring-fencing on mines — and a host of other new taxes on the population.

At the start of a new decade the spending spree seems to be coming to an end. President F W de Klerk has opted for the modest conve-

nience of SAA instead of private jets, and working lunches rather than banquets.

The economic scars of the P W Botha era are extensive, however, and the one of the deepest is inflation. Nedbank chief economist Edward Osborn says one of its main causes was the realistic expectation South Africans developed that their tax burden could only increase. In an effort to counter the ravages of an avaricious government, producers put up prices and employees demanded higher pay, and every new or increased tax gave further impetus to this vicious cycle.

Today the gold mining industry, which innocently started the orgy, is itself under serious threat from inflation. With about 10 of the 50-odd listed gold mines unable to produce gold profitably at the current price, cost-cutting has become the dominant cry in the industry.

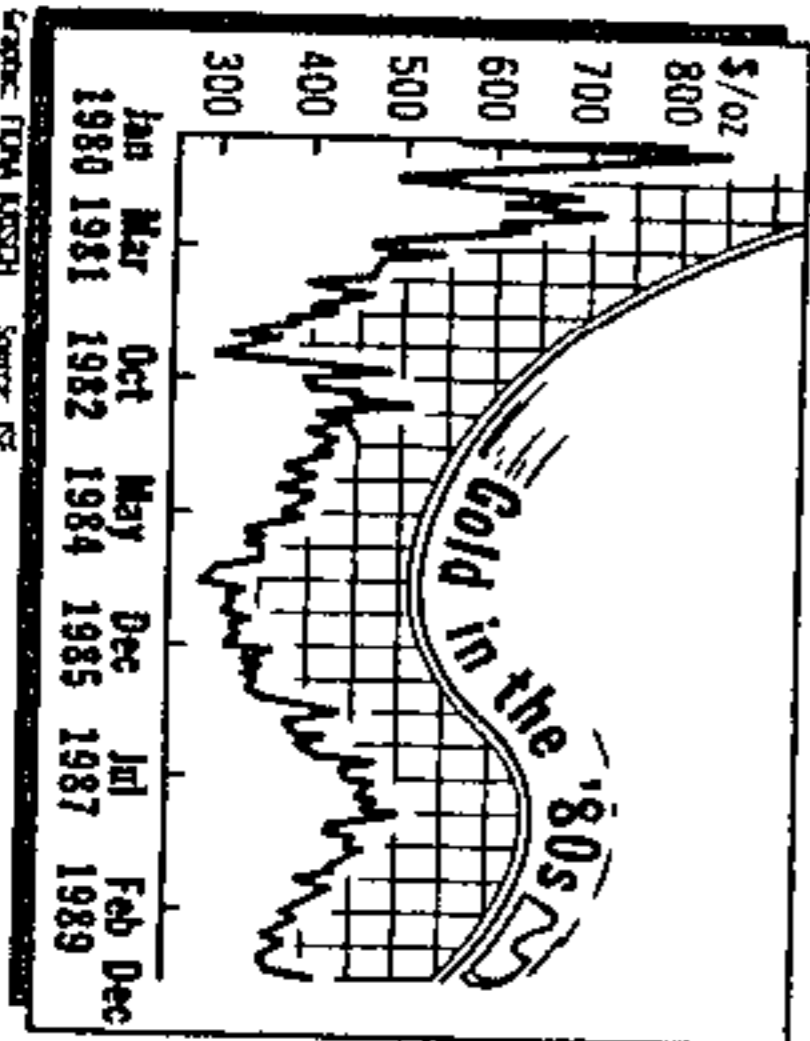
Many of these are old mines which were reopened during the "gold fever" early in the decade.

The other serious problem facing the mines is declining grades, and there is little that can be done about that. The richest of SA's gold deposits have been exploited, and the increasing exploration being done by the mining houses will, at best, merely replace the tonnage which is continually being used up. There appears to be little hope of discovering another real bonanza like the one which gave birth to the Reef.

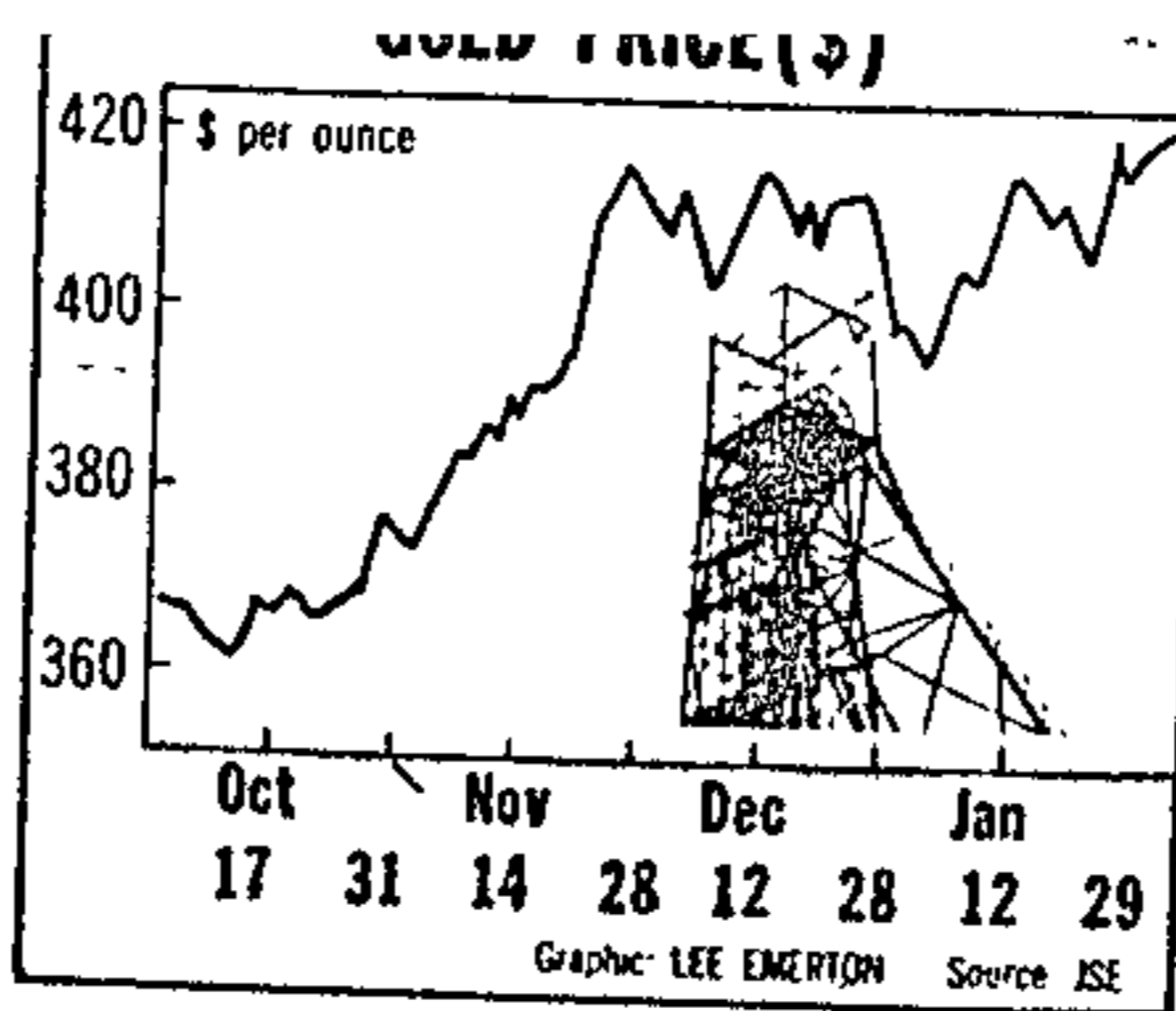
At the end of the decade tax revenue from the gold mines represents less than 3% of government's total. The gold price, hovering around \$420 an ounce, looks as if it may again be on the rise. Let's hope the rise is moderate — anything more could precipitate another spent decade.

No Owen column

Ken Owen is ill, so his column does not appear today.



LETTERS



Hopes for gold keep market on the boil

MERVYN HARRIS (79)

DIAGONAL Street remained on the boil yesterday on perceptions that the gold price is set to break fresh ground above \$420, although the fall of the metal as the market was closing took some of the shine off mining shares.

Gold touched a high of \$422.50 in Europe but slipped back to below \$417 in New York in a resumption of its recent trading pattern of rising in the Far East and Europe and coming down on profit-taking in the US. *bidom 30/1/90*

The metal was earlier supported by dollar weakness in topping important resistance at \$420, but fell prey to bouts of profit taking on speculative selling after the European spot gold options expired without fanfare.

The market is now gearing for this week's flow of economic reports, including tomorrow's leading US economic indicators for December and Friday's US jobs report for January.

Gold's decline wiped some of the gains off the JSE all gold index, which closed 23 points up at 2 235 after surging to a high of 2 249. Prices were, however, supported by a weaker finrand, which retreated from R3,2950 to R3,3450.

But the positive mood of the market was reflected in strength in De Beers, mining financials and leading industrials, which boosted the overall index 39 points to 3 217 to take the index within a whisker of its closing peak of 3 239 two weeks ago.

Dealers said some institutional investors were on the sidelines in the hope of picking up stock at lower levels but the strength of the market undertone suggested there would not be much selling.

Randex and its managers being 'misunderstood'

By Day 31/1/90

ANALYSIS:
BARRY SERGEANT

INVESTORS who bought Randex shares on October 16 last year had gained 168% on their investment by last night.

But management at Randex, the JSE- and London-listed mineral rights participation company, feels the company is misunderstood. It says its business is seen as complicated; it seems to be in business only to incur expenditure; and it never aims to pay a dividend.

Moreover, most agreements that the company makes with other parties seem to be extraordinarily complex, such as the recent profit-sharing deal made with Winkelhaak Gold Mine.

Overall, Randex's unconventional approach to business is overshadowed by the simple philosophy that Randex is in business to add value for shareholders. Buyers of the share look to participate in new mining developments and for capital appreciation, which has already been considerable.

The counter's market value today is about R460m. This rates it by far the most valuable counter of 11 listed in the mining financial exploration sector. Freddev rates second with a capitalisation of about R290m, followed by Lydex at R174m, Barnex at R147m, PGA at R97m, and the others all less than R50m. The sector's total capitalisation is some R1,3bn.

At a presentation to analysts this week Randex director Mike Saner explained some of the key features of Randex's business, and some of the areas where extensive borehole tests are being conducted.

Major projects include:

- Evander area mineral rights — Winkelhaak No 6 Sub-vertical shaft;
- Lucas block minerals (adjacent to the Stilfontein and Buffelsfontein mines);
- Weltevreden Mines (off the Vaal Reefs area, and west of Orkney);
- Freegold (the proposed lease extension to President Brand mine);
- Peritus/Erfdel North (east of Oendaalsrus), and Vermeulenskraal Noord (west of Virginia);
- Burnstone Project (between Balfour and Greylingstad);
- Fochville (a large area south of the

Western Ultra Deep Levels Mineral Rights area); and
 Leeudoringstad (west of the Fochville project).

The latter five projects are absorbing some 90% of current expenditure: R9,2m for the six months to December 31. Investments were valued on that date at R33m (cost: R7,7m); mineral rights at R68m; mining assets at R6m; and R11,5m in cash was on hand.

On January 24 Randex and Winkelhaak announced the commencement of a R701,5m project to mine about 21-million tons of ore averaging 5,7 g/t in the eastern portion of the Winkelhaak mine. Randex contributed some 7,2-million tons at an average yield of 6,9 g/t to

the project; in consideration it will receive 30% of pre-tax profits from its area.

The timing of the deal, as to when Randex first starts participating in these profits, is complex. Winkelhaak (managed by Genmin) will outlay the capex for the venture. When Winkelhaak has recovered its capex, by writing profits off against tax, Randex will rank for participation.

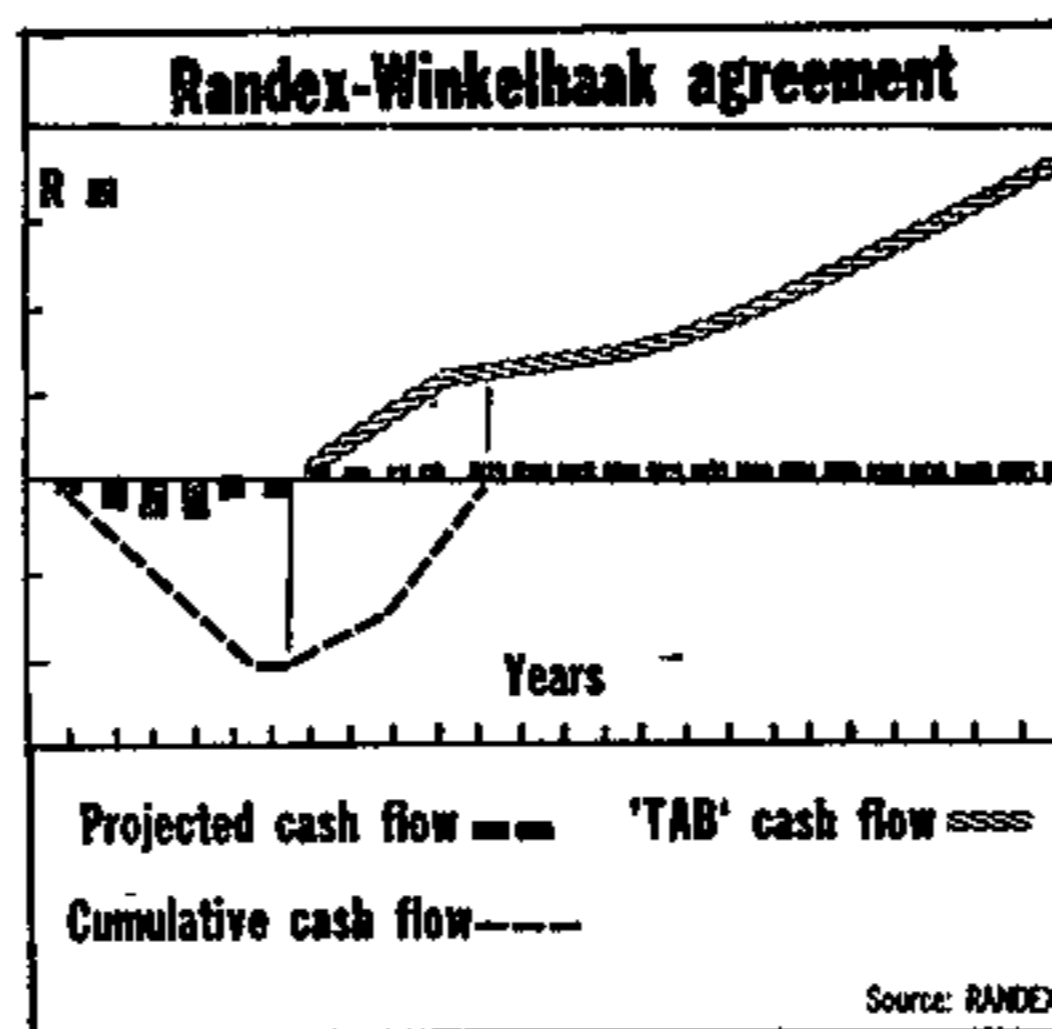
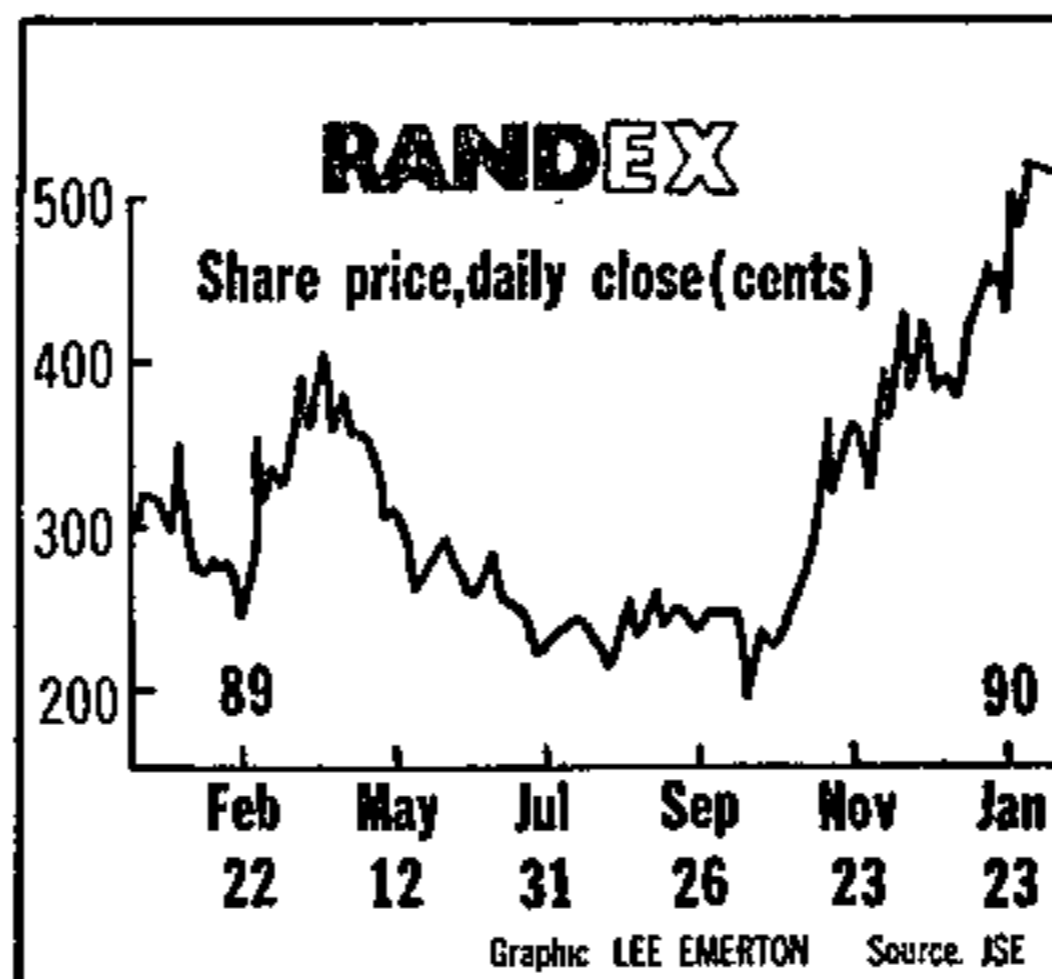
There is no fixed time scale. While the estimate of when new ore will first be milled can be made with some accuracy, it is impossible to say what level of profits Winkelhaak will generate. In turn, in this uncertain environment, it cannot be said accurately when the new tranche of capex (in the Randex area) will be fully redeemed.

Winkelhaak, which produced 3 080 kgs of gold in the December quarter, is highly rated by prominent gold analysts. In particular, its management has benefited from Gencor's new-found policy of decentralisation, independence, goal-orientation and leanness.

The Winkelhaak development should be seen as a distinctly bullish point for Randex shareholders — and will probably ensure that it maintains its high rating. Randex's main exposure to mining houses is, of course, to the Genmin group. It also has connections with JCI, Rand Mines, Anglo American, and others.

Most of Randex's current activity falls in what it defines as the "target confirmation and ore reserve definition" stages, which are closest to maturity. The remainder fall into "the generative and target testing stages". While it is impossible to rate Randex accurately, its main objectives should ensure that it retains its rating.

These objectives include the active management of a diversified portfolio of mineral rights; recognition of the different economic and business cycles affecting exploration business, and tradeability in its shares. Despite the enormous gains in the share price in the past few months, investors should look to Randex exclusively as a long-term investment — five years and beyond.



Cengold shares are suspended

79

BARRY SERGEANT

20

SHARES in Cengold Holdings, the eastern Transvaal gold producer, were suspended on the JSE yesterday pending an announcement about a change of control.

Cengold directors said last night the announcement would be made on Friday.

This follows a recent management restructuring and a September rights issue, which raised money to increase development in two Cengold interests.

Cengold was trading at 35c when it was suspended, with its market capitalisation at R8,3m. It traded as high as 40c a year ago and reached a 12-month low of 19c on November 11 1989. It achieved an all-time high of 160c in 1988.

Current management is Metorex, which also manages Primrose on the East Rand.

Cengold was created in September 1987 by the merger of three producing gold mines in the Greenstone belt of the eastern Transvaal. *51 Day 31/11/90*

The highest quarterly yield result to date was for December 1988, when 17 000 tons were milled at a yield of 3,56 g/t. The December 1989 quarterly results show 19 000 tons milled, but at a yield of only 1,74 g/t.

Overall, operations have not proved successful. The company continually experienced severe operational and financial problems, despite the September 1989 rights issue, which raised R2,2m.

Already, operations at Nestor and Malieveld mines have been suspended. Despite marginal improvements in yield, Bonanza and Elandshoogte did not break even in the September 1989 quarter.

Cengold has never paid dividends.

Uncertainty undermining forecasts about gold price

START 2/2/90

79

By Neil Behrmann
LONDON — Uncertainty is dominating the gold market to such an extent that price forecasting has become extremely difficult.

A US proposal on Wednesday that the IMF sell some of its vast gold holdings in order to help indebted nations temporarily upset the market.

But the bullish trend resumed yesterday as details of the proposals were revealed, indicating that no physical sale of the metal was necessary.

Volumes on the Commodities Exchange Market (Comex) in New York are at their highest levels since gold's previous boom in 1987 and trading on the Tokyo futures market is hectic.

Swiss and London bullion traders say the gold market is under the influence of investors and speculators.

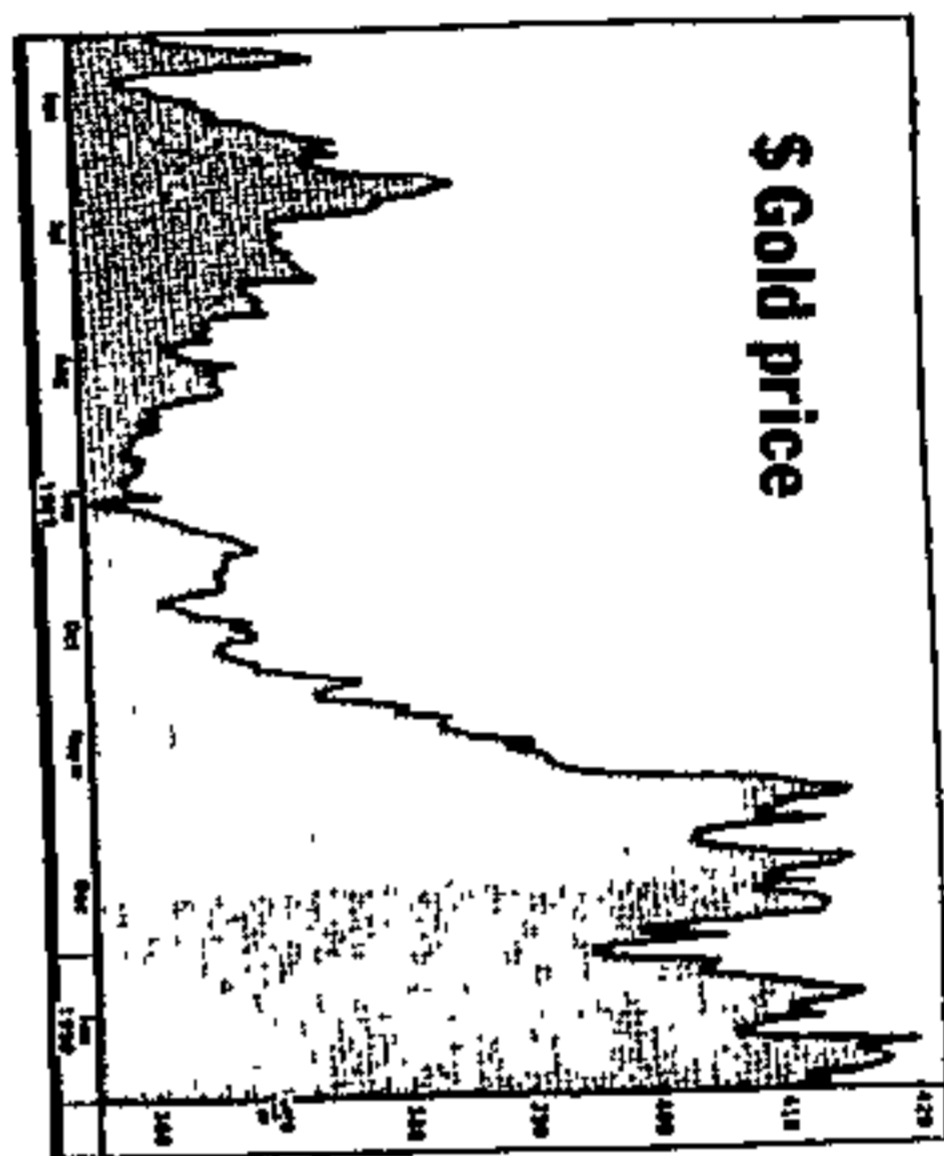
Fabrication demand, usually quiet in January, is slack.

Trading volumes

Trading volumes on the Comex are ranging around 70 000 contracts a day, double the levels seen in 1988.

On January 24, speculation was so intense that volumes hit an all-time record of 116 512 contracts, equivalent to nearly 1.2 million ounces.

This compares with the previous daily trading record of 112 471 contracts on October 19 1987. That, incidentally, was the day of the stock market crash.



London and Swiss gold traders say the present gold range is \$402 to \$422 and that the market "must do a lot of work" before it can break to higher levels.

Yet these are mere guesstimates. Since professionals deal in gold within determined ranges, they are naturally taken by surprise when the price penetrates either the support or resistance levels.

In the case of gold, \$420 to \$425 are the key price points.

If the price breaks through that range, professionals, producers and speculators are forced to cover futures and options short positions. Their purchases would then precipitate another wave of buying.

This is what happened when gold penetrated \$380 in October last year. As soon as the resistance line was

broken, extensive short covering, followed by investment and speculative demand, drove gold swiftly through \$400.

A similar wave of selling would probably occur if gold for some unexpected reason suddenly dipped to \$400.

Since the majority of speculators and investors have bought gold, there would be panic sales.

Most dealers believe, however, that gold is now firmly based above \$400 and, given present fundamentals, a wave of selling is unlikely.

What are these fundamentals? On the supply front, producers are far more optimistic than last year and are less prepared to institute hedge sales via gold loans, futures and options. So there is less "paper gold" coming onto the market.

On the other hand, producers, including the Soviet Union, are selling physical gold into strength. There is also some Far Eastern dishoarding.

There is certainly no shortage of gold. Futures premiums over spot prices are about in line with interest rates.

Spot prices

Normally spot prices are above futures if there is a shortage.

Far Eastern demand is still relatively buoyant. Taiwan imported 12.8 tons in December, against 13.7 tons in No-

vember, and 5.3 tons a year ago. Japanese imports, mainly for investment, continue at a high level.

Generally the numbers of people socking away gold have risen in recent months because of fears about a stock market slump, a weaker dollar and financial instability.

Events in the Soviet Union, Eastern Europe and uncertainty surrounding Nelson Mandela's release have been sufficient incentives for investors to buy gold.

On the other hand, fabrication demand is expected to be weaker this year because of higher prices and a slowdown in the international economy.

Gold jewellery fabrication surged to more than 1 600 tons in 1989 from 1 483 tons in 1988, estimates the World Gold Council.

The price depression in the second and third quarters of last year helped.

Yet the boom in diamond sales has ended and could be a pointer to slower gold jewellery sales this year.

Gold speculators also look to gold shares for a lead. They believe that sometimes the shares point the way to lower bullion prices.

The FT gold share index has risen by 90 percent since October and some brokers believe that shares are expensive.

If there is indeed a setback in the gold share market, gold holders might decide to sell.

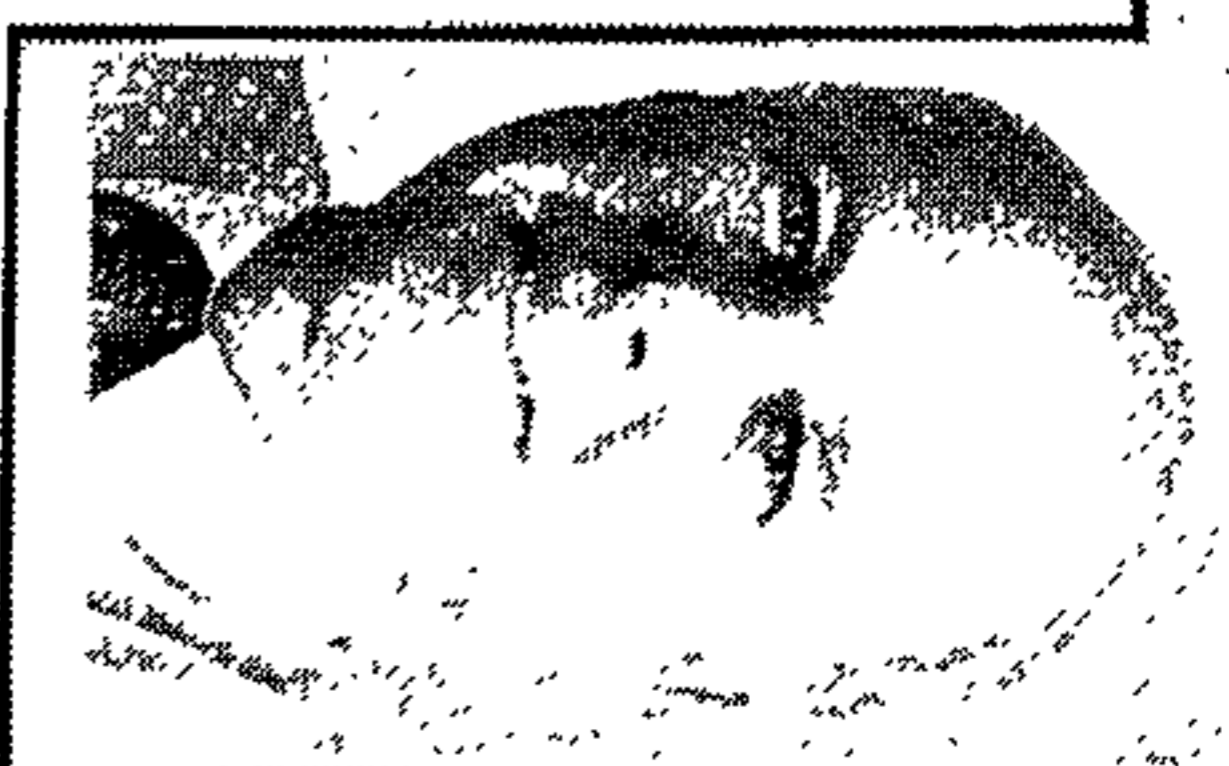
11/84	117.84	AMND
11/85	117.83	INCR
11/86	117.84	AMND
11/87	117.84	AMND
11/88	117.84	AMND
11/89	117.84	AMND
11/90	117.84	AMND
11/91	117.84	AMND
11/92	117.84	AMND
11/93	117.84	AMND
11/94	117.84	AMND
11/95	117.84	AMND
11/96	117.84	AMND
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12/25	117.84	AMND
12/26	117.84	AMND
12/27	117.84	AMND
12/28	117.84	AMND
12/29	117.84	AMND
12/30	117.84	AMND
12/31	117.84	AMND

Top line nominal wages. Lower line real wages in 1980 Rand. Current Date: 12/88

RICHARD ROLFE

in LONDON

Uncle Sam's no-no to a gold-price rise



THE US authorities have given their clearest signal yet that they will interfere in the market to restrain or even prevent the gold price from rising.

This week's suggestion by Bush Administration officials that the International Monetary Fund should mobilise some of its gold reserves was calculated to weaken the metal's price when it threatened to go above \$420.

The view is widespread among chart followers that if gold cracks \$420, it will run all the way up to \$460 before cooling.

Such an increase in the gold price would come at an awkward time for the US authorities, and for the world economy in general.

RECESSION

The Federal Reserve is walking a fine line in its conduct of credit policy. If it eases, it may stimulate inflation, already running at 4.5%.

But if it holds to a tough line, it may drive the US and most of the rest of the world economy into recession.

The bond markets are al-

ready nervous, not only in New York but in Tokyo and other financial centres.

The big investors who buy long-term bonds worldwide, financing governments and major corporations, are concerned that inflation is rising.

That leads them to demand a higher rate of interest on the bonds they buy, which is costly for governments. Uncertainty about inflation and the cost of money complicate the US Government's regular programme of bond sales.

Apart from all the usual statistics which enable the economy's state of health to be monitored, most global investors watch the gold price — even if they are not interested in buying gold.

They do this because they know gold is the supreme barometer of inflationary trends. A jump to \$460 would confirm their worst suspicions.

They would then demand a higher rate of interest on bonds, failing which there would be a lender's strike. The resulting rise in interest rates would considerably worsen the risk of recession.

In the 1970s, the US Government took little notice of the gold price. It affected to

believe that if gold were written out of the articles of the IMF — demonetised, as the saying went — it would somehow fade away.

Events proved this approach to be entirely misconceived when gold soared to \$850 in 1980.

Today, the Fed watches the gold price carefully. There is much circumstantial evidence, confirmed this week, that the US authorities will try to manipulate the price when they think it necessary to do so.

It is part of the policy which Paul Volcker, former head of the Fed, described as taking away the wine punch when the party is beginning to get out of hand.

INSIDERS

The Americans do not act in this way out of anti-SA sentiment, or because they have a thing about gold shares, but because they are determined to take whatever action is needed to curb inflation.

In much the same way, currencies are manipulated by the Group of Seven (actually Three) major industrial nations.

The main central banks trade extensively in cur-

rency. They control large reserves and have wide knowledge of sensitive statistical information ahead of the rest of the market.

You might say they are the only organisations in the world which are legally able to trade as insiders.

Volatility in currencies has been greatly reduced in the past three years and it is no accident that gold has also been a much more sedate market.

That is by way of background to the latest proposals on IMF gold reserves.

With 103-million ounces, the IMF is one of the world's biggest gold holders. About 3% of its reserves were lodged by developing nations at a price of about \$45 per oz.

The US proposal appears to envisage that this amount should be sold to pay arrears owed to the IMF by some debtor nations. The idea is vague, may never come to anything and would take months, if not years, of negotiations to achieve agreement.

Its timing suggests that although the US may indeed be serious about it, the primary objective is set an ambush for gold — to cut off the Indians at the pass.

In the mid-1970s, the IMF auctioned 50-million ounces of gold. This depressed the price to start with, but its long-term effect was to widen and deepen the international gold market.

If the IMF eventually sells 3-million oz of gold, it will be quickly absorbed in a half-decent market.

STICK

But like the proverbial sardines that were for trading, not for eating, the IMF's gold serves the US, the IMF's biggest shareholder, better as a stick to wave at the market.

The events of the past week confirm my view that while gold is no doubt in a bull market, the way up is going to be a lot tougher than most people think.

The bulls are playing blackjack against a croupier with a crooked deck and unlimited reserves.

It will take some combination of enormous buying pressure, an external shock to the system and a mistake by the croupier to break this bank.

AS an illustration of how views change, it is worth

looking back at the so-called Third World debt crisis.

When it broke in the early 1980s, it was expected to ruin the Western banking system and send the gold price into orbit.

Neither of these things happened, nor has there been any resolution of the problem of third world debts.

Instead, the banks, Western and Third World governments have chipped away at the debt crisis. Bit by bit it has ceased to be a threat.

As the world economy has grown, so have bank earnings. Most have provided against half to three-quarters of their Third World loans.

By a combination of rescheduling the debts, ingenious financial engineering and bank write-offs, the debt threat has been defused.

Third World debt thus joins the long list of events — the stock-market crash, the US Budget and trade deficits, the Iran-Iraq war among them — which were supposed by the gold bulls to spiral out of control and panic everyone into buying gold.

The worst has not happened. That is not to say it never will, but it does not look like a rational basis for investing your money.

Gold market shrugs off possibility of IMF selling

By Neil Behrmann

LONDON — The gold market has shrugged off the possibility of International Monetary Fund sales in the coming year.

"There will still be a lot of negotiating," said a London bullion manager. "The knee jerk reaction of Wednesday last week had to be wrong."

After the initial setback, the market soon realised that the IMF would either "mobilise" the gold through swops for foreign exchange. If it decided to sell, the sales of 3 million ounces would not take place immediately.

Voting power

In fact the reason for the dip in gold prices was attributed to rumours of sales by East Germany rather than an overhang of IMF supplies.

The US proposal that the IMF should mobilise about \$1.2 billion worth of gold to help some severely indebted nations, has hit strong opposition from western Governments.

Differences about the plan are

likely further to delay long-running negotiations on an expansion of the fund's resources.

A decision could well be taken at the interim IMF meeting in April.

In terms of the US proposal, the international agency would sell the gold that it holds for member countries that have failed to repay IMF borrowings. The 15 nations include Zambia, Sudan, Vietnam, Kampuchea, Peru, Liberia, Panama, Guyana, Somalia and Sierra Leone.

The US proposal would need 85 percent approval from the IMF's members. Voting power is weighted according to IMF contributions, so to win 85 percent approval the backing would need to come from the main shareholders, notably European nations and Japan.

Since the gold represents less than 3 percent of the 103 million ounces pledged by member nations, the plan could be accepted.

However, opposition to the issue seems likely to be strong. The powerful Bundesbank,

which holds West Germany's gold reserves, believes the selling of the fund's gold would provide an undesirable precedent.

It and others believe the plan smacks of debt forgiveness by the fund, which should not be contemplated.

They also say it does not address the issue of arrears to the other multilateral institutions, such as the World Bank, and believe the incentives under the plan would not be sufficient.

Public auctions

If the IMF decided to sell the gold outright, it would probably have a series of auctions. In the late seventies, the fund sold 23.5 million ounces via 45 public auctions.

In 1976 the IMF began selling this huge quantity, which exceeds South Africa's annual production. The market was so fearful that gold, already in a downtrend from a peak of around \$200 in 1974, went into a tailspin and fell to a low of \$103 in August 1976.

It turned out in the end, how-

ever, that the IMF sales were very bullish. Investors were only too happy to buy gold and by the time the auctions ended in 1980 gold had peaked at \$850.

The IMF eventually raised just under \$6 billion. But at today's prices the gold would have been worth around \$10 billion.

Some London stockbrokers say the sales would lead to a price slump. This would only be true in depressed market conditions. Given normal trading, the bullion would easily be absorbed.

Early last year, for example, the Belgian central bank sold four million ounces of gold. That sale, which was around February and March put paid to a gold rally which was then peaking around \$400. But there were more than sufficient Far Eastern buyers to lock away the gold.

Alternatively to sales the IMF could arrange swops. Desperate Third World nations would raise foreign exchange to repay the IMF by depositing the gold as collateral with lenders.

SA gold shares closing in on American counterparts

Bl Day 5/2/90 . (79) ~~78~~ ~~77~~

NEW YORK — The gap between the value of SA gold stocks and those of North American gold companies may close in the wake of conciliatory actions by President F W de Klerk's government, American analysts say.

The American depository receipts of SA gold companies followed their underlying share prices higher on Friday after those stocks surged in Johannesburg in the morning.

An increase in the value of the financial rand has added to the gains by the American depository receipts.

Restricted

Louis Nicoud & Associates analyst F Barry Nelson says: "Since the early 1970s, SA stocks have traded at a discount because of the political risks in the country, aside from the problem that American investors won't own SA stocks."

Many American pension funds and

CRAIG SMITH

other institutional investors are restricted from owning SA shares.

SA gold stocks, for example, trade at about 15 to 20 times estimated 1990 earnings, according to Vahid Fahti, an analyst who follows the stocks for Prescott Ball & Turben in Cleveland. North American gold stocks, by contrast, are trading at a p/e of 35 and higher, Fahti notes.

"We expect that gap to close," Fahti says.

He feels political reforms will open up the stocks to broader ownership, which in itself will raise the value of the shares. Beyond that, he expects economic reforms to eventually put SA stocks on a par with gold stocks in the US.

"I suspect that SA's next step would be overhauling its current currency system from a two-tier exchange rate," Fahti says, noting that the financial rand is valued at a deep discount to the commercial rand because of

perceived political instability.

"If they would get rid of the financial rand, one would expect a mark-up in share prices automatically," he adds.

President Bush said he would review the economic sanctions in place against the country.

Analysts say any easing of political tensions should increase the value of SA gold stocks, as well as those of other SA companies.

But Louis Nicoud's Barry Nelson counsels caution.

Surged

"I'd be cautious in the near-term," he says, noting that such sweeping developments are normally followed by a period of disappointment. "But there is tremendous long term potential."

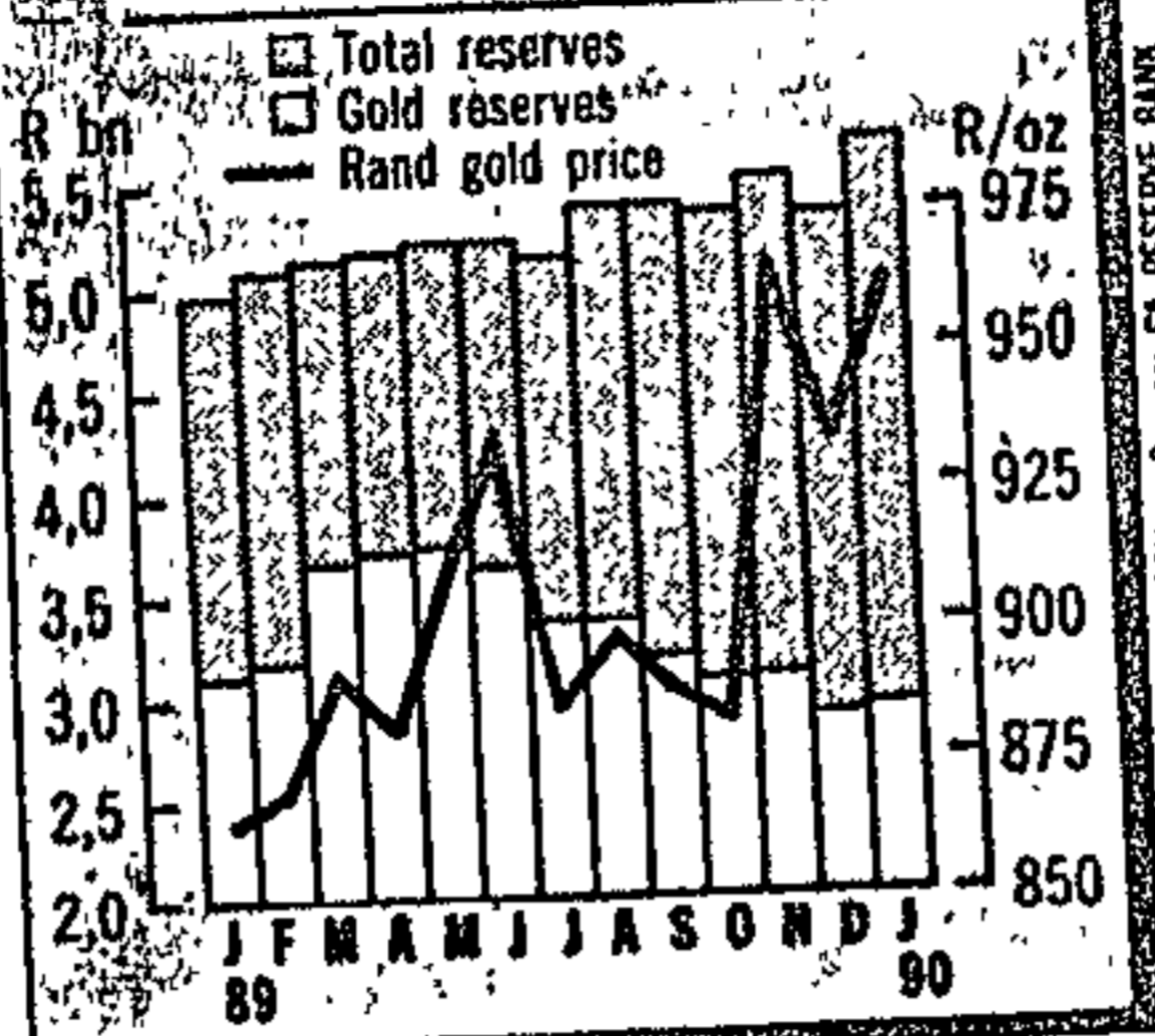
On the New York Stock Exchange, the American depository receipts of Asa Ltd surged \$2.25 to \$68.25. Gold Fields, Buffelsfontein, Driefontein and De Beers also gained in over-the-counter trading. — AP-DJ

Gold firms to record level

^{sm 6/290 (7a)}
The gold price soared to a 14-months high of \$423 at the close in London yesterday, but a 3 percent rise in the financial rand to R3,19 per US dollar saw the JSE all-gold index shed 11 points at 2239.

The index was down 37 points in earlier trading but the late surge in bullion boosted prices. SA mining shares rose in \$-terms on overseas markets. Gold opened at \$420,25 in Hong Kong.

Gold and forex reserves



SA reserves get a R381m boost

GRETA STEYN

THE Reserve Bank's scant holding of gold and foreign exchange reserves got a much-needed boost of R381m in January to bring the holding of foreign assets — R5,7bn — to its highest level in more than eighteen months. *D 1004 81290*

A rough conversion shows the dollar holdings now stand at \$2,23bn (December: \$2,1bn) after treading water at around \$2bn for some months. The dollar figures are a significant measure as rand holdings can be distorted by exchange rate movements.

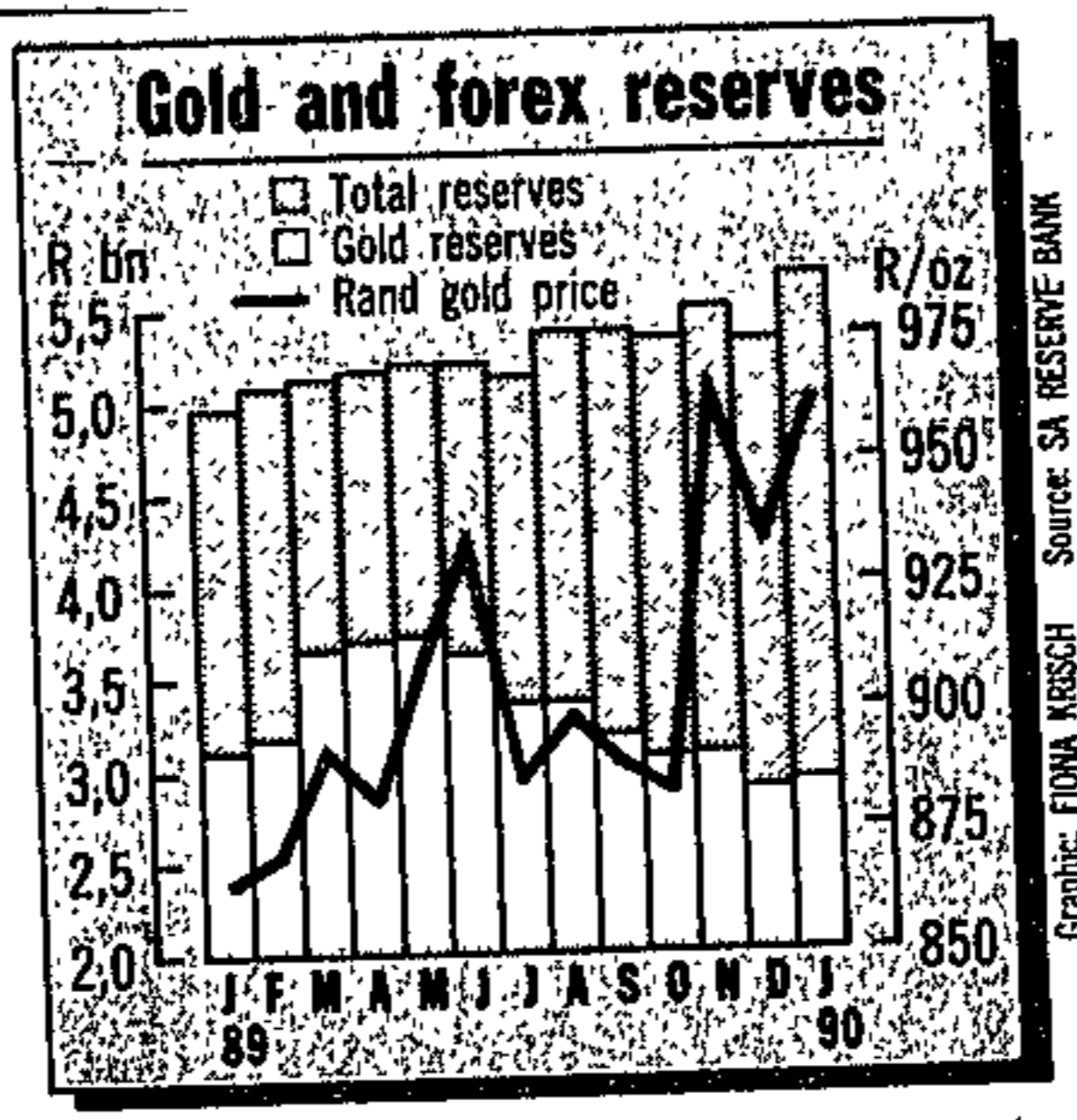
The inflow in January of foreign exchange is an early indicator of a healthy balance of payments and could signal the start of the long-awaited building-up of reserves.

However, before there can be any question of a meaningful build-up in reserves, the substantial amounts of short-term foreign bank credit — "bridging finance" — owed by the Reserve Bank will have to be reduced. The January balance sheet is discouraging on this score, as the Bank's "other liabilities" actually rose (by R186m).

The Bank capitalised on the relatively strong gold price to reduce gold volumes and build up currency reserves. Physical gold holdings declined by 40 108 fine ounces, to 3,04-million ounces.

But the rand value of gold holdings was slightly up at R2,92bn due to a higher gold valuation of R962/oz (December: R937).

Another significant feature of the Bank's balance sheet is the huge jump in government deposits — from R8,2bn to R11,2bn. Government's cash mountain goes a long way towards explaining January's huge shortage of cash in the money market.



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79 8 GRETA STEYN

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Politics blurring gold's destiny

LONDON — Political uncertainties in the world's two largest gold producers will cloud investor sentiment for some time, say analysts.

"Gold may be a halfway house at the moment if you're not sure where to go," said Andrew Smith of UBS Phillips and Drew here.

The reformist package by President F W de Klerk and the Soviet Union's move to end monopoly communist rule have blurred perception of future price trends. Furthermore, traders remain concerned about gold loans and possible sales by central banks. SA mining houses believe sweeping concessions to blacks will significantly ease tensions in labour relations with black miners.

"We see De Klerk's speech as very positive. Hopefully there will now be a climate more conducive to normal in-

dustrial relations," said Gary Maude, head of the gold and uranium division at Genmin. (79) (300A)

The speech had raised hopes that dealings with trade unions will now focus more on workplace and wage issues rather than political matters, he added. B/D 9/2/90

Swiss analysts see reforms benefiting SA's economy by increasing the likelihood of foreign investment, although cheaper capital could lead to increased production and lower prices.

De Klerk's statement would have little short-term impact, brokers Warburg Securities said in a London review. But if nationalisation were adopted, the effect on gold could be disastrous, Warburg noted.

It "would lead to a rapid decline in gold output ... and give an enormous boost to the price". — Reuter.

R26m 'went up in smoke'

Own Correspondent

CAPE TOWN — SA exported tobacco at a loss of R26,8m during the 1987/88 financial year, former auditor-general Joep de Loor reported yesterday.

This was disclosed in his report on the accounts of the Tobacco Board, which was tabled in Parliament yesterday.

De Loor also reported that the board paid R1,1m as an ex gratia payment to tobacco producers in respect of 75% of the domestic value of unmarketable chlorine-contaminated tobacco from the 1987 crop.

"During the year financing amounting to R20 119 882 was granted to co-operatives in respect of tobacco that could not be absorbed by the local market immediately.

"Portions of this and of the stocks carried forward from previous seasons were sold abroad during the year at a loss.

"At 31 March 1988 surplus stocks to the value of R8 118 363 were still on hand at co-operatives."

De Loor said the Agriculture Minister granted standing approval for the available funds of the board to be used for advancing to tobacco co-operatives, immediately on submission of invoices, the full local value of packed tobacco supplies intended for export. Advances amounting to R13,3m

were made during the year, but these were repaid by March 31 1988.

"Losses on tobacco sales abroad amounted to R26 765 119 during the year and were written off against the price stabilisation account."

GERALD REILLY reports that figures released yesterday show that South Africans spent a huge R3,084bn on tobacco products last year.

Spending

Speaking at a tobacco industry seminar at Gordon's Bay, Agriculture Minister Jacob de Villiers said this represented 6,7% of total spending on food, liquor and tobacco. The total smoked amounted to 40,5-million kg.

Tobacco was planted over 28 000ha, which produced around 36,8-million kg a year with a gross value of about R350m.

De Villiers said the "fairly heavy" excise duties levied on tobacco products earned the state R552m last year.

Stressing the importance of the industry as a work provider, De Villiers said that, including the two cigarette factories and 10 other factories producing tobacco products, it employed 58 500 workers.

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Soweto council told to collect debt

GERALD REILLY

PRETORIA — The Soweto City Council has been directed by the Provincial Administration to collect monies owing for services.

In October last year the council was hauled over the coals by the administrator for failing to "perform its duties". B10m 9/2/90

In a joint statement yesterday, MEC in charge of local government Oulas van Zyl and Soweto mayor Sam Mkhwanazi said the council had been given statutory directives "requiring it to take specific actions within a specific time".

It was pointed out the council's

new tariffs, which come into operation on March 1, have been simplified and are substantially lower than cost.

The council has been told to "reconcile" amounts owing, "taking into account their validity and affordability", and submit proposals to the administrator within five months.

It was stressed the new tariffs were temporary and the council had been instructed to review them, particularly the bulk services from Eskom and the Rand Water Board.

DIAGONAL STREET

FIM 9/2/90

79

A new ball game

Little more than a month into 1990, it is no exaggeration to say that Diagonal Street is facing a new ball game. And that view is not simply a reflection of present euphoria about political developments.

Politics and rising confidence locally and abroad have patently helped lift the market. But investors will also have to adjust to changing economic factors, including what looks a firmer gold price, a stronger rand and, by all indications, a resolute effort by government to tackle inflation with real interest rates and a firmer fiscal policy.

With bullion holding around US\$420/oz, investors' faith that a new gold bull market has been entered is gaining strength. The JSE Actuaries All Gold index has risen 6% this year. Gold shares have been fuelled partly by foreign buying, which has again been significant on the mining board. This week brought another breakthrough. Despite what look full prices, some leading industrial stocks have been in demand from abroad.

Counters like Barlow, SA Breweries, Remgro and Sasol have leapt. How long it will last is anybody's guess but even this represents a major reversal of foreign sentiment, which must benefit local confidence. As Richard Jesse of Martin & Co points out, foreign investors have virtually been non-players on the local industrial market since about 1984. Their activity was winding down since the late Seventies.

In general, there have recently been overseas requests for research and recommendations on industrial shares. Given the inertia that often applies when large institutional fund managers change direction, more buying orders may follow. The problem is that quality industrial scrip tends to be even more tightly held than mining stocks.

Local fund managers may well be bemused at the levels to which some of these counters are being pushed. Barlow, with its international exposure, is facing slower earnings growth. Its price, nonetheless, jumped this week to more than R54 compared with R44,50 a week ago, which seems a little steep. But from the standpoint of foreign investors, who think SA shares are starting to smell sweeter, the criteria are different.

Local p/e ratios are still lower than those in London and New York and share prices can look quite different when effects of currencies — and especially the financial rand — are taken into account. Jesse notes that De Beers, for example, has seen its price rise by some 50% from \$14,50 in November to \$21,50; on the JSE it has risen in that period from about R59 to R66,70. On Friday, a stronger financial rand saw De Beers weaken while other shares rose.

One implication is the JSE is facing greater volatility. And foreign buying, large as its impact can be, may also prove brittle. "They come in like buffaloes with big feet, but you've got to watch they don't trample you on the way out," says Jesse.

Fergusson Bros' William Bowler adds that while enhanced confidence may usher in a new investment environment, fund managers should not disregard conventional measures of value. He believes that on short-term considerations the market is overbought.

Pieter du Toit, MD of the new Momentum Asset Trust, believes different equity sectors will have to be targeted over the next few years: in 1990-1992 a stable rand and stronger gold price will see the emphasis on gold producers and mining financials; but in 1992-1995, a neutral gold price and relatively strong rand will see the focus shift to mass consumer markets, the leisure industry, property, long-term bonds, capital investment and export beneficiation.

In general, both political and economic factors have changed abruptly, and for many a reassessment of the entire approach to investment may be needed.

Andrew McNulty

IMPALA PLATINUM

FIM 9/2/90

Slowing down

As expected, the interim results for the six months to December from Impala Platinum (Implats) have mirrored those of Rustenburg Platinum (Rusplat) but with some significant differences in how the bottom-line figures are reached.

Implats recorded a 10,3% rise in EPS after capex to 227,3c (253c) while, for the same period, Rusplat posted an 11,3% increase to 212,2c (190,7c) and upped its interim dividend 8,7% to 125c (115c). Implats posted a 6,7% increase in its interim to 80c (75c). Neither performance is exciting and both have suffered from the lower dollar prices for platinum group metals (PGM), as well as the major by-product, nickel.

However, financial benefits of a better operating performance by Implats were hit by high capital spending and the increased number of shares in issue following the acquisition of Messina. It is only through inclusion of an extraordinary book profit of R32m that Implats shows increased distributable earnings.

Messina is included for the first time and turnover rose 12% to R1,1bn (R943m) compared with Rusplat's 5,9% rise to R1,49bn (R1,41bn). Implats managed a "modest"

Gold loan folly improves prospects for billion price

(7-9)

LONDON — Can gold sustain a breakthrough past \$420 — at which point, historically, it has sometimes stuck because some Western central banks then sell some of their unnecessarily large reserves?

Gold bugs have ascribed recent buying to contradictory sentiment over the rickleness of capitalism (woes of some US banks) and the triumph of capitalism (upheavals in Eastern Europe).

Both factors are supposed to have prompted panic buying and consequent price rises which, in turn, suck in more speculators.

This time there may or may not be a more solid bull point: the undoubted coming failure of some of the excessive surge in gold loans. A conservative estimate from RTZ talks of \$5 billion of gold loans between 1987 and 1989.

Most of these were taken out by small mining companies in North America and Australia. Their peculiarity was that the companies borrowed gold (not money) from the commercial banks, which, in turn, had borrowed the gold from central banks.

Western central banks hold around 35 000 tons of gold. As bullion pays no interest, the gold sits idly in bank vaults. Offers of annual interest rates of one

to two percent delighted the central banks. They gladly lent some of their gold to commercial banks, who then lent it to developing gold mines as a supposedly cheap source of financing.

When commercial banks decide they have a cheap way of financing a splurge as daff as a gold rush, they always make some loans too optimistically. This time their optimism was about geology.

Development

They assumed that the mines which took out the gold loans would later dig out the gold to repay the loans.

So did the borrowing mines. In 1987-89 these mines sold the gold they had borrowed from commercial banks, and spent the money on developing their mines.

RTZ says 315 ton of gold was loaned net of repayments between 1981 and 1989. That is more than one-fifth of one year's normal newly mined production (about 1 538 tons in 1988).

Some analysts think that the extra supply from gold loans (and the forward sales predicated on the mines' future production) may have depressed the gold price by as much as \$70 in 1988-89.

At least some of that predicated future output is not going to appear. Al-

ready some small gold loans have run into trouble, despite gold's rising price.

The Canadian gold-mining rush was prompted by the introduction of some foolish individual tax-breaks.

This naturally sparked the development of dotily speculative gold mines. At least three respectable Canadian gold-borrowers look in trouble: Keza River, Urig and Augmitto.

Australia could provide nastier shocks. Some mines there have rushed into alleged production to beat the new tax on gold mines' profits, due to come into force next year.

Smaller gold mines have already pledged over 90 percent of what they hope will be their future production. Gold bugs say it will be hard to fill such "unexpected" gaps in production.

Papua New Guinea, which was supposed to be producing 100 tons of gold by 1992, will produce next to nothing if the anarchy that closed Bougainville continues. Remember that in 1987 Bougainville was the world's 13th biggest mine.

Russia, which produces 300 tons a year, may not be able to produce more. South African mines are deep and take time to develop, so they cannot meet a sudden shortage either.

The best for a new supplier may be

the IMF, which says it is contemplating selling three million of its 403 million ounces to clear developing countries debts to it.

The final twist to the gold optimists' argument is that once gold loans start to go bad, banks will stop making any more, thus stifling the development of new mines.

Actually, the outflow of gold loans is already well past its peak.

Fewer gold loans

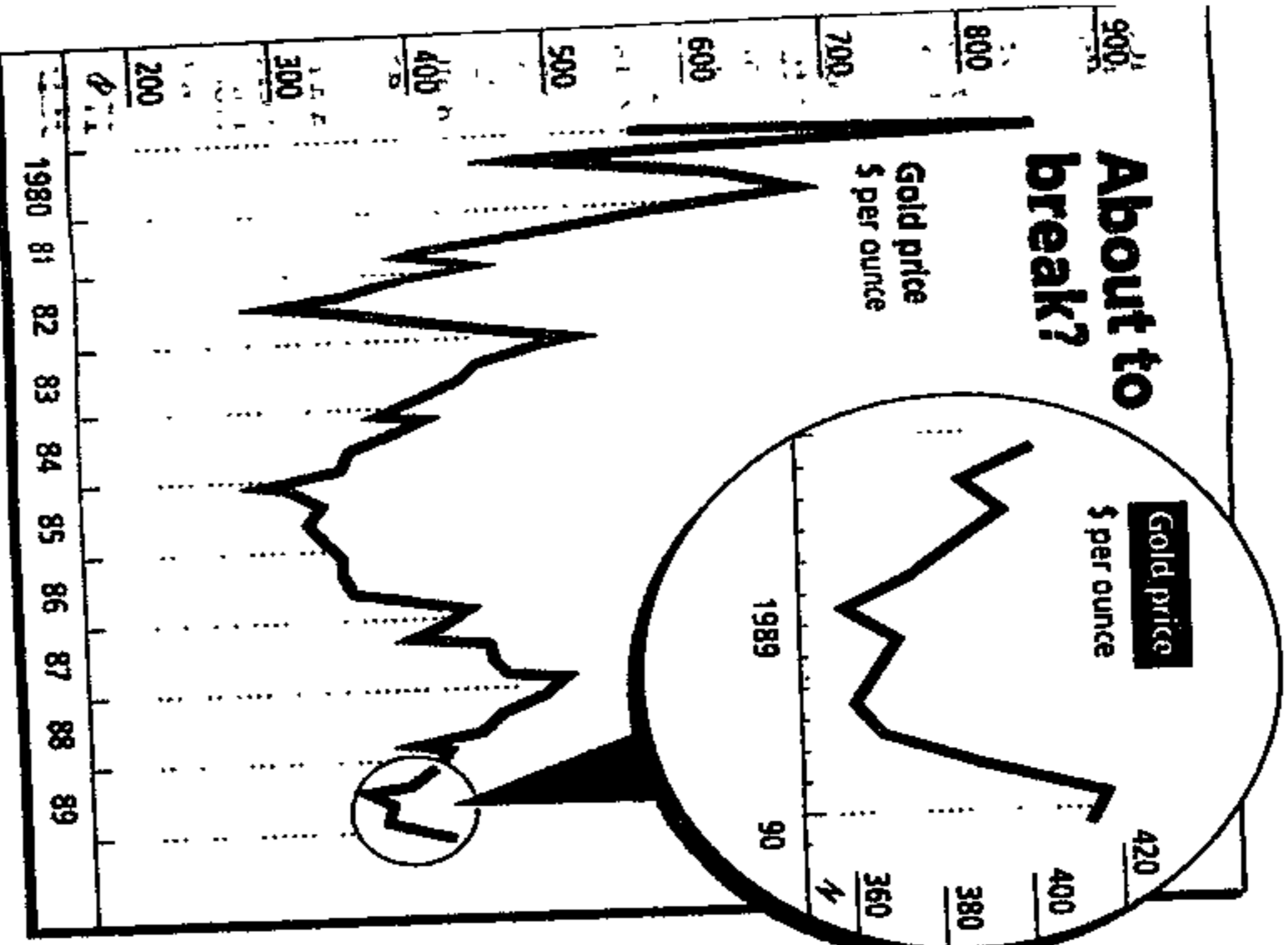
In 1988, says RTZ, there were net new gold loans of 152 tons, that fell in 1989 to 49 tons as repayments began to overtake new loans.

This year mines have to repay 61 tons of gold, and so far few gold loans have been taken out.

Verdict for the gold optimists? Well, as always in gold, remember what their argument is based on.

In the last gold boom people bought so many gold shares that banks started to lend extra-cheaply to some developing gold mines that should never have existed.

This is taken to mean that, in the current gold boom, the gold price should go on up and up and up... — The Economist.



About to break?

Gold price \$ per ounce

Gold price \$ per ounce

1989

1980 81 82 83 84 85 86 87 88 89

RICHARD ROLFE**in LONDON**

De Klerk sparks a gold rush

THE London stock market gave an enthusiastic response to President De Klerk's speech, some blue-chip shares scoring their biggest increases ever.

The London prices of SA Breweries and Barlows jumped by 25% in a day in the rush to buy SA assets.

Shares in Lonrho were also strong — on the view that a high proportion of its assets are in SA. The excitement even spread to Charter, which is regarded as an SA stock, even though it now has no SA interests.

SPECTACULAR

The re-rating was spectacular. However, it looks more like a one-off adjustment than the start of sustained new foreign buying.

The financial rand system means that yields here are roughly 20% higher than in Johannesburg and PE ratios 20% lower. The result is that SA Breweries now yields 2.8% in London and its PE ratio is 17.6.

Compared with Bass, the leader in the UK beer sector, SA Brews is overvalued. Bass yields 3.7% on a PE ratio of 11.

It is true that SA Brews has the potential for explosive growth on the back of its monopoly and rising black in-

comes. But Bass is no slouch either. It is well managed and has a portfolio of attractive assets — like the Holiday Inn chain — over and above a strong position in brewing, liquor and real estate.

The comparatives indicate that there is no reason for foreign buyers to chase SA industrials higher. Further advances in the JSE will need to be led by the SA institutions.

One positive spin-off that has been overlooked so far is the potential impact on SA-controlled companies abroad.

If the political climate towards SA continues to improve — and it looks as if the UK Government plans to take the lead soon in lifting some sanctions — there will be a better environment for SA companies to expand internationally.

Minorco is one obvious beneficiary. In the current climate, the defence which Consolidated Gold Fields mounted, based on attacking Minorco's SA parentage, would be much harder to sustain. In fact, it is probably a non-starter.

This should facilitate Minorco's expansion, at least in

Europe, but probably not yet in the US or Australia. I would also expect Gencor-Genmin to make some interesting moves.

Another possible beneficiary is the underperforming J Bibby, Barlows Rand's off-shore arm. Its growth has been held back by the low rating of its shares — a yield of 7.7% and PE of 9 times — and its perceived vulnerability to its SA connection.

Provided Bibby can convince investors that it now has a strong management team, it should be able to perform much more aggressively.

COMRADES

Rothmans, controlled by Richemont, has been under no such inhibitions. This week, its Swiss subsidiary Sullana announced a joint venture with the Urizki cigarette manufacturing company in Leningrad. Its new brand, Fiodor, will shortly be on sale in the Soviet Union (R5 for a packet of 20).

Perhaps it can also be marketed in SA for the benefit of returning ANC comrades.

THE rerating of SA gold shares has happened over a longer time-frame than industrials, but it has been no less remarkable. SA golds have far outperformed their US and Australian competitors in the six months since the gold price started to move ahead.

The improving political climate is a major part of the story.

Another, says stockbroker James Capel, is the increased marginality of all but a handful of SA gold shares. They are more highly geared to a rising gold price than in the past when break-even points were lower.

Capel's John Taylor calculates the average yield on SA golds' next two dividends at 4.1%. By contrast, the historical yield figures for Canadian and Australian gold shares are 1% and 1.8% respectively.

The anomaly now is that SA golds are expensive in terms of their yield history. But they are still a lot cheaper than the Australians and North Americans.

It is a lot different from the time when the aroma of Havana cigars drifted across the Angolan border. In those



days, Capel's former mining partner Julian Baring used to advocate purchase of SA golds only when yields approached 20%, on the basis that a five-year payback was the minimum acceptable for holding the shares.

SUCH is the current confusion in markets that gold has been going up this week because of fears about production difficulties in the Soviet Union and SA. But if anything, President De Klerk's speech makes disruption less likely in SA.

The USSR is another story. However, the ethnic unrest that has broken out in much of what commentators here are calling The Soviet Disunion is far away from the gold-producing areas.

This in turn is populated by ethnic Russians who have no major differences with the men in the Kremlin.

It is, however, still likely that some combination of lower output and increased domestic consumption will reduce the amount of Soviet gold reaching the West.



15 pc of SA gold produced at loss

The Star Bureau
LONDON — The true cost of SA gold production is now averaging \$350 an ounce and even at today's stronger prices about 15 percent of SA gold is produced at a loss, SG Warburg Securities, the British financial services group, says in its latest *Mining Review*.

Michael Spriggs, Warburg's precious metals analyst, says his calculations take account of the high capital expenditure of SA producers — now running at R2,5 billion a year.

This is equal to \$49 an ounce of gold produced

and much of the expenditure should more accurately be considered to be working costs.

"Much of this expenditure is designed to keep the mines alive by maintaining production. The number of genuine expansion projects is very limited," he says.

Mr Spriggs suggests that the average cost of gold production in rand terms has doubled in the past three years. In the past two years the margin between revenue and costs has fallen by more than 40 percent from just under R15 000 a kg to about R7 000.

In the past year, however, the industry's average working costs have risen by only 11 percent, which is well below the 15 percent inflation rate.

In the two years to June 1989 the industry average grade (gold content a ton of ore) fell by 10 percent to an all-time low of 5,04 grams a ton.

Since last June, however, the trend has been reversed, illustrating "the industry's drive for revenue by striving to raise gold production by focusing on areas of higher grade ore, sometimes at the expense of tonnage".

Mr Spriggs says the SA industry receives an almost constant local price of R1 000 to R1 050 an ounce for gold but that rand costs continue to rise.

Overseas investors take fright over Mandela's statements

By Magnus Heystek
Finance Editor

The brief honeymoon of local financial markets with a freed Nelson Mandela came to an abrupt end yesterday when both the JSE and the financial rand went into a nosedive.

This followed the comments of the released ANC leader on nationalisation of mines, which caused widespread selling by the same overseas investors who just last week were clamouring to get into the local market.

Both gold and industrial shares came under heavy selling pressure, with all major indices closing sharply down.

Local analysts say the selling pressure mainly emanated from abroad, but was further exacerbated by intense jobbing on the local market.

The financial rand's performance was the most telling of all, since the sharp upward movement of this artificial currency demonstrated the sudden turn-about in overseas investment sentiment.

Yesterday morning the financial rand strengthened to R3,12 against the dollar

after closing at R3,20 on Friday.

But the pronouncements of Mr Mandela on sanctions and an unchanged ANC view on the nationalisation of major assets, including gold mines, resulted in a heavy sell-off of the currency.

Heavy selling of gold shares was particularly evident in the afternoon session, despite the fact that the gold price continued to firm during the day.

At the close it was trading at around \$419. One analyst said the upward surge was indirectly linked to Mr Mandela's statements on the proposed nationalisation of gold mines, while the weakness of Wall Street contributed to a more bullish mood.

Yesterday afternoon the financial rand closed at R3,60 to the dollar.

Gold shares were also depressed on international markets.

In New York, ASA, an investment company that holds SA shares dropped \$4,50 to \$64,35.

Traders in London at James Capel said that they did not experience widespread selling because investors were

awaiting moves towards negotiations in South Africa.

Industrial shares, which suddenly came into vogue on international stock markets after President Fw de Klerk's unbanning of the ANC and the Communist Party, also came under selling pressure from overseas investors, who took fright at the latest developments surrounding Mr Mandela's release.

The images of crowd unrest in Cape Town, which were broadcast worldwide, contributed further to the sudden turn-around in sentiment.

Overseas analysts said the world financial community welcomed Mr Mandela's release as a significant pointer towards change in South Africa, but that it would wait and see if it heralded power-sharing.

"Nobody will pump money into South Africa until they hear what Mr Mandela has to say and see what he does," said Christopher Johnson, chief economic adviser to Lloyds Bank in London.

Analysts said, however, that more long-term signs of business confidence

would be muted.

Some analysts said Mr Mandela's freedom could even increase business worries about South Africa.

"The internal political uncertainties have actually increased," said David Kerr, chief economist at National Westminster Bank in London.

"The release of Mr Mandela does not make that much real difference."

The JSE overall index closed down 68 points lower at 3273, while the gold index closed 82 points lower at 2090 after being as low as 2060 at one stage, despite the weakening of the financial rand.

The industrial index was down 28 points at 3150 after showing significant strength last week.

However, in late trade in London and early trade in New York, gold shares started recovering as buyers emerged at the lower levels.

Analysts took the view that Mr Nelson Mandela and the ANC were positioning themselves ahead of the talks and would in the end abandon the idea of nationalisation.

SMA 131490 (79)

SA produces 15% of gold at loss — report

THE average cost of gold production in SA in rand terms has doubled in just three years, says London-based financial services house S G Warburg Securities in its latest mining review.

In the past two years the margin between revenue and costs has fallen by more than 40% from just under R15 000 a kilogram to R7 000, Warburg precious metals analyst Michael Spriggs says.

The true cost of SA gold production is currently averaging \$350 a troy ounce and "even at today's stronger gold price, about 15% of South African gold is produced at a loss", he says.

His calculations take account of the high capex by SA gold producers — currently running at about R2,5bn, which is equivalent to \$49 an ounce of gold produced.

"For the SA industry, much of this expenditure is earmarked for projects designed to keep the mines alive by maintaining production.

RIAAN SMIT

"The majority of capex should therefore be considered more accurately as working costs, for the number of genuine expansion projects is very limited," Spriggs says.

The industry continues to be squeezed by inflationary pressure and flat gold revenues.

This has been caused by:

labour costs that have rocketed in recent years as a result of inflationary pay rises;

79

Costs

24

attempts to mechanise the industry and improve productivity have met with limited success;

the progressive deepening of operations and increases in travelling times continue to push up real costs; and

the weakening of the rand and the imposition of tougher import tariffs have caused a sharp rise in the price of

Biday. 13/2/90
imported items.

But Spriggs says during the past year the industry average working costs have risen by 11% compared to SA's year-on-year change in CPI of 15%.

This is a measure of the tough policies now being followed by the mining houses to contain cost rises.

He warns that heroic management efforts cannot overcome the effect on cost per ounce of progressively falling grades.

In the two years to June 1989 the industry average grade fell 10% to an all-time low of 5,04 g/t.

Since last June, however, the trend has been reversed, illustrating "the industry's drive for revenue by striving to raise gold production by focusing on areas of higher grade ore, sometimes at the expense of tonnage".

He points out SA gold mines receive an almost constant local price of R1 000 to R1 050 an ounce for gold, but rand costs continue to rise.

"Here is the real squeeze," he says.

Gold's ups and downs delight

9/10/84 1572/90 (79)

KENNETH GOODING in London

TO THE delight of precious metals traders, gold is showing the kind of price volatility they love — because volatility attracts more business.

After many months last year when gold drifted aimlessly downward in a narrow trading range of \$1 to \$2 a troy ounce, gold has recently been bounding up and down by \$5 to \$10 an ounce a day.

This followed a jolting change in sentiment towards the end of last year. Now nearly all gold analysts and traders agree that the bear market ended then.

However, professionals in the gold market are divided about just how fast and far the price will recover.

So far gold's performance has disappointed the raging bulls and added weight to arguments that there will be only a modest price improvement this year. Looking further ahead, however, the analysts suggest that the 1990s will be kinder to holders of gold than the 1980s were.

Anyone who bought gold in early 1980 at its historic peak of \$870 an ounce will not have been pleased to see the price fall steadily to \$360 earlier last year.

Then the price bounced off the bottom and in 11 weeks had broken

through the \$400 an ounce barrier again.

The bounce back seems to have resulted from uncertainties in world equity markets last October and November which made Japanese investors in particular very nervous. As Michael Spriggs, precious metals analyst with Warburg, Securities, points out: "People reach for their gold bars when they feel stock markets are due for another downward correction."

The upward surge was then helped by the gold producers, who had contributed heavily to the bear market by selling forward.

The market is also dominated by professionals who had gone short. When they saw the market had turned, they went long on the metal and this removed a hefty tonnage of gold from the market.

Once those factors had pushed up the price, a weakening US dollar since the start of 1990 had the effect of holding it at the new, higher level. What view should we take of

events this year so far?

According to Rob Weinberg of James Capel one determinant of a bull market is when bad news fails to depress prices or does so to only a limited degree.

Gold has demonstrated its bullishness in the past two weeks, says Weinberg, by brushing aside such adverse factors as the suggestion by the Federal Reserve that US interest rates would not be eased for some time; rumours that East Germany was planning to sell a substantial quantity of gold at a discount; and a US Treasury proposal that the IMF should again sell a substantial part of its gold hoard.

By contrast, Tim Petterson, analyst at Metals & Minerals Research Services, suggests that if gold was on

an aggressively bullish route, it would by now have passed \$450 an ounce, buoyed up by continuing uncertainties about equity markets; worries about Soviet sales drying up; and suggestions that political upheavals could lead to a cut in SA's output.

Confused? You are not the only one.

The gold market is extraordinarily difficult to predict because the metal is part commodity, part money. The market is influenced only partly by relatively simple balance of supply and demand calculations. It is also subject to a highly complex balance of sentiment.

However, if logic prevailed in the gold market, the price would not go much below \$385 an ounce (at which level a quarter of the Western world's mines operate at a loss), and would not go much above \$450. At the latter level there is a deluge of forward selling by the producers while purchases by the jewellery fabrica-

tors dry up.

But sentiment is as important as logic and analysts agree that it would need a change of heart by North American and European investors to put real sparkle back into the gold market.

Gold traditionally has been a "store of value". But today there are all manner of sophisticated instruments to protect investors from the ravages of inflation. In this electronic age the seriously rich can switch their wealth from one currency to another at the touch of a button. Interest rates are high. Why pay insurance and storage for a non-interest-bearing asset?

The answer, according to some analysts, is: if there is another nasty dose of rampant worldwide inflation.

In the shorter term, the perplexities remain. As Robin Plumbidge, chairman of Gold Fields of SA, suggests: "It is difficult to predict what will happen to the gold price at this stage. No one can be dogmatic. But it needs careful watching. We are moving into a different environment. The world will not be the same in the 1990s as it was in the past." — Financial Times.

REVIEW

79

FINANCE

Gold price shaped by global picture — report

GOLD jumped to a 14-month high of \$425,50 in London early in February because of political uncertainty in the Soviet Union and SA, London gold dealers said.

The price move was influenced by fears of nationalisation of the SA mines by an ANC government; and from the Soviet Union it was calculated that outbreak of nationalist fervour in the 15 republics, and widespread disillusionment with the Communist Party, would affect production.

But the London-based financial services house S G Warburg Securities has warned in a recent report that many gold watchers get price forecasts wrong by attaching too much weight to any one factor and often by ignoring investor sentiment.

There is more to the gold price than the simple supply/demand equation that other metals, commodities or even currencies follow, it says. Oil and commodity prices, interest rates, money supply and inflation, stockmarkets, political events and the direction of the US dollar all affect the price.

The precious metal is a commodity, a currency and an investment all in one.

Warburg says the total value of annual world gold supply is equivalent to only 0,1% of world GDP and 0,2% of world stockmarket capitalisations. Gold is also actively traded on the futures market with around 20 times the annual mined supply traded, so that speculative and investment

RIAAN SMIT

activity play an important part in the price.

But not any one factor in isolation can be relied on to indicate where the gold price may head. Warburg says it is logical that gold, which is non-interest bearing, should become a more attractive investment when real interest rates are falling, or that gold as a commodity/currency should rise when inflation rises.

"That, we believe, is as far as it goes. High gold prices in 1980 may have coincided with the peak in inflation but since then the graph shows that there has been little correlation."

Tightened

Another example is the argument that the gold price should rise when stockmarkets fall because investors turn to alternative vehicles.

"However, this ignores the fact that a stockmarket decline often signals a recession which is bad for gold in that physical demand declines as belts are tightened."

The moral of the story is that the gold price does not consistently track any one factor, or combination of factors. The price conforms only to the bigger picture — oil and commodity prices, inflation, the direction of the dollar, stockmarkets, political uncertainties and investor sentiment.

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Share prices crash on overseas sell-off

STAKE 1572490 (79) (8)

By Magnus Heystek,
Finance Editor

Overseas selling of South African equities, evident since Monday morning after the release on Sunday of ANC leader Nelson Mandela, turned into an avalanche yesterday, resulting in sharp falls in share prices across the board.

Gold shares were particularly heavily marked down, with the gold index shedding 108 points to close at 1921.

The overall index lost 123 points to close at 3091.

Even industrial shares, which barely ten days ago went into orbit on news of Mr Mandela's release, came in for heavy profit-taking. The index closed 84 points lower at 3051.

Mr Mandela's statements on the nationalisation of mines went down like a lead balloon among international investors.

Since Monday the gold index has shed 250 points, with fears of widespread nationalisation of state and private sector assets by an ANC government taking hold in London and New York.

While local financial markets have been showing distinct signs of nervousness since Monday morning, yesterday's panic selling in the afternoon session caught most brokers and analysts by surprise.

The market was flooded with selling orders from London and New York.

The failure of the gold price to breach the \$420 level served convincingly to undermine further the already shaky sentiment towards gold shares, although a measure of support was noticeable during the last half-hour's trading.

Gold was fixed at \$416 in the morning session in London but dropped back

further to an afternoon fix of \$414,60. At the close gold was trading in London at \$416,50.

On other financial markets the reaction to Mr Mandela's position was the same.

The financial rand gyrated around R3,50 to R3,60 for most of the day, while the bellwether capital market rate of the Eskom L168 rose by another 25 points for the second day in succession to close at 15,75 percent.

The market was described as extremely nervous, with dealers unwilling to take any positions.

Sensible explanation

Analysts were last night trying to put together some sensible explanation for the reaction by overseas investors.

"For years overseas investors have been pressuring the Government to release Mr Mandela. Now that he's released, they're getting rid of our shares at any price," said James Cross of broking firm Fergusson Bros, Hall Steward and Co. He called it "a naive over-reaction".

Most analysts agreed that Mr Man-

dela's statements on nationalisation should not be taken literally, saying they were bound to be part of the ANC's strategy in the run-up to negotiations.

Ron Klipin, an analyst at brokers Frankel, Kruger Vinderine, was particularly perplexed by the sudden turnaround in sentiment on the part of overseas investors.

"Last week they were clamouring to buy a stake in SA Inc at any cost; this week they are sellers of SA Inc on a massive scale.

"This reaction indicates an enormous amount of naivety on the part of overseas brokers. They are focusing on the negative statements made by Nelson Mandela and are totally ignoring the conciliatory noises he is making."

Local institutions were virtually absent from the market yesterday and Tuesday. But according to some dealers some "nibbling" at selected shares was noticeable later in the day.

But all were unanimous that the market would continue to be uncertain for an indefinite time, particularly with a non-performing gold price.

Genrec acquisitions bear fruit

STAKE 1572490 (8)

By Ann Crotty

Genrec, which is involved in the construction, engineering and manufacturing industries, has reaped considerable benefit from the previous year's acquisitions and reported a 93 percent surge in turnover to R252,7 million (R130,6 million) for the six months to end-December.

Operating profit surged to R8,3 million from R2,9 million and attributable profit was up from R2,9 million to R7,5 million, equivalent to earnings per share of 65c (28) a share.

An interim dividend of 12,5c a share has been declared.

The directors are confident that earnings in the second half will be higher than those achieved in the first.

This optimistic outlook is based on the fact that the tank container export market remains buoyant.

"This, together with the recent award of the Marion draglines and our share of the Hook-up contract for the Moss gas offshore platform, has added in excess of R100 million to the forward order book," they say.

Though gold is battling to stay above the crucial US\$420/oz, technical analyst Tony Henfrey believes it will soon reach \$460 and continue to \$500 by year-end. His prediction is rooted in the rate at which the price of the metal is rising when measured by the relative strength index. Its climb from around \$360 since October has been accompanied by a much sharper rise in the index (see graphs).

"This indicates gold could thrust strongly upside," says Henfrey. "The index is reverting from an oversold level previously seen in 1976, 1982 and 1985, which resulted in subsequent rises of 725% (\$103-\$850), 73% and 76% respectively."

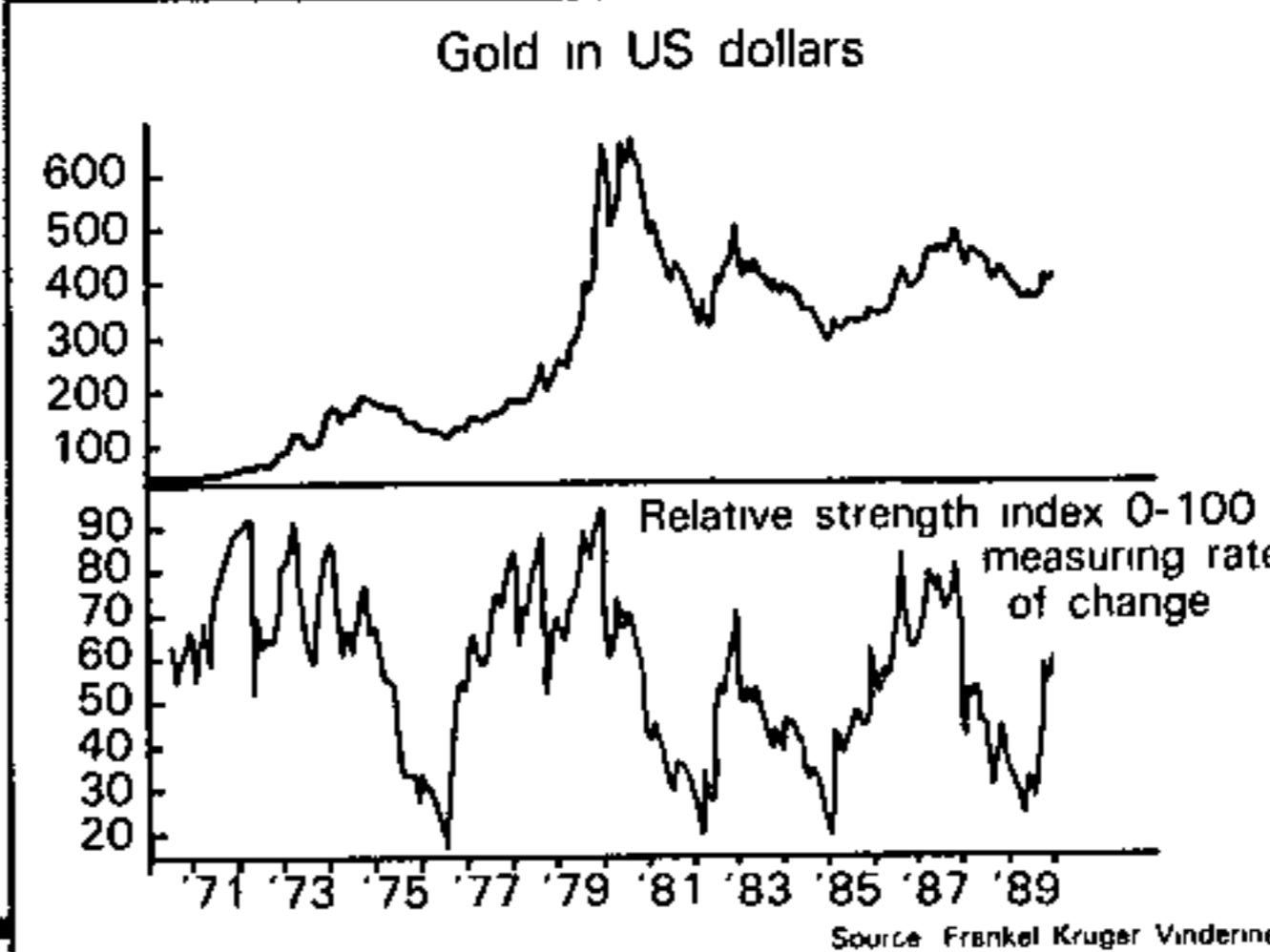
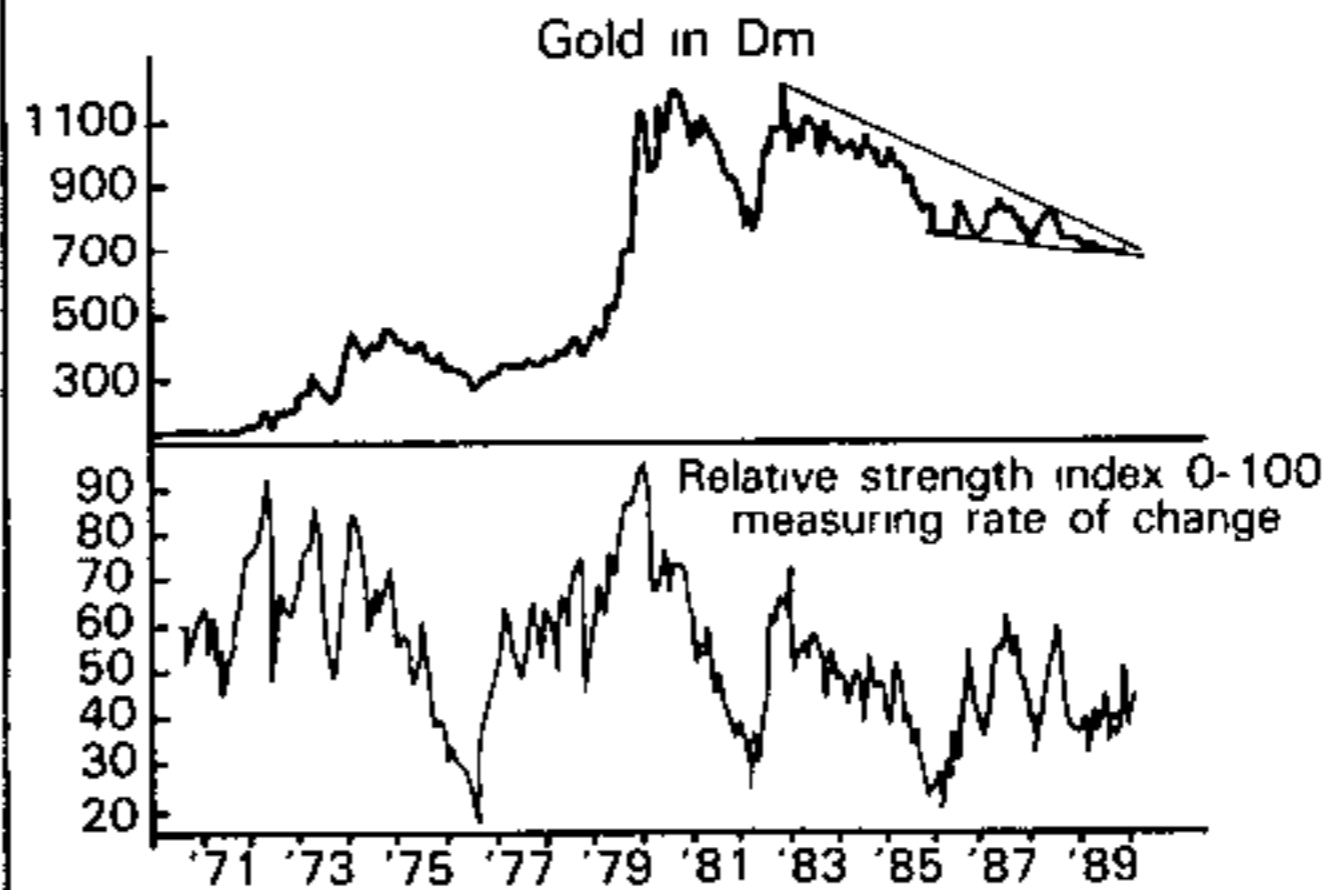
Confirmation comes from gold's performance against the D-mark during 1989. "According to the index the rate of change last year bottomed out each time at a higher level. This showed the rate of the decline had slowed. Now the price in D-mark is rising, moving from DM675/oz in January to more than DM700 in February."

The index often signals change long before it occurs, says Henfrey.

Another signal is the behaviour of the eight-month moving average price which, he believes, over the past 20 years, has successfully pointed the way to movements. "This is the eighth time the mov-

ing average signalled a change in direction: early 1975, mid-1976, late 1980, mid-1982, early 1983, early 1985, early 1988 and late 1989."

Turning point



Source: Frankel Kruger Vnderine

EVEN though SA's gold shares were hammered after foreigners took fright, there is still room for optimism.

What happens if the gold mines are nationalised? I remember speaking to a Canadian stockbroker who came to work in SA in 1986. His view was that if the mines became State-owned, the gold price (\$350 at the time) would fall to \$100.

I expressed my surprise at his forecast. "Oh, there will be stability of supply," he told me. My view was that the opposite would be true.

PANIC

Does our market now suffer for the next several years until a new constitution arrives and shareholders are bought out by the Government for a nominal sum? Will gold shares never again boom as the metal's price climbs?

There was bound to be early panic — witness the sharp falls in share prices. Not to be overlooked is the fact that golds were overpriced in relation to their dividend yield. An opportunity to take profits arose.

Golden lining

Sit Times 18/2/90

It is ironic that just as the world sees the light of gold, the ANC's nationalisation policy regains the light of day.

My view is that golds will regain their buoyancy when the fire has died down a little.

Warburg Securities of London conservatively expects gold to average \$425 this year. In the short term it is on its way to the next chart target of \$440, although there will "inevitably be short-term setbacks" along the way.

Warburg says the outlook for gold is more positive than for some time. Middle East buying, the prospect of more demand from Taiwan and the burgeoning jewellery market in Japan are positive factors, as are the decline in gold loans and forward sales.

The securities firm was spot-on in its view dated February 1: "In South Africa the expected release of Nelson Mandela ... should see further overseas demand for those (SA) shares although investors should watch events

carefully and be prepared for a setback after the honeymoon."

Kathy Pott, economist at AFC Investments, expects no fireworks from gold. She believes that developments in Germany could cause a reversal in the mark's strength. The corollary could be a dollar rally matched by a drop in gold.

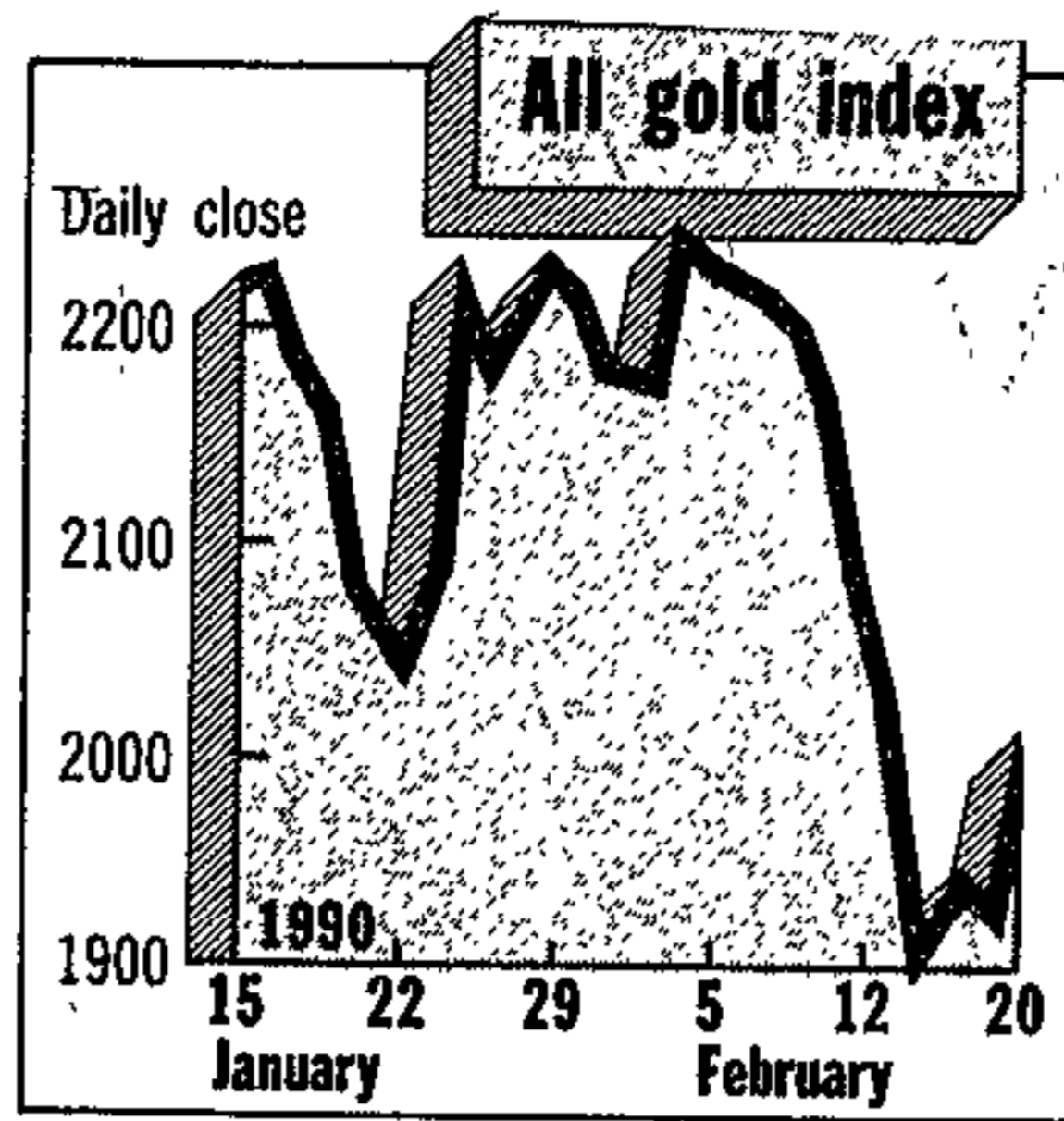
CURRENCY

However, Mrs Pott believes that the dollar is in a long-term bear trend, such that any interruption in gold's uptrend is likely to prove short-lived.

She expects Russia to sell more gold to pay for imports, since oil exports are down and Russia lacks a convertible currency.

SA may be able to slow gold sales if foreign loans are again forthcoming because of Mr Mandela's release, but these are early days.

The order of the day has been to buy on rumour, sell on news.



Graphic: FIONA KRISCH. Source: JSE

Gold and JSE stock resume bull trend

010
21/2/90 MERVYN HARRIS

DIAGONAL Street resumed its uptrend yesterday as gold again flirted with the \$420 level against the background of an easier dollar and renewed weakness in global financial markets.

Leading shares across all sectors registered their strongest surge since the euphoria evoked by President F W de Klerk's reform initiatives was unwound by comments of ANC leader Nelson Mandela.

Led by JSE flagship De Beers, the overall index closed 2% up at 3 203 with the all gold index climbing almost 4% to 2 013 despite a further firming in the finrand investment currency to R3,4650 (\$0,2886) from R3,4950 (\$0,2861) to the dollar.

The gold price touched a high of \$420,90 on widespread buying interest in the Far East and Switzerland.

Gold closed more than \$3 higher in London at \$419,85 as the market awaited the release later today of US consumer price data for January. Platinum firmed nearly \$6 to close at \$527,50, but silver closed unchanged at \$5,34.

The dollar closed softer at DM1,6750, but above earlier lows, while the weaker yen saw it rally to 145,35 yen from the previous 144,55 yen.

Worries about the slump in world bond markets and possible interest rate hikes weighed on stock markets. West German shares plunged 2,5%, but London came off session lows for the FTSE 100 to end 20,1 down at 2 277,0.

On Wall Street, the Dow Jones tumbled more than 45 points to breach the key level of 2 600.

SA and Russia selling all gold

THE Russians, like SA, will continue to sell all their gold production for the foreseeable future, says NM Rothchild and Sons director Robert Guy. (79)

Guy, speaking at the conference yesterday, said it was doubtful whether SA, as it strived to increase its foreign currency reserves in the coming years, would ever seek to rebuild its gold reserves to the level of 10 years ago.

He expected, too, that the Russians would be regular sellers, for the country's current agenda was short on economic solutions. 1/10/79 2114.90

Guy noted international bankers would follow this year's wage negotiations in SA closely. (79)

"They will be particularly interested to see how much support the call for nationalisation of the mining industry receives," he said. — Sapa.



Gold jumpy as equities decline

Buy 22/290

79

LIZ ROUSE

GOLD turned erratic yesterday as higher interest rates caused the Tokyo stock exchange's worst single-day loss since October 1987, triggering sharp declines in other major equity markets.

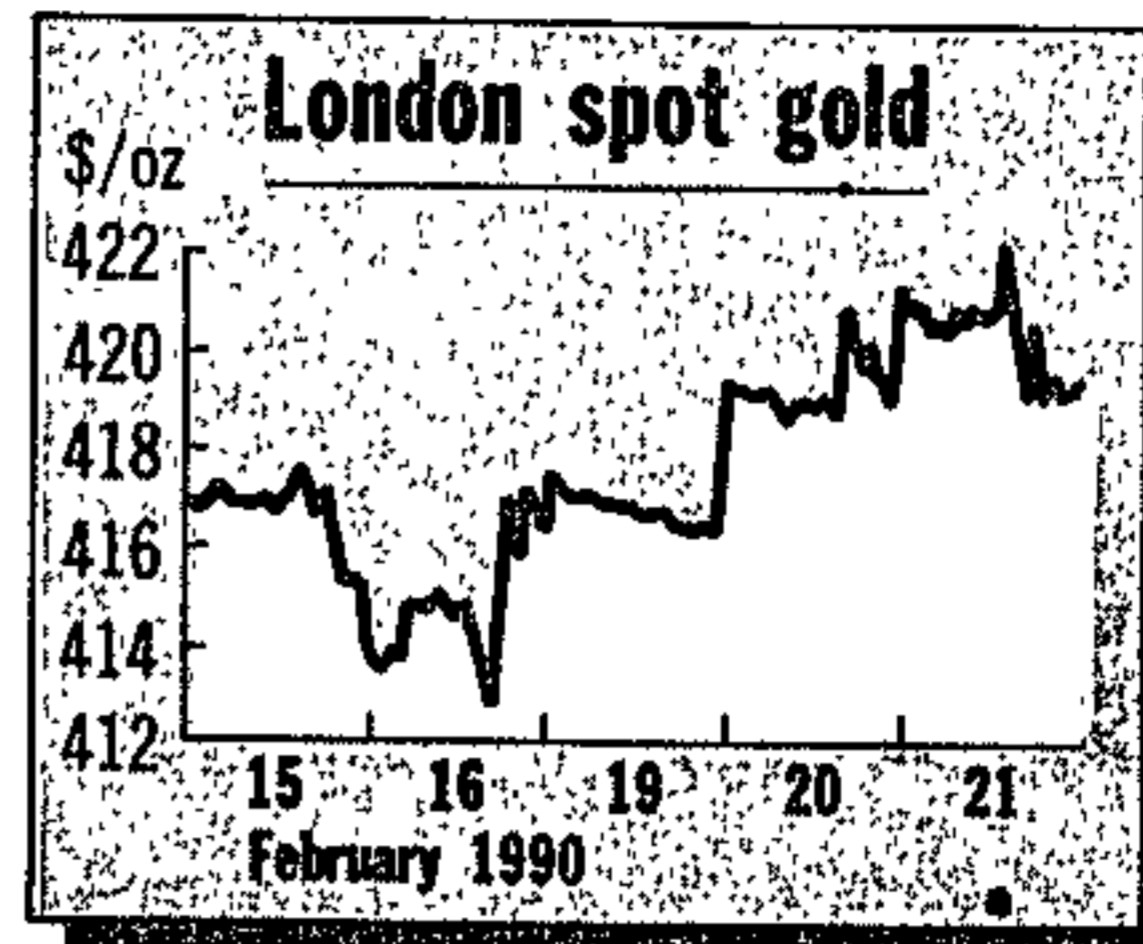
Gold pushed to \$422 in the Far East, up from \$419.50/\$420 late Tuesday, at the close of the Tokyo stock dealings after the Nikkei index shed 1 161.9 points (3.15%) on concern about higher official interest rates. The decline was aggravated by program selling.

Dealers noted that Japanese traders had sold gold earlier in the day, but moved hurriedly to cover short positions when the Tokyo stock market plunged.

The action helped push gold to its current highs but selling at the highs out of Asia and the Middle East helped curb further gains, London dealers said.

The pattern of failure to break through to the hoped-for \$425 mark continued on European gold markets. Gold traded as high as \$422.90 in London yesterday after the fix of \$420.60 in the morning, but was down at \$420 at the afternoon fix, compared with Tuesday's close of \$419.60/\$420.10. The metal closed at \$419.00/50 yesterday.

The JSE's all gold index held up well,



Graphic: FIONA KRISCH Source: REUTERS

closing only 17 points lower at 1 996 after a high of 2 032 in the morning session. But bearish sentiment about the health of international equity markets caused a slide in industrials on light trade and the index closed 45 points lower at 3 058.

Hong Kong was battered by Tokyo's tumble, with shares plunging nearly 4% in active trading, their sharpest fall since mid-October. The blue chip Hang Seng index dropped 118.63 points, with nearly three-quarters of the fall loss coming in the final hour of trading.

In Zurich, Japanese equity-linked issues

□ To Page 2

Gold

Buy 22/290

79

□ From Page 1

were down as much as 10% in active trading.

London shares prices sank sharply in morning trading as the market continued to worry over the prospect of rising bond yields and upward pressure on Japanese and West German interest rates.

Early indications that Wall Street would open lower, combined with lack of institutional buying interest, pushed the FTSE 100 index below the 2 250 point support level.

At the close the FTSE 100 index was down 17.3 points at 2 259.7.

The Dow Jones industrial index slid by more than 30 points (over 1%) in the first 10 minutes of trading, but then pulled up to narrow the fall to 16 points to about 2 580 in early afternoon trading.

Comex gold futures gained on news that US consumer prices in January rose a sizeable 1.1% against the expected 0.8%, but the bullion market appeared to be more preoccupied with the behaviour of Wall Street stocks.

Analysts said the demand for gold was unusually subdued possibly because of concern about the rising trend of US interest rates. They felt that producer selling may have covered up some of the speculative buying that was drawn by the jump in US consumer prices.

Most of the interest in gold developed late in the Far East. Little business was done in London, which watched nervously for Wall Street's reaction to other equity market falls.

© Comment: Page 10

ste 22/2/90

(79)

'Minorco is paying too much for US group'

By Sven Lünsche

Minorco is paying too much for US mining group Freeport-McMoran Gold, when compared with the yields they could expect from a similar investment in South Africa, analysts claimed yesterday.

Minorco announced on Tuesday that it was paying \$705 million, or \$17 a share, for complete control of Freeport-McMoran Gold.

For the same amount Minorco could have acquired similar interests in SA at a discount of at least 70 percent, if the investments were made through the financial rand, a JSE analyst said yesterday.

However, Minorco director Keith Irons said from London that the

offer price was fair, "considering the high PE ratios of US gold shares".

The US group has joint venture interests in two Nevada gold mining operations, Jerrit Canyon (70 percent) and Big Springs (60 percent), both of which it manages.

Gold production at these two sites in 1989 was 244 100 ounces at a cost of \$207 per ounce and the group forecasts production of 300 000 ounces this year, Mr Irons said.

Reserves are estimated at over 2.2 million ounces, giving the mine a life of nine years, and in addition, substantial mineral resources have been delineated within the 330 square kilometre land position at Jerrit Canyon.

Mr Irons added that Freeport-McMoran controlled other substantial exploration licenses throughout North America and had a 50 percent stake in a copper deposit in Arizona.

Mr Irons also clarified the position of possible court actions against the deal, after last year's bid by Minorco for Consolidated Gold Fields failed when a New York court ruled against it.

He said that a similar case against the current deal was unlikely as Freeport-McMoran's reserves were minimal and anti-trust legislation, which stipulates that one company should not control more than 30 percent of a particular market, would not apply.

Few defaults

Concern that there may be many defaults on gold loans is exaggerated, says RTZ gold analyst Jessica Jacks. Despite the rush by mining companies in recent years to raise gold loans, only two relatively small defaults have been made public; two other loans that seemed in danger were restructured. All four involved Canadian companies.

"The amount of gold associated with the four known defaults is insignificant compared with the tonnage of loans completed and those already paid back," says Jacks.

At the height of the gold loan rush in 1988, Bank of England Governor Robin Leigh-Pemberton warned about the number of banks and intermediaries, with little knowledge of the gold market, becoming involved. Recently, there have been market rumours that a number of companies were having production difficulties which might lead to defaults adding up to a substantial tonnage.

Jacks believes there is no foundation to these fears. She suggests mining companies will start to sell gold forward for hedging purposes and raise new gold loans once the price reaches US\$425-\$430/oz. Average weighted price of known gold loans in the past was \$420/oz, though some companies locked in far higher prices.

Jacks says gold loans should be included in any assessment of the supply-demand bal-

ance. The size and value of the gold loan business, as well as changes in its structure, should be accounted for.

She concludes that gold loans put downward pressure on the price because the market has to absorb the gold in a comparatively short period. This should be balanced by a longer-term positive impact because future gold production goes to the bank rather than to the market. In reality, as loans are paid back gradually over several years, the "beneficial impact is likely to be less pronounced than the original negative impact." ■

79

NICHARPD ROTFE

in LONDON

IN spite of a few other trivial events like the collapse of Churn'em and Burn'em and the opening of the Guinness trial, the gyrations of SA gold shares have been the talk of the market here.

SA shareholders have been insulated to some extent by the fall of the financial rand. But for those abroad, the price movements have been savage.

The Financial Times gold share index in London hit a peak of 378.5 on February 2. That was in the wake of President De Klerk's move to unban the ANC, which generated a wave of favourable sentiment and the view that SA investment would once again become internationally acceptable.

STERILE

But six days later, the FT gold index had collapsed to 288.3 — a fall of nearly a quarter.

The glass which had looked half full now seemed a half empty poisoned chalice. The reason for the \$6-billion difference was the threat of nationalisation of the gold mines.

Nelson Mandela has impressed most people with his demeanour since leaving prison. But his views on nationalisation have come as a great disappointment to the investment community.

Mandela's poisoned chalice upsets golds

People are not concerned about the prospect of redistribution of wealth in SA, which is inevitable, but about the sterility of the thinking behind the nationalisation threat.

Ian Lamont writes in *Yorkton Natural Resources* newsletter: "Mr Mandela presents an impressive, statesmanlike image but, alas, it sounds as though he was incarcerated 27 years ago in the middle of a speech and on release has simply carried on where he left off."

Mr Lamont makes a general concession, however: "This may not be entirely his own fault."

Most of the evidence is that nationalisation is bad news for any economy. It reduces management's capacity to manage and results in over-manning and uncommercial decision taking. Its tendency is towards inefficiency and impoverishment.

It is possible Mr Mandela has spent time studying the French economy, where nationalisation works surpris-

ingly well in sectors such as banking and insurance and several others.

But most of the rest of the nationalised world — especially Eastern Europe — is dismantling state control as quickly as possible.

The latest developments in the SA stock market illustrate another effect of nationalisation — it is a big turn-off for foreign investors. SA cannot reach its growth potential without access to foreign capital. But no sane foreign investor will put money into industries which face confiscation.

GOOSE

Indeed, the threat of nationalising the gold mines seems aimed perversely at the foreign investors who own large chunks of the mines' shares.

Because the Government levies a 70%-plus lease and tax rate on the gold mines, as well as a withholding tax on dividends to foreign investors, the industry is arguably de facto nationalised to a great extent.

If the object of attack is to be the relatively meagre amount of profit flowing to shareholders through dividends, then it really is killing the goose.

For this reason, argues Mr Lamont's equally outspoken colleague, Peter Miller: "Very simply, Mr Mandela's speeches to date have done more to harm the economic strength of a future South Africa than years of vindictive sanctions."

His chilling conclusion: "It is fast becoming impossible to envisage a political and economic scenario for a flourishing mining industry in South Africa in the latter half of the 1990s."

I have to say that there are other, more positive views on Mr Mandela's conduct.

On this score, the argument is that he understands perfectly well the need to discard the ANC's nationalisation garbage. Indeed, Mr Mandela, as he hinted to his friend Richard Maponya, may by now be a good card-carrying Uncle Tom capitalist.

But he needs to establish his credentials with the

ANC's collective leadership, many of whom cling to their ideological wreckage of departed friends and backers in Eastern Europe — not least, the Great Conducator, Nicolae Ceausescu.

POKER

It should come as no surprise, says Rob Weinberg, of James Capel, that Mr Mandela at this stage is restating traditional ANC policy: "No poker player would disclose his hand before the betting starts."

His argument is that SA gold shares should now be bought. If investors were really convinced about the demise of the SA mining industry, the gold price would have soared after Mr Mandela's comments, says Mr Weinberg.

"We suspect that most of the selling has been domestic," he concludes.

SA investors have been getting nervous about the level of gold share yields.

"Doubtless many were stunned by the concept of the new South Africa put forward by Mr Mandela when a

few days previously, they had not even been allowed to look at his picture, let alone read his words."

One certainty is that the cycle of euphoria and despair (which is really only our old friends, greed and fear) will continue.

But I incline to agree with Anglo American chairman Gavin Rully: investors have had a bumpy ride, in the past, in a bad cause. In future, it will be bumpy in a good, or at least a better, cause.

THIS, I am afraid, is my final column for *Business Times*.

In the three years since David Carte first enquired as to what I was doing (not a lot, at the time), the highlights have been Minorco's bid for Consolidated Gold Fields and the steady flow of SA entrepreneurs to the UK.

I doubt whether there will be anything quite like the Cons Gold clash again, although a long shot could be that a buccaneer such as James Goldsmith will have a go at De Beers. As to the flow of entrepre-



neurs, it has slowed down recently. People are waiting to see what happens next. It could become a flood or it may start to reverse itself as some SA businessmen over here return home.

My own connection with the world of SA publishing will if anything be increasing. From March 1, I will join Hugh Murray, publisher and part owner with Times Media of Leadership and The Executive magazines, and an old friend from Financial Mail days, to cover the European scene.



By Neil Behrmann
LONDON — Minorco is buying US gold mine Freeport McMoran at a time when directors, executives, and other company insiders are selling shares in North American gold counters.

According to the US Securities and Exchange Commission, 26 gold-industry insiders have sold shares in their own companies.

Only three industry insiders were reported as buying shares.

Hadley Case, a director of Homestake Mining, sold 400 000 shares of the company, says the *Wall Street Journal*.

At Alta Gold Co, a Salt Lake City-based gold and base-metals producer, two insiders sold 205 000 shares.

The action of executives in the US industry does not necessarily imply that Minorco has made a poor investment.

The company says there are special factors to make the Freeport deal attractive — notably its potential reserves.

Nevertheless, insider sales do indicate that management within the US gold mining community believes that industry shares are over-valued.

"This indicates that Minorco paid a very high price for future gold development," says a London analyst.

"Alternatively, gold prices must rise a lot further."

Minorco agreed to acquire Freeport for \$705 million. The historic P/E ratio is 55, but gold production is estimated to

Minorco's buy looks to be a risky venture

rise to 300 000 ounces in 1990 from 244 000 ounces in 1989.

Based on average gold price of \$425 to \$430, UK analysts estimate that earnings per share will rise to around 50 to 60 US cents.

On the purchase price, the prospective P/E of Freeport is 31. The present dividend yield is only 0,3 percent!

These returns compare with historic average P/E ratios of 37 for North American gold shares, 19 in Australia and 17 for South African gold stocks.

Freeport's reserves are equivalent to 2,2 million ounces of gold, but Minorco intends publishing more details of potential reserves next week.

One London analyst says Minorco paid "the top dollar" for Freeport and it must find four to five times the amount of gold reserves to justify the price.

Huw Williams, mining analyst at Kleinwort Benson Securities, says the criticism is unfair.

Minorco is buying a solid mine, which is well managed. It is not often that a US gold mine is up for sale, he says.

Minorco has spent its entire profit plus interest

earned from the sale of Consolidated Gold Fields to buy Freeport.

It sold its stake of just under 30 percent in the huge mining house for \$1,6 billion to Hanson for a profit of \$645 million.

Ironically, if Minorco had not made a bid for ConsGold in 1988 it would still hold a significant interest in massive gold mines, base metals and construction companies in the UK, North America, South Africa and Australia.

It has now effectively replaced 15 percent of its onetime interest in ConsGold with a single US mine, which is only producing 300 000 ounces of gold.

Minorco's shares traded at around \$17 in a lacklustre market on Friday.

The company still has \$1,8 billion in cash, but minority holders of the shares have no control over the way management eventually utilises the spare funds.

The jury is still out on the deal. If the gold price rises sharply, Minorco's purchase will have paid off.

If gold fails to perform, there could be some disenchanted shareholders.

Gold below \$410 as Japanese bale out

B/Dm 27/2/90 (14P) (79)

GOLD was below key support levels of \$410 in nervous trading in the US yesterday, after sentiment turned bearish as Japanese investors sold the metal to offset losses in the wake of the second-largest fall on the Tokyo Nikkei index.

The sell-off spilled over into Europe and gold closed \$4.70 lower in London at \$411.75 after briefly falling below \$410 on expiration of options in Europe.

The steep 4.5% fall on Tokyo's Nikkei index to 33 321.87 and the softer gold price hammered share prices on the JSE, sending the overall index plummeting 2.5% to 3 026.

Shares were softer across the board with the all gold index off 3.2% to 1 857 and the industrial index giving up 2.1% to 3 218.

Dealers said there was no panic selling and ascribed the declines to an absence of buyers and sharp mark-downs.

Institutions gave only limited support to sliding share prices, but the falls were cushioned by a weaker financial investment currency which eased to R3,5900 (\$0,2785) to the dollar from R3,5600 (\$0,2805).

But share prices in London wiped out early losses in late trading, encouraged by Wall Street's firm trend after bargain-hunting overcame early selling.

"It looks as though Tokyo's problems are local," a London dealer said as the FTSE rallied to close 12.7 up at 2 249.4 after a day's low of 2 208.4.

Dealers said the Tokyo stock-market tumble had placed psychological pressure

MERVYN HARRIS

on gold which last week was testing new highs above \$420.

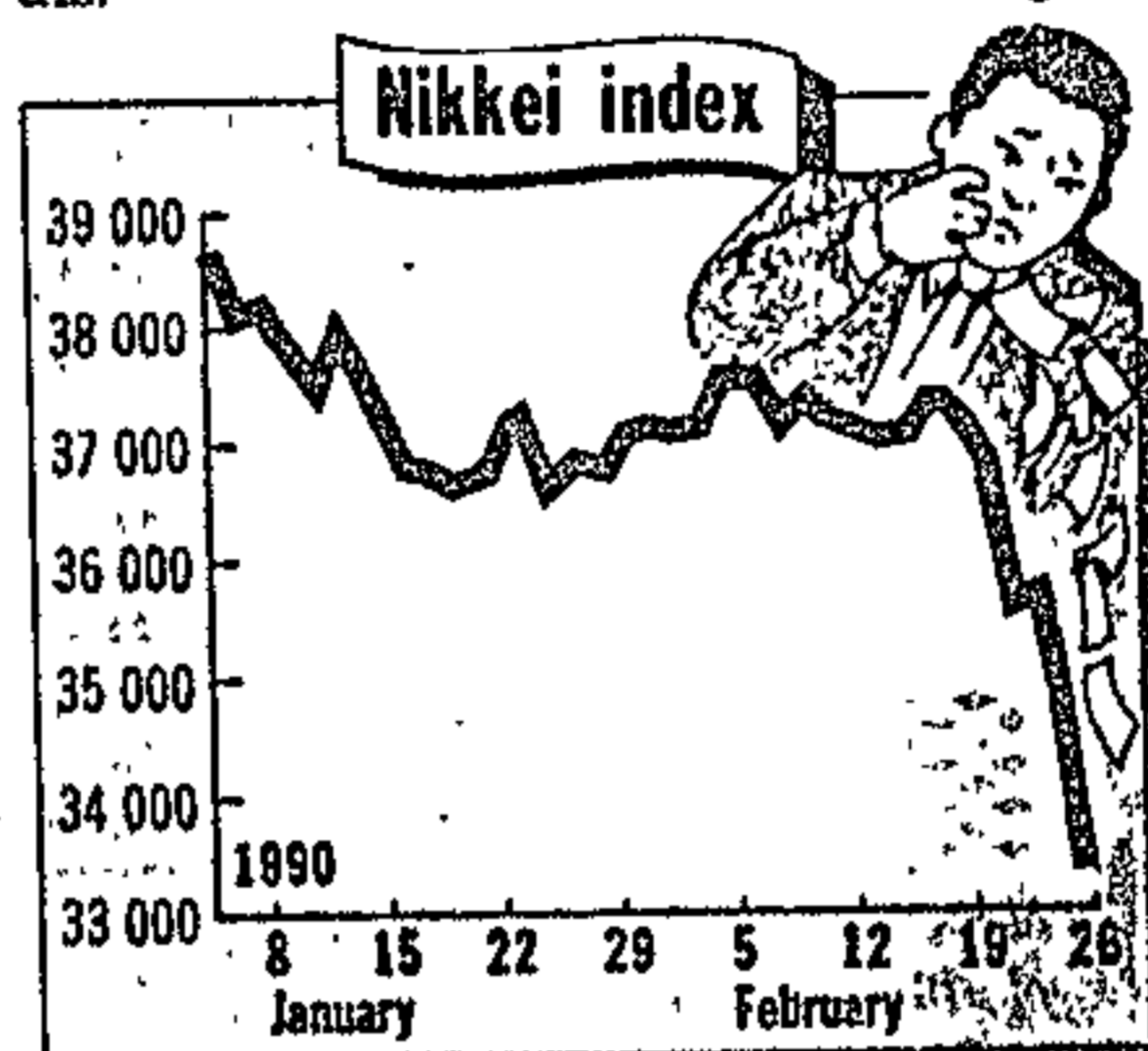
Platinum followed the easier trend of gold to close more than \$8 down at \$514.50, but silver was little changed at \$5.23.

Dollar firmness also weighed on gold but the US currency came off its highs in late European trading on reports the Federal Reserve sold dollars against the background of a very weak yen.

In mid-day trading in New York yesterday, the dollar was quoted at DM1,6895, up from Friday's DM1,6788, and at 148.75 yen, up from the previous 147.08 yen.

Some US analysts see the dollar as the key near-term influence on precious metals.

See Page 9



Graphic: FIONA KRISCH

Minorco positioned for US expansion

By Sven Lünsche

Minorco will use Freeport-McMoran Gold (FMG) as a springboard for further expansion in the United States, analysts suggest.

In a report released yesterday, Davis Borkum Hare analyst Ms Trixie Ingram says that Minorco's offer of \$705 million for the US mining group should be considered as a strategic investment into the US.

"As such, the offer price is fair value and could lead to further acquisitions, a possible candidate being FMC Gold," Ms Ingram writes.

According to the magazine *International Mining News & Views*, FMC Gold produced 422 000 ounces of gold last year and at its current share price of \$11,60, is trading at a historic price-earnings ratio of 13,1.

Analysts Mike Kurtjanek at James Capel in London echoes Ms Ingram's sentiment in a recent interview with the *Financial Times*: "The deal with FMG gives Minorco access to North America without any hassle and gives it control from day one."

However, he added that given FMG's financial performance alone, the \$17 a share offer was on the expensive side.

"Minorco is paying the equivalent of \$320 per ounce for Freeport's recoverable gold and it would need a gold price of \$600 for Minorco to make any

profit on that," Mr Kurtjanek said.

The tender offer document for the bid, which was released yesterday, shows that FMG's net income has been declining for three years from \$34,5 million in 1987 to \$28,5 million in 1988 and \$12,8 million last year.

However, Ms Ingram says that this was largely the result of start-up problems and capital outlays in the region of \$100 million associated with new technological developments at FMG's mines, and that earnings should improve to \$22,5 million this year.

"As Minorco are buying FMG in the light of prospective earnings, a PE ratio of about 26 times (based on 1990 forecast earnings per share of 65 US cents) is fair value when compared with some other leading gold shares in the US," she states.

The offer document also goes some way in explaining the high price as it indicates that FMG's reserves are much higher than initially thought.

According to the papers FMG's proven and probable reserves amounted to 2,54 million ounces at the end of December last year and its geological resources to 5,46 million ounces at the end of January.

Previously only estimates of proven and probable reserves were released, as the geological reserves are substantially less certain.

Biday 2/3/90

(203)

Curnow earnings show decline of 34%

CURNOW felt the effects of the economic slowdown as earnings for the 12 months ended December 31 declined by 34% to 4.3c.

The dividend was also lowered to 1.75c (3.0c).

The group is a distributor of automotive paints and refinishing pro-

ducts to panelbeaters and the DIY market. Turnover advanced to R33.9m (R27.5m), but operating profit declined to R2.2m (R2.7m).

The directors indicate the streamlining activities of the group have taken longer than expected, explaining the disappointing profit performance.

IMF says gold bear market is over

WASHINGTON — The International Monetary Fund (IMF) said the "moderate" \$9.15 per ounce decline in the market price for gold last year, and other developments, suggest the two-year gold bear market has come to an end.

The IMF review of gold market developments over the past several years was published in the current issue of the IMF Survey. Biday 2/3/90

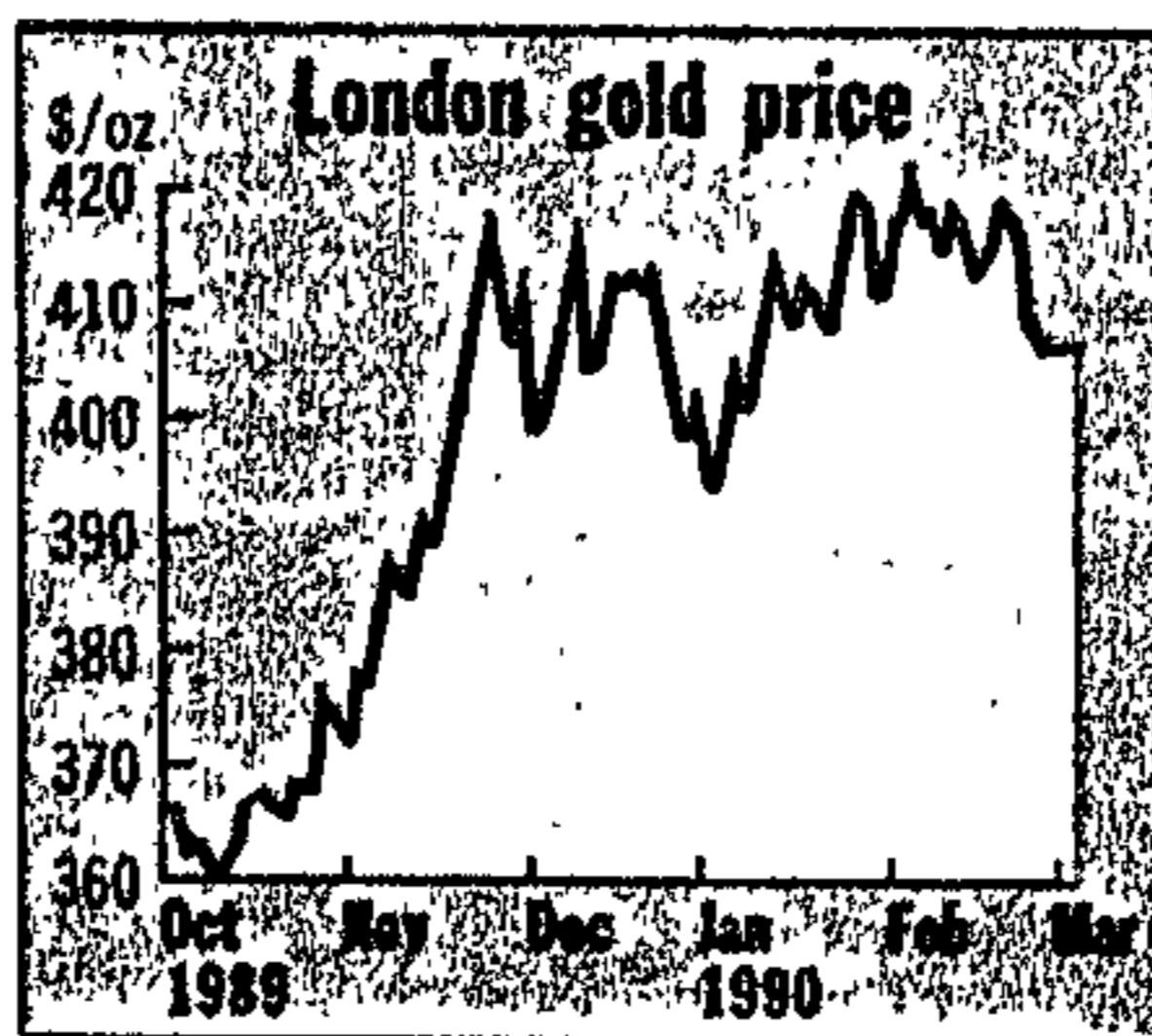
The report did not quote the views of any IMF officials, but attributed most of the comments about price trends to unidentified "market analysts".

Last year, the report said, the \$9.15 per ounce decline in the price of gold in the London market was moderate compared "with the much sharper decline of \$76.35 an ounce in 1988 and \$95.60 an ounce in 1987".

After noting the gold prices averaged \$410 an ounce in the London market at the close of 1989, the IMF report said some analysts were estimating that the market price for bullion could reach \$450 an ounce in 1990.

The IMF itself is sitting on 103-million ounces of gold, subscribed earlier by member countries. But it neither buys nor sells gold. (79) (203)

The report said market analysts are forecasting higher gold prices in 1990 because, "in their view, lingering concerns over accelerating inflation, uncertainties over developments in Eastern Europe, and indications of an increase in demand for gold for investment purposes will continue to provide some support for gold prices". AP-DJ.



Graphic: FRONIA KRISCH Source: REUTERS

Gold edges up as dollar strengthens

BID 213190 MERVYN HARRIS (79)

GOLD shrugged off a stronger dollar and reports of sales by the Soviet Union to come off its lows in Europe and close marginally higher in London at \$407.75.

After slipping to five-week lows in six successive days of losses, analysts had expected the metal to test support at \$400 before resuming its uptrend.

Zurich traders said they had seen the Soviet Union selling stocks at around \$406 but they did not rule out a short covering rally after the metal bounced back from a day's low of \$405.25.

The recovery was helped by comments from US Treasury under-secretary David Mulford that a US plan for the IMF to sell gold reserves to cover arrears on loans should not affect the metal's market price.

AP-DJ reported that Mulford strongly defended the proposal for IMF gold sales as part of a package to resolve loan arrears problems of about a dozen countries.

"We believe it is critical that regular IMF quota resources not be used to provide financing for eliminating the loan arrears problem," Mulford said.

If IMF members agree, gold sales would total 2-million to 3-million ounces.

The lower gold price and a further 2.2% fall on Tokyo's Nikkei index weighed on the JSE yesterday but trading was light in the absence of professionals because of the financial year end.

A stronger firrand helped support prices and the JSE overall index slipped 29 points to 3 055.

Boosted by sustained weakness of the mark and yen, the dollar closed in London at DM1,7110 from the previous DM1,6938 and at 149,40 yen compared with the previous 148,80 yen.

The Bank of Japan is estimated to have spent between \$6bn and \$7bn in defence of its currency this week, Reuter reports.

More bulls leap into gold arena

By Derek Tommey

It is not only Anglo American that is bullish on gold. (It will be recalled that two of their top mining men, Peter Gush and Lionel Hewitt, said last week they expected to see a higher dollar gold price later this year).

They have now been joined in their view by the authoritative American-based CPM Group.

It says in its *Precious Metals Gold Report*, in which it comprehensively analyses the whole scene, that gold might not rise sharply in the coming year, but some increase should be expected.

Gold yesterday struggled to remain above the \$400 level in Europe, but recovered in late trading to an afternoon fix of \$403,20 in London. In New York the metal made further gains to rise to \$404,25.

CPM says it is probable that gold reached its cyclical bottom when it fell to \$357 in September. When gold does fall back, as is likely from time to time, the lows will probably be consecutively higher, at least for the first half of this year.

CPM says there are indications gold could rise strongly for at least a time in 1990. Such a move depends on economic conditions in the industrialised nations and investor reaction to the conditions.

The report states with some certainty that the physical gold market is relatively tight, and

seems likely to remain so in 1990.

The gold market is highly responsive to investor demand. Even small changes in investor interest can have dramatic effects on the gold price.

In 1989, investors spent \$52,2 billion on gold. If demand continues to this extent in 1990, the price can be expected to rise slightly (two to five percent) owing to other factors.

Should investors want to spend more than this, which seems likely at this point, the price of gold would have to rise by a greater percentage to meet investor demand.

Investor demand

A 10 percent increase in investor demand could push up prices 11 percent.

Given investment demand patterns of recent years, it is reasonable to expect investors to increase their spending on gold by at least 10 percent in 1990, and possibly by much more.

CPM says that Soviet sales last year were somewhat higher than previously. Total centrally planned economy (CPE) sales are believed to have amounted to 11 million ounces — up from 10,1 million in 1988.

More significant than this modest annual increase is the increased volatility in monthly shipment rates.

Shipments are currently more than twice as variable as they were two years ago, which introduces yet more uncertainty.

Central banks last year were larger net sellers and are believed to have disposed of 3,4 million ounces and could have sold an even greater quantity.

It is believed 70,4 million ounces were sold last year, plus central bank sales.

On the demand side, the major revision has been in fabrication, primarily for jewellery, and mainly in Italy, developing countries and the Far East.

Jewellers are thought to have used 52,7 million ounces last year, while total fabrication demand is estimated at 60,2 million ounces.

Investment offtake is estimated at 13,6 million ounces, which is less than in previous years.

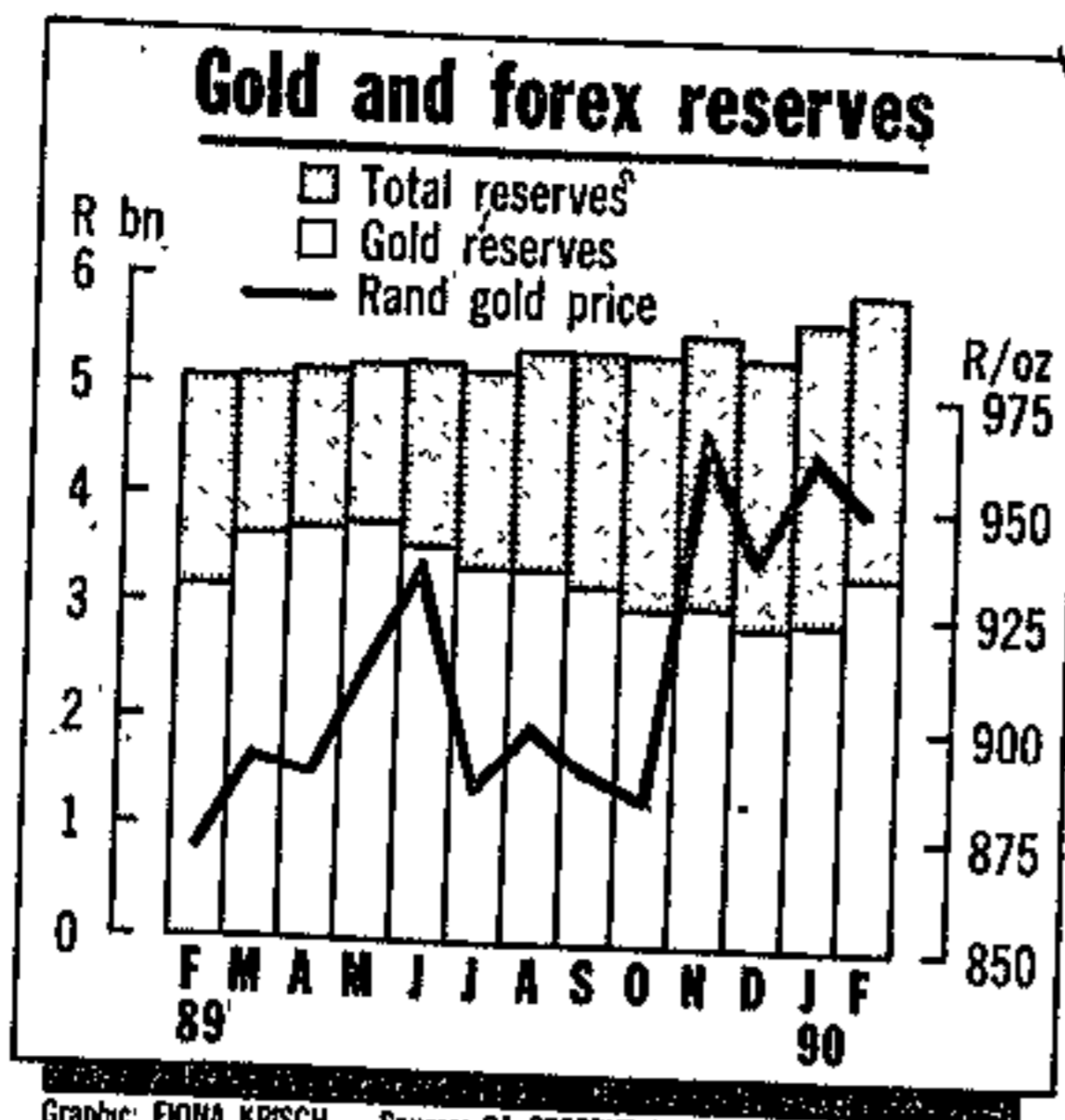
Supplies are expected to be 4,3 percent higher this year than last, while fabrication demand is expected to rise 2,9 percent to 61,9 million ounces.

Assuming only a modest increase in the gold price this year, there will be 13,3 million ounces available for investors, which is 2,5 percent less than they absorbed last year.

It seems unlikely that investors will require only this amount in 1990.

Investors can therefore be expected to bid up the price in an already tight market, says CPM.

Better reserves delight Stals 79



Graphic: FIONA KRISCH Source: SA RESERVE BANK

NEIL YORKE SMITH

SA's gold and foreign exchange reserves increased by R250,1m in February to R5,95bn, from R5,7bn in January. Despite a lower rand gold price of R949,17 (R962,04) an ounce, the value of gold holdings increased R446m to R3,37bn. The significant boost in gold reserves reflected a 0,5-million ounce increase in physical gold bullion holdings to 3,5-million ounces. *Blow 813190*

Reserve Bank Governor Chris Stals has stressed his policy of rebuilding gold reserves. The boost helped inspire confidence in the Bank's ability to fulfil this policy as there appeared little pressure to unvoluntarily liquidate gold holdings, economists said.

To Page 2

Reserves *Blow 813190*

Foreign currency holdings, fell R196m to R2,58bn (R2,77bn).

A rough conversion showed the dollar value of total reserves to be \$2,33bn compared to \$2,23bn the previous month.

"We were also able to repay some short term foreign debt, so the actual improvement is better than appears at first," Stals said in an interview yesterday.

Stals said he was delighted with improvements in reserves during the past two months.

He attributed the improvements to a combination of factors including the maintained healthy current account surplus and easier access to foreign finance.

79 From Page

Restrictive monetary policy had encouraged importers to use foreign financing and with pressure on the US dollar last month, SA traders were encouraged to repatriate dollars on export deals, he said.

The current account was healthy but most capital inflows continued to be short term, and this was unlikely to change quickly, Stals said.

"There is still no evidence of long term capital investment into SA," he said.

On SA's ability to meet foreign debt commitments this year, Stals said: "Current account and short term capital movements have worked in our favour and there is little doubt SA is in a position to meet foreign debt commitments this year."

Base metals showing gold the way home

Star 12/3/90 (79)

By Neil Behrmann

LONDON — Base metals have outperformed gold by a wide margin in the past few weeks.

While gold has fallen six percent to a six-week low of \$398, base metals have surged.

So much so that their rise is confounding analysts. They predicted that gold would soar, while slower international economic growth and high interest rates would precipitate a downturn in base metals.

Instead, while gold has weakened, base metals have recovered swiftly from a two-year nadir at the beginning of 1990.

Since their low points in January, nickel futures have surged 45 percent, zinc 23 percent, copper 22 percent, lead 21 percent, aluminium eight percent and tin four percent.

The mood has changed from pessimism to cautious optimism, says Hans Murmann, MD of Metallgesellschaft, a London unit of the West German company.

Although economies are sluggish, they are still growing, he says. As a result, metals consumption is still relatively buoyant.

With gold, on the other hand, there has been resistance to higher prices. Fabrication and investment demand declined when prices rose above \$415. At current

lower prices, however, demand should improve again.

"We have probably seen the low point in base metals prices this year," says Robin Bhar, metals analyst at WI Carr.

The base metals market is saying there won't be an international recession in 1990, he feels. Metals demand from carmakers and consumer durable factories are slower, but capital-intensive industries in the US and elsewhere are buying more metals for production lines, he says.

Mining companies that were sceptical about the 1987-1988 base metals boom have not raised output sufficiently to meet demand, says Mr Bhar.

US traders are too concerned about the downturn in the American car industry and housing starts, says Edwin Arnold, metals specialist at Merrill Lynch Pierce Fenner Smith.

"But in the Far East and Europe consumption has not waned," he says. Copper is a prime example.

Scrap supplies are tight and there are fears of a strike in Peru. Since US producers, consumers and Comex do not have enough copper inventories, there are insufficient supplies to meet orders.

Events in Eastern Europe are also beginning to have an impact on base metals, says Mr Murmann of Metallgesellschaft.

Poland has raised imports of zinc, while East Germany is not importing potentially hazardous low-quality lead and copper scrap any longer. It is more concerned about the environment, he says.

Lower deliveries from the Soviet Union are encouraging jittery users to bid for available metal.

The market's psychology has changed, says Jim Lennon, metals analyst at Shearson Lehman Hutton.

Base metal orders were slow in the final quarter of 1989 and early this year because the construction industry was weak and consumers reduced stocks.

At the time, industries were content to live off their metals inventories, he says. They preferred to delay purchases because they were confident prices would fall, he says.

Now that prices are rising, inventories are low and industrial production better than expected, metals users are forced to buy.

Despite the price rally, however, some analysts are cautious.

Prices soared mainly because of supply constraints, says Simon Hobson, manager of Metals and Minerals Research Services in London.

Gold's slide more apparent than real

By Derek Tommey

The gold price is still sliding in dollar terms. It dropped to \$397.25 at the London afternoon yesterday — its lowest since January 3.

However, much of the decline is more apparent than real and is the result of the appreciation of the dollar against other currencies.

In Japanese yen and German marks it is much more stable.

On February 19, the London gold price was \$416.75 and the Tokyo price was 60 262 yen.

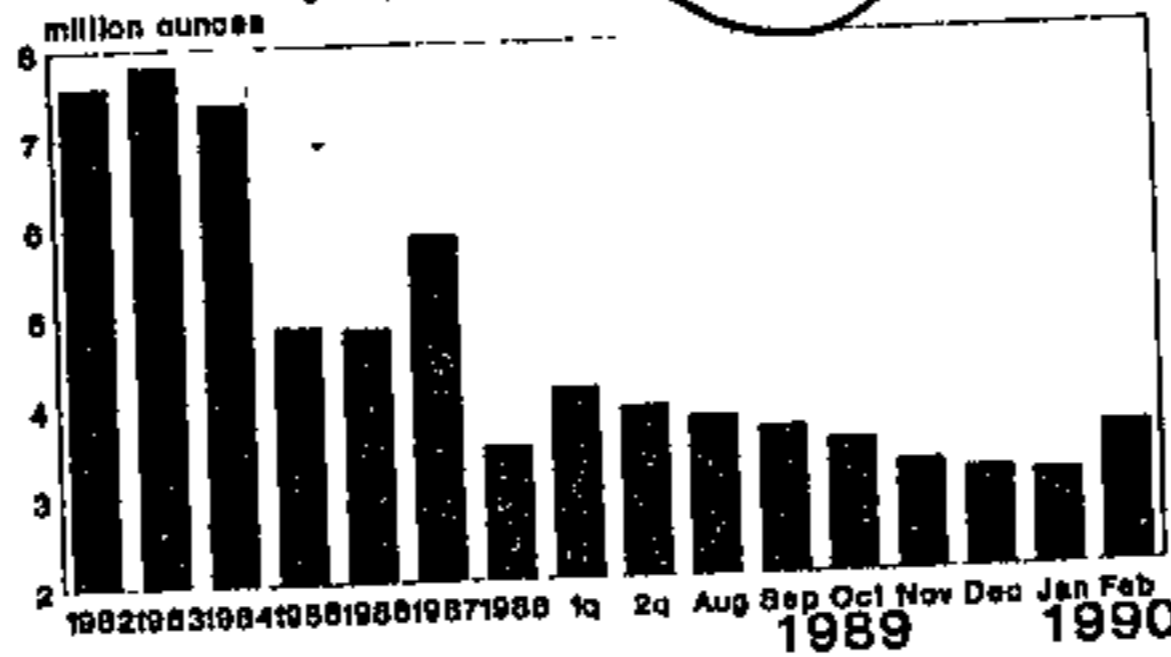
On February 26, when the gold price dropped to \$409.25, the Tokyo gold price had actually risen to 60 827 yen.

On March 5, when gold was trading at \$404.25 in London, it dropped in Tokyo to 60 307 yen.

But for some inscrutable Japanese reason gold closed 0.56 percent higher in Tokyo yesterday at 60 648 yen, although it was fixed in London at \$397.25.

It shows that when it comes to gold you cannot take anything at face value. Moreover, as the Japanese appear to have more money to spend on gold than do Americans, perhaps the yen price is the more important one to watch.

The lower dollar price of gold came



SA gold holdings

despite the Reserve Bank holding back almost one-third of February's current gold production from the market, which, one might have thought, would have helped stiffen it.

The Reserve Bank statement shows it added about 500 000 ounces to its holdings last month to lift them to just over 3.5 million ounces.

This boosted holdings to somewhere near the levels prevailing last September. But no dollar buyers saw this, or if they did they didn't care.

The fairly significant reduction in supplies of newly mined gold to the market appeared to have had absolutely no impact at all — in dollar terms.

"If South Africa were to continue holding back 15 tons a month for the

next year, American buyers might possibly take notice," says a bullion dealer. "The only people buying gold at the moment are those who have to do so — the jewellery trade and the electronics industry," he says.

Demand by these continues to be brisk and is putting a fairly strong floor under the gold market — a fact reflected in the firmness of the Japanese price.

"But there is hardly any investment or speculative demand, and until this comes back to the market, the gold price is likely to remain static," he says.

Last night the financial rand closed 4.4 percent lower at R4.07 to the dollar. But political developments appear to be having an effect.

Since Nelson Mandela's release from prison on February 11, the financial rand has fallen almost 18 percent.

The decline has helped limit the drop in gold share prices on JSE to around four percent since February 9.

But overseas gold share prices have fallen by almost 19 percent since then. The London-based Financial Times gold share index has fallen more than 22 percent in the past four and a half weeks.

Minorco deal challenged

NEW ORLEANS — US mining group Asarco Inc has filed a suit challenging the proposed sale of Freeport-McMoran Gold (FMG) to Minorco for \$705 million.

In its suit filed in New York Supreme Court, Asarco said its interest in a joint venture with FMG could be violated by the sale. New York-based Asarco said it is asking the judge to halt completion of the sale until Asarco's interests have been fully protected. ~~Minorco's tender offer for FMG expires March 23.~~ (79)

Asarco and FMG each have a 50 percent interest in the Santa Cruz copper mining research project near Casa Grande, Arizona. The federal government is funding 75 percent of the project, which is designed to test a method of getting copper from underground formations.

FMG said Asarco's suit is without merit and will be vigorously contested. Minorco failed last year in a hostile takeover bid for Consolidated Gold Fields, a British mining company as a result of a US anti-trust ruling.

The proposed sale of FMG is part of a far-reaching asset sale by its parent, New Orleans-based Freeport-McMoran. The parent is ridding itself of operations purchased in the 1980's to pay off debt and to focus the company on phosphate fertilisers, metals and Gulf of Mexico oil and natural gas.

Proceeds from the sale of FMG would be used to develop a sulfur discovery in the Gulf of Mexico. — AP

Apr 20/3/90

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The Star
Finance

Way cleared for Minorco to expand US mining base

By Sven Lünsche

Freeport McMoran Gold (FMG) could be used as a platform to expand Minorco's mining interests in the United States, says Minorco's executive director Hank Slack.

Speaking soon after a US court refused an injunction against Minorco's \$705 million bid for FMG, thereby removing the last legal hurdle for the deal, Mr Slack said there were no present plans in this regard.

"But there is no reason why FMG could not be used to broaden our mining base in the US.

"For the time being, however, we will focus our attention on supporting FMG's extensive exploration programme.

"The management team of FMG will have full responsibility for developing the growth potential of the group, but we obviously want to be consulted about the steps taken."

FMC Gold, mentioned by some analysts as Minorco's next



Hank Slack

target, is involved in a joint venture with FMG in the Jerrit Canyon project.

Takeover plans

Mr Slack did not disclose any takeover plans, but said FMC Gold was consulted and fully supported FMG's exploration

programme at Jerrit Canyon.

FMG's proven and probable reserves of 2,5 million ounces at the current gold price are worth about \$1 billion, but exploitation of the 2,9 million ounces of geological reserves depends heavily on the ruling bullion price.

Mr Slack did not comment on what gold price FMG would be using for the exploitation of these reserves — its policy in this respect tends to be conservative — but he added: "We would not have offered such a high bid price if we did not see considerable upward potential in the deal."

Speaking on the possibility of other expansion plans, Mr Slack said the group did not have any acquisitions planned at present but was well placed to take advantage of any suitable opportunities.

Minorco is sitting on a cash pile of about \$1,8 billion after the sale of its 29,9 percent holding in Consolidated Gold Fields to Hanson last year and after

the acquisition price of FMG has been taken into account.

Mr Slack said he was delighted with the ruling by the US court, which could in future be cited by Minorco or any other South African group should a similar case arise.

No indication

The injunction, brought by US mining group Asarco, was refused by a New York County Supreme Court judge.

The ruling was that there was no indication that a joint Asarco-FMG venture would lose its government funding because South Africans owned a controlling stake in Minorco.

The judge also referred to an affidavit which indicated that Anglo American and De Beers, Minorco's controlling shareholders, "have been outspoken foes of apartheid and that ANC leader Nelson Mandela met with Anglo chairman Gavin Relly upon his release from prison."

Iscor optimistic about better times ahead

SKC 21/3/90

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By Derek Tommey
Iscor could show better profits later this year.

MD Willem van Wyk said in an interview last night that there had been some reduction in the over-supply situation in the steel industry abroad. He expected this to lead to an improvement in export prices from the third quarter of this year.

The over-supply position has been hurting Iscor recently. It has been affecting current export prices and led Iscor to announce four weeks ago that earnings for the six months to June were likely to decline.

The expected increase in export prices should lead to an improvement in Iscor's earnings in the six months to December.

Mr van Wyk said it was too early to put any figure on the extent of the expected upturn in prices, but orders being placed with the steel industry worldwide for delivery in four to six months' time showed that prices were about to rise.

Mr van Wyk said the improvement in the steel market was the result of production cutbacks by overseas producers, resulting in a better supply-demand position.

The industry had learned the hard way in the early 1980s that it did not pay to maintain full production at all times.

Reviewing other developments at Iscor, he said that operations at the new Corex plant were exceeding his highest hopes. Corex is a world first, using coal instead of coke to make steel.

He said the Corex plant was producing at designed capacity and its product was excellent.

Consumption of coal and oxygen had been below estimates. Mr van Wyk believed that with more experience the plant could be made to function even more efficiently. Iscor's iron ore exports were also running at record levels and prices of iron ore had firmed recently.

The overseas steel industry recognised it had to pay more for iron ore than it had in the past if it wanted continuity of supply.

Mr van Wyk said the move to liberalise East European business should result in a significant increase in world steel consumption in the long term.

But current efforts by East European steel plants to improve output and quality could lead to a short-term increase in the amount of steel going to Iscor's markets. He believed China could become a major market for steel products as it made progress in re-organising its economy.

In 1989 exports of iron ore rose by more than 28 percent to almost 15 million tons, according to

the annual report of the Department of Mineral and Energy Affairs, which was tabled in Parliament yesterday.

The total value of South African mineral sales last year was more than R37,668 billion, or 11,7 percent more than in 1988, of which export earnings accounted for more than 79 percent or R19,825 billion.

The report says total gold output last year amounted to 604 tons — 2,2 percent less than the previous year, while the production of rough diamonds increased by 6,5 percent to over 9 million carats. Coal was the biggest contributor to foreign exchange earnings after gold and 45,51 million tons valued at more than R3,5 billion were exported.

● A conference in Toronto has been told that the recovery in base metal prices should remain strong in 1992-93.

This was the message given to the Prospectors & Developers Association of Canada by Tim Petterson, a director of the Metals & Minerals Research Services consultancy organisation, reports the *Financial Times*.

He said that in 1989 dollar terms, real prices in the next four to five years would average 87c a pound for aluminium, 88c for copper, 31c for lead, \$3,50 for nickel and 50c for zinc.

Gold falls \$10 in rush for dollars

512 21/3/90 Finance Staff

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The gold price fell by almost \$10 yesterday to close at \$392,45 in New York, as international investors rushed into US dollars following a 1 percent rise in the key Japanese discount rate.

Bullion rose slightly in the Far East today — it opened at \$393,25 in Hong Kong — but dealers expect a further rush into dollars as dealers liquidate their position in precious metals. Gold had closed at over \$399 in London yesterday before the decline started in early US trading.

The US dollar rocketed in heavy trading yesterday, benefiting from profit-taking in West German marks and in the Japanese yen. Intervention by several central banks aimed at shoring up the sagging yen failed to alter the dollar's course. The banks reportedly sold dollars and bought yen.

The rand fell slightly against the US currency to R2,61, but bullion's fall came too late to affect JSE trading.

● See Page 16

Share prices drop as gold plummets

B/day 22/3/90

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MERVYN HARRIS

THE surprise plunge in the gold price to four-month lows yesterday and a strong rally in the finrand investment unit played havoc with share prices on Diagonal Street yesterday.

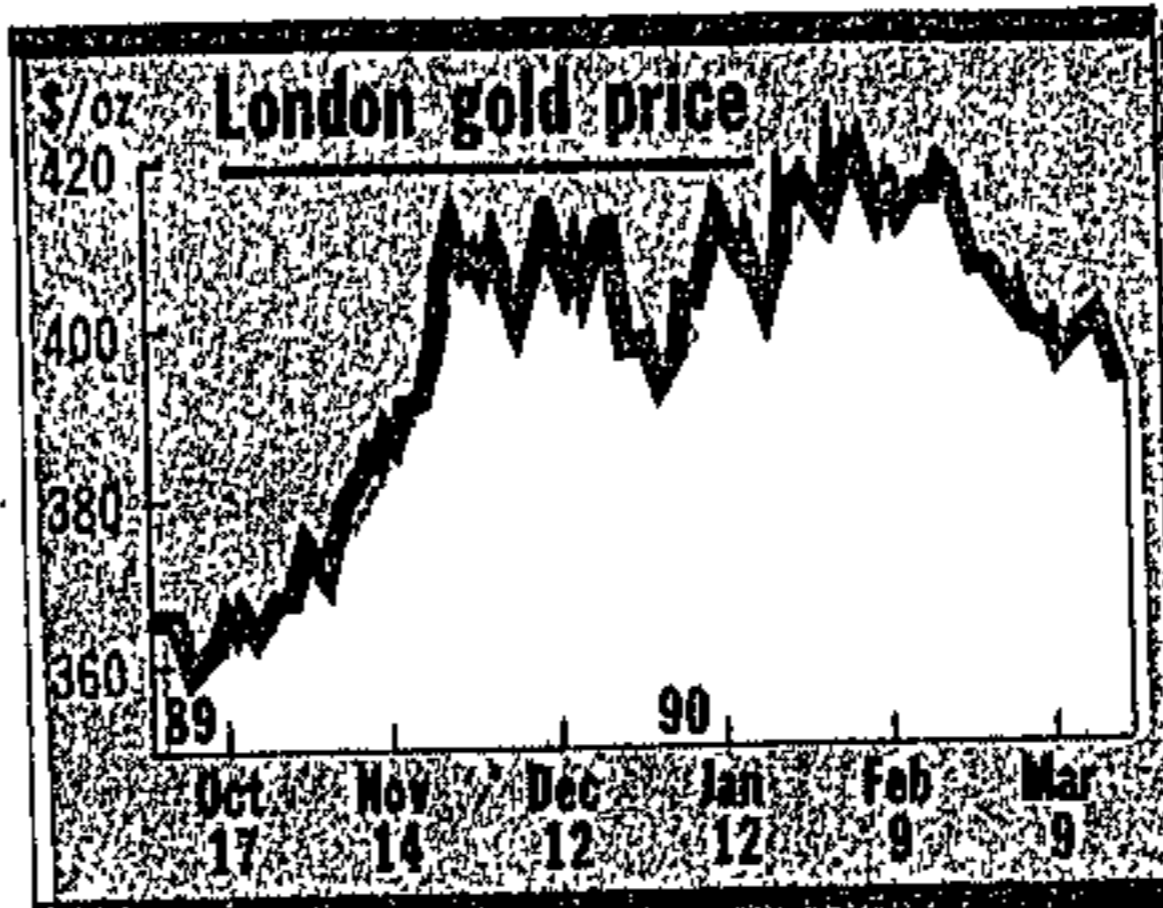
Gold shares were marked down sharply at the opening of trading and continued to lose ground as the metal dropped almost \$10 to a London morning fix of \$389,90, its lowest level since mid-November.

The downtrend of share prices was accentuated by renewed strength in the finrand which rose to R3,8900 from R3,9500 to the dollar. Dealers said the currency was too low and had room to move higher. At the same time, a buyer came into the market to take it to more realistic levels.

The JSE all gold index closed 114 points or 5,3% lower at 2 029 to bring the overall index down 88 points or 2,6% to 3 304, but leading shares were off their lows as gold staged a mild recovery and buyers entered the market.

Gold closed in London yesterday at \$392 with the weakness spilling over to other precious metals. Platinum was fixed at a 2,5 month low of \$486,75.

Dealers said the failure of gold to respond constructively to concern about troop movements near Lithuania had led to a general feeling that the dollar, not gold, was now seen as a safe haven in times of political uncertainty.



Graphic: FIONA KRISCH Source: JSE

Dollar strength came on persistent weakness in the yen which remained on the defensive because of the recent turmoil on Tokyo financial markets, despite Tuesday's 1% rise in Japan's discount rate. Japan's markets were closed yesterday.

Uncertainty over the impact of German monetary union put pressure on the mark, but attention yesterday was focused on sterling which faced a barrage of selling amid disappointment that UK Chancellor of the Exchequer John Major's budget was not tough enough to curb inflation.

Inflation concerns in the US, indicating a continuation of the Federal Reserve's tight monetary policy, helped the dollar firm. It closed in London at 154,30 yen, up from 153,50 yen, and at DM1,7075 from DM1,6964.

Strong dollar behind gold's decline

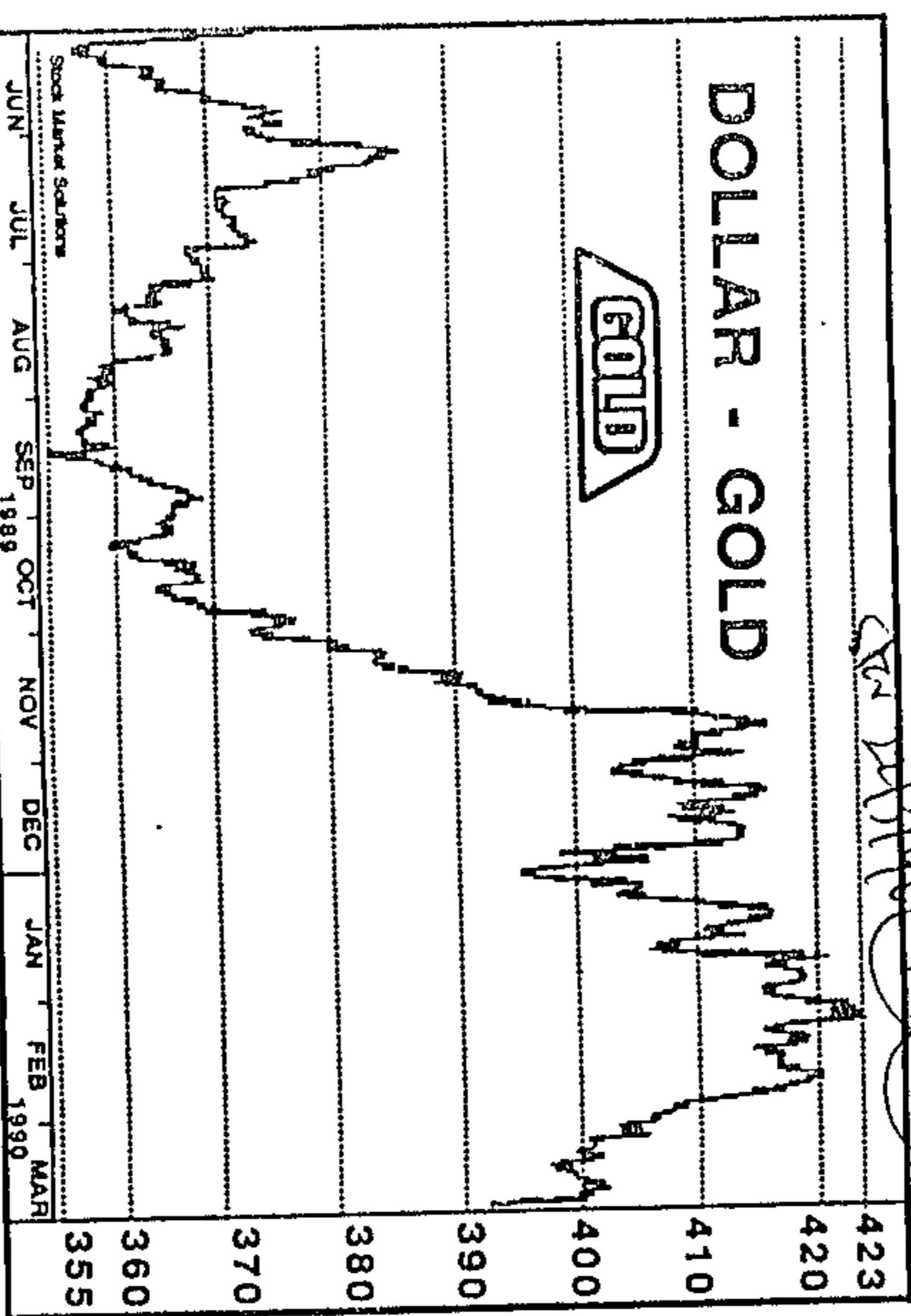
By Neil Behrmann

LONDON — A strong dollar has unsettled the gold market, but dealers expect jewellery and fabrication demand to improve at prices below \$400.

Gold plunged to \$392 yesterday when the dollar rose to a three-year high of 155 against the yen and recovered its recent losses against the Deutsche mark.

The improvement of the dollar was surprising, considering that the US merchandise trade deficit swelled to \$9.25 billion in January from \$7.68 billion in December.

Currency dealers, however, decided to buy dollars because the 7.3 percent jump in imports to \$41.32 billion reflected a 44 percent surge in oil imports.



The oil price has weakened in recent weeks and most economists expect US imports to decline in coming months.

Also, the December trade deficit was the smallest in five years and US officials were expecting worse figures in January.

Regardless of the level of the dollar, however gold has failed to match the expectations of the bulls.

After failing to break through \$425 several times, speculators and investors grew wary and sold holdings.

High real interest rates and slower international economic growth have reduced gold's attractions.

Moreover, gold has become expensive in yen, the weakest of the major currencies.

At present rates, gold costs 60 555 yen an ounce. When gold was at \$360, the Japanese price was 52 000 yen.

"The great hope of the gold market now rests with the Japanese non-life insurance companies and the investment public," says Ewin Arnold metals analyst of Merrill Lynch.

The non-life companies have been given permission to invest three percent of their assets in gold — equivalent to 310 tons.

Yet few people expect the non-life companies to rush into gold, he says. Last year Japanese gold imports fell

to 284 tons (292 tons in 1988).

Imports for January this year fell sharply to 16,44 tons after 25,66 tons in December and 25,66 tons in January 1989.

Mr Arnold has lowered his gold trading range by \$35 to a band of \$415 to \$385.

His reasons are "poor physical demand versus steady supplies."

Import figures monitored by Gold Fields Mineral Services for the main importing centres in Asia and the Middle East show declines ranging from 20 to 40 percent, says Mr Arnold.

Taiwanese gold imports plunged to a seven-month low of 5,83 tons after 19,23 tons in January and 16,57 tons in February 1989.

Last year Taiwanese imports declined to 160 tons from 355 tons in 1988.

The drop in physical demand has been accompanied by 35 to 40 tons of gold loan sales in the past ten weeks, says Mr Arnold.

In a recent speech in Australia, Robert Guy, a director of NM Rothschild, said physical demand should support the market at prices below \$400.

Given political and economic uncertainties, gold should remain a safe haven for investors for some time to come, he said.

GOLD FIM 23/3/90

79

Going nowhere

The gold price is unlikely to move significantly during the rest of the year, delegates to the recent Australian Gold Conference in Perth were told. In his opening address, conference chairman Robert Guy, a director of Rothschilds and chairman of the London Gold Conference, predicted buyers at US\$400/oz and sellers at \$420 — a range with which several forecasters agreed.

Dull prospects reflect a broadly predictable same-again demand-supply situation. A positive influence, however, could come from a new breed of investor in Japan. The recent ruling by the Japanese Ministry of Finance, allowing marine and fire insurers to hold up to 3% of their portfolios in gold bars, opens a hypothetical demand for 300 t at current prices — though recent developments may change this scenario.

The uncertain future of Hong Kong — destination in 1990 of 400 t of the world's 1 800 t output — presents difficulties for forecasters but, on balance, should be positive.

Economic difficulties in China will depress demand in the short term but speakers said the appetite remained enormous.

Forecast for free world production in 1990 is 1 750 t with SA's contribution likely to stabilise around 600 t. US production is forecast at 284 t this year, rising by 15% to 328 t in 1999.

Australia's position was spelt out by Robert de Crespigny, whose Normandy Poseidon group is responsible for more than half of

FIM 23/3/90

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Australia's output. He took a grim view. Operating margins have already been pared from A\$400 to A\$100/oz in the late Eighties with imposition of a gold mining tax imminent. Output is on the decline.

Eastern Bloc output, 250 t in 1980, will prove to have grown to 330 t when all arithmetic is done for 1989 and is forecast to fall back to 300 t this year.

A further bullish factor is the likelihood that rapidly industrialising countries on the Asian Pacific rim will eventually raise the gold content of their official reserves from present low levels, around 10%, closer to 50%.

No speaker saw the US appeal for discount gold sales from the IMF succeeding. ■

Vanity puts fair glitter ^{5/23/90} on gold

By Derek Tommey

The desire of women — and of some men — for gold ornaments kept the international gold industry going last year, figures issued by the Chamber of Mines show.

It reports that a record 1 600 tons of gold was used in jewellery — some 116 tons more than in 1989.

Jewellery fabricators, therefore, took about two-thirds of the estimated 2 446 tons of gold reaching the markets.

The world's largest market for gold jewellery was the United States, which took 210 tons.

Next was Japan where sales totalled 125 tons, followed by Italy with 100 tons.

The six major markets — the United States, Japan, France, Germany, Italy and the United Kingdom — took 550 tons in all. Other Far Eastern countries also provided healthy demand.

The chamber says there are several good reasons for believing that gold is entering a bull phase which could last several years, despite probable increases in the supply of newly mined gold.

It expects jewellery demand to continue to strengthen because of growing disposable incomes, the historically low price of gold, the promotional and advertising efforts of the world gold mining industry and continuing investor- and saving-related demand for high caratage, low-value-added gold jewellery in the Far East.

The chamber expects some decline in the value of the dollar to provoke inflationary expectations and encourage investors to turn to gold as an inflation hedge.

It also expects increased demand for gold when the gold world starts to believe a bull market for the metal is on the way.

Finally, it says the growth in Eastern European markets and speculation about a new monetary role for Russian gold can only encourage a bull market.

Analysts ^{8kr 26/3/90} fear for ⁽⁷⁹⁾ gold price

Gold's fall to well below \$400 last week has analysts worried that it could slide further over the next few days.

Although the move below \$400 occurred on Tuesday, it was not until Friday that the sharp downward move through the critical \$390 level came.

The metal closed at \$389.25 in London, a decline of \$4 on the day and \$8.75 on the week.

In Hong Kong this morning gold opened at \$389.10, down on Saturday's \$389.95 close.

Andrew Smith of London brokers UBS Phillips & Drew suggests it will not return to \$400 for some time.

Speculators were behind the fall, says Rhona O'Connell, precious metals analyst with Shearson Lehman Hutton. Some had been disillusioned by the failure of the price to continue its strong rise, and some had sold short (sold gold they did not own in the hope of picking it up at a lower price later).

The next important support point is \$385. Once breached, the next stop is \$360, says Mr Smith.

However, Ms O'Connell believes demand from the Far East will probably hold the price above \$385. — Financial Times

Middle East sales trigger fall

Market reels in wake of gold's plunge

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B/D am 27/3/90.

GOLD's free fall to a 5½-month low of \$362 on aggressive Middle Eastern selling on world bullion markets stunned investors on the JSE and left the market reeling yesterday.

The metal staged a mild recovery to close more than \$21 down on the day at \$367.50 in London after one of the most hectic trading days for a long time, dealers said.

After opening lower on the weekend falls in New York and Hong Kong, gold continued to plunge when key technical chart support levels were erased, kicking off liquidation and outright fresh selling.

Dealers said the metal was particularly hard hit by selling out of Middle Eastern centres, especially the Persian Gulf.

While there was no panic selling of shares on the JSE and volumes were thin, the all gold index shed 7.4%, or 151 points, to 1 881 to bring the overall index down 3.8% or 126 points to 3 163.

Institutions nibbled at stocks throughout the day to bring selected prices off their lows in the hope that gold would have bottomed. "They did not seem as negative as the gold-price plunge would indicate," a dealer said.

The gold price fall came only a week after the metal edged back above \$400 to lift the overall index to a record high on a wave of bullish sentiment.

"Markets world-wide have changed in that they have become much more volatile, showing enormous falls and then bouncing back a couple of days later. It is a sign of the times and gold could rebound soon," said one trader.

Although dealers were not linking the amount of selling to any one event other

MERVYN HARRIS

than the technical breakdown in gold, they noted that the resilience of the dollar helped underpin the decline in gold.

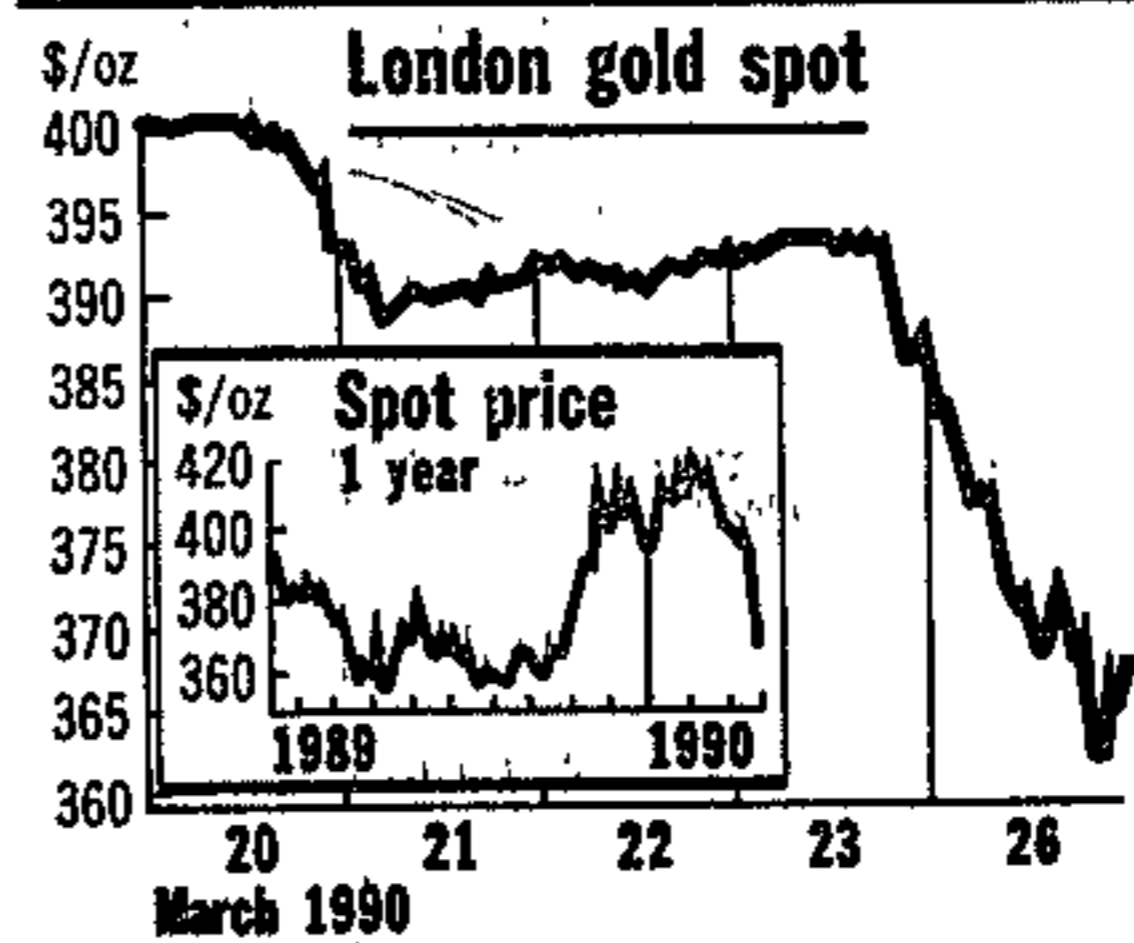
Traders on the JSE said the firm dollar and high global interest rates, particularly in Japan and West Germany, were the twin factors taking gold lower.

Another dealer said that while gold shares had fallen sharply, prices were in some cases still higher than they were in February, when gold was above \$400.

"The extent of the gold price downturn will probably only dawn on people today, and we could therefore see prices go lower."

Mike Brown, economist at stockbroker Frankel, Kruger, Vinderine, said "the wider ramifications of the gold price slump on the economy depends on how long it lasts. The immediate effect has been a lower rand which, down the road,

To Page 2



Graphic: FIONA KRISCH Source: REUTERS

Gold slump

B/D am 27/3/90

could increase inflationary expectations. There could also be a spin-off on interest rates but it is still too early to tell."

The rand weakened sharply against the dollar to close at R2,6518 from Friday's R2,6242 and also lost ground against other major currencies. But the finrand investment unit held steady to close marginally easier at R3,8600 from Friday's R3,8500 to the dollar, giving no support to share prices.

The slump in the rand, however, was not sufficient to give support to the rand gold price which declined from Friday's R1 032.66 to R975.86.

JOHN CAVILL reports from London that a single Middle Eastern seller of 2-million ounces of bullion might have been the main cause of yesterday's collapse in the gold price.

Several stockbroking analysts reported heavy selling in Zurich and London when markets opened yesterday.

James Capel's Rob Weinberg said: "We

From Page 1

have heard a story which cannot be confirmed, that one big Middle Eastern investor was selling gold to buy £500m because he felt the pound was oversold. It was certainly enough to move the pound (which was up 1c to \$1,6135) and that amount of gold would hit the bullion prices."

Platinum, however, suffered less. It fell \$12.50 to \$482.50 an ounce but, according to traders Ayrton Metals, it was marked down rather than aggressively sold.

Brokers in London reported no panic selling of gold shares.

Albert Loveless of Smith New Court said there had been an expected marking down and a bit of selling but the gold share market was remarkable for being so quiet.

No analysts were forecasting a headlong dive to below last year's bear market low of \$356.50 an ounce.

At Shearson Lehman Hutton, Neil Buxton said he expected gold to struggle and go lower before the bounce.

"I do not think we will see a new low under \$360," he said.

Financial Staff

GOLD'S free fall to a 5 1/2-month low of \$362 on aggressive Middle East selling on world bullion markets yesterday stunned investors on the Johannesburg Stock Exchange and left the market reeling.

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After opening lower at the weekend in New York and Hong Kong, gold continued to plunge.

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Rand slumps

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ARI JACOBSON reports analysts forecast a further decline in equities, weakened by about a R7,6-billion loss of market value in yesterday's skirmishes.

The gold index triggered the tremor, falling 7% or 142 points from 2 032 to close at 1 890, with the industrial index accompanying the slide, down 1,5% or 46 points at 2 962.

The decay which claimed 3,8% or 124 points of the overall index at 3 165 was initiated by renewed respect in the Middle East for bargains available on the Tokyo stock market — down 25% since the beginning of the year.

The switch to paper asset allegiances was exacerbated by rumours circulating of International Monetary Fund plans to boost gold supply by off-loading bullion on to the gold market.

Crashing gold price brings down JSE too

CME TINTS
27/3/90
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The dollar was, at this time, gaining strength on the back of unconfirmed reports that the US monetary authorities would no longer, through intervention, depress the dollars value.

With escape routes in place, gold crashed through what analysts described as a critical technical resistance level of \$387 an ounce, spinning down towards \$370 an ounce.

An analyst says: "Investors failed to heed overvalued signals emanating in the market from the time gold bullion ducked under the \$400 dollar barrier last week." Gold shares prior to yesterday's slump had discounted a gold price of between \$430 and \$450 an ounce.

Propped up by institutional intervention the market held up surprisingly well, he said.

Mr Gad Ariovich, a market strategist at Fergusson Bros, Hall, Stewart & Co, is less optimistic. "Gold shares are still discounting a gold price of \$400 an ounce — a further fall is imminent."

However, at \$370 an ounce, a dealer said industrial demand creeps in to stabilise the unpredictable tide of speculative trading.

This view is supported by Mr Rob Gillam, a gold analyst at Frankel, Kruger, Vinderine & Co who says: "At this level gold shares are undervalued and gold bullion is oversold."

● Gold collapsed — Page 12

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Gold price edges up ^{4% US} to \$368.25 ^{27/3/90}

By TOM HOOD
Business Editor

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GOLD recovered \$2 to \$368.25 an ounce in Hong Kong today — but the price is still \$55 below its level of \$423 only six weeks ago.

A drop of this amount could pose a threat to the country's economic lifeline if it is sustained — a \$55 fall would cost the country about R3 billion in foreign exchange earnings.

A huge sell-off, which knocked as much as \$30 off gold futures in New York last night, had its repercussions earlier when prices plunged on the Johannesburg Stock Exchange and R4.9 billion was wiped off the value of gold-mining shares.

SURGING DOLLAR

Gold was hit by a surging dollar and reports that the Saudi Arabian Monetary Agency bought British pounds by selling three million ounces. The agency acts as the country's central bank.

Other precious metals were dragged down as well.

Another dollar advance against the Japanese yen today stoked the pessimistic attitude toward gold.

Japanese institutions were also reported to have unloaded gold to raise cash for buying stocks. The Tokyo Stock Exchange's key index soared by nearly five percent yesterday in its second-biggest single-day rise.

Market reports also said the Soviet Union sold gold to raise money to help it cope with economic difficulties.

Investors were also selling gold to take advantage of higher yields elsewhere.

● See page 24.

Middle Eastern banks cause gold price slump

By Neil Behrmann

LONDON — Large scale selling by the Saudi Arabian Monetary Authority and Middle Eastern investment syndicates caused the dramatic gold price collapse according to Swiss and London bullion dealers.

But even though gold has recovered from its Monday low of \$362 an ounce, confidence in the market has been severely dented. The entire rally since October last year has been wiped out and gold bulls have read faces.

Bullion salesmen have done their utmost to persuade investors that gold is a "stable investment" and a "safe haven" from financial uncertainty.

Given the events of the past 24 hours, however, it is the salesmen who will need to seek a haven from disgruntled investors.

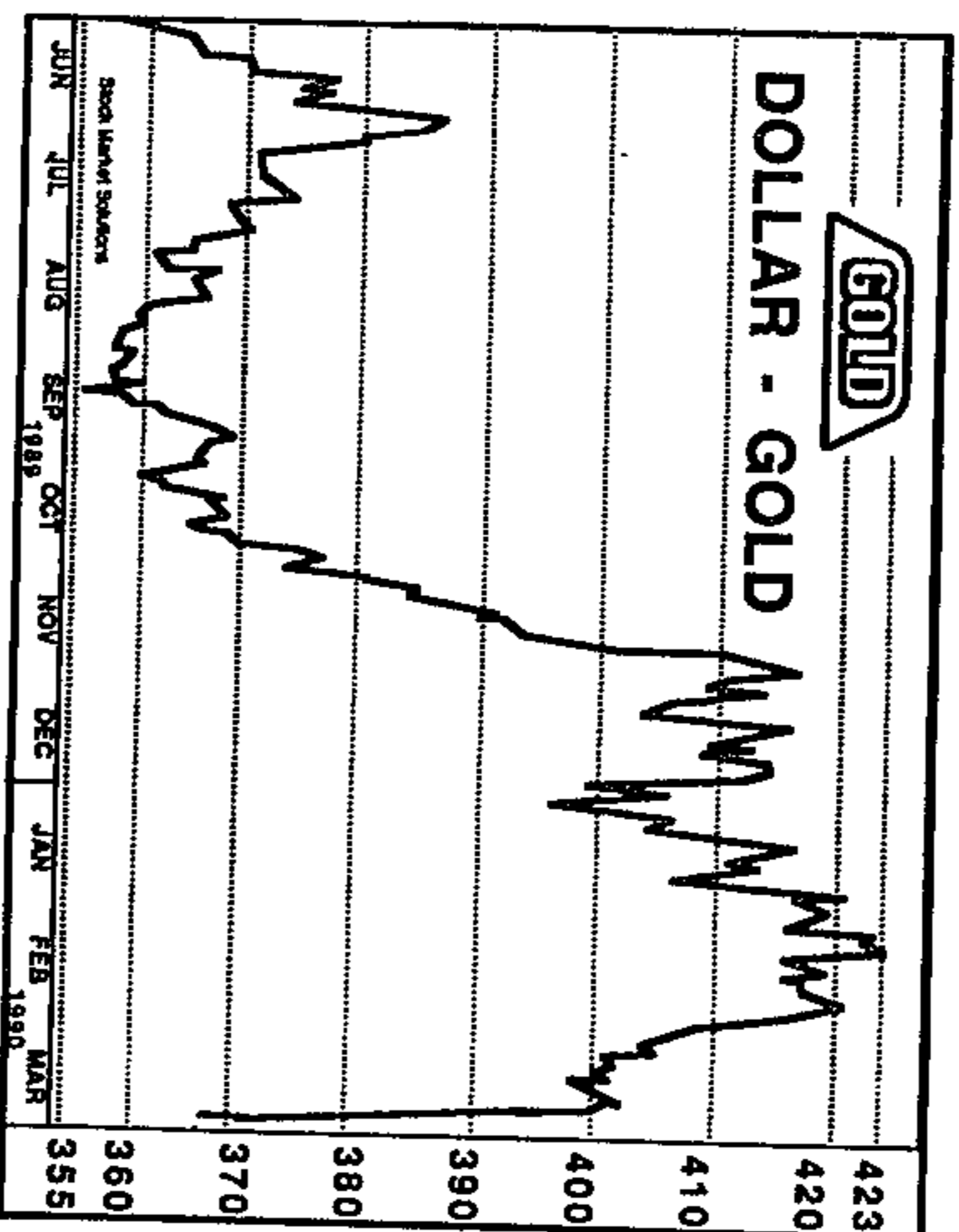
"The Saudi Arabian Monetary Authority dumped 2 million ounces because it needs foreign exchange," said London and Swiss bullion dealers.

The sterling purchases are estimated at \$500 million although the Bank would neither confirm or deny this.

When the price began to fall, Middle Eastern investment syndicates were also active sellers, said Edwin Arnold, metals analyst at Merrill Lynch.

The gold price dropped by more than \$20 to \$368 an ounce on the London bullion market yesterday in what one shell-shocked broker described as a massive move on one day by any standards.

Spot gold stabilised around \$366 an ounce in New York after hectic trading had pushed the metal to a five-and-a-half months low of \$362 earlier.



to further selling in the days ahead.

"Traders stopped supporting gold and it looks like we'll have another suffering market on Tuesday," one analyst said.

The New York Commodity Exchange said it was raising the margin requirements for its gold futures contracts from the start of business today. This move, raising the deposit required for

each contract, is designed to discourage speculation.

In Hong Kong this morning gold opened slightly higher at \$370.05.

But confidence has been shattered by such an extent that any revival won't be extensive, Mr Arnold said.

"Huge amounts of money were lost, a large number of European and US investors had re-

cently bought gold above \$400," a Swiss bullion dealer said.

The collapse of the gold market also surprised professional dealers who were forced to liquidate options and futures purchase positions as the price fell below pre-determined limits. Their sales and forced liquidation of speculators extended the downward spiral.

Even Italian jewellery manufacturers sold gold on the futures and options market to hedge against the price collapse.

Japanese institutions reportedly unloaded gold to raise cash for buying stocks. The Tokyo Stock Exchange's key index soared by nearly 5 percent Monday in its second-highest single-day rise ever, rebounding slightly from this year's severe slump.

It has been widely assumed that the Japanese had been selling gold for months, possibly to cover stock losses.

Market reports also said the Soviet Union sold gold to raise money to help it cope with economic difficulties.

Although the vast majority of

analysts and professional bullion dealers have maintained a bullish stance, the gold market has flashed warning signals for several weeks.

It refused to mount an important resistance barrier of \$425 and did not perform, despite considerable uncertainty in the Soviet Union.

The slightly stronger dollar placed a lid on the market, whilst high real interest rates and expectations of slower international economic growth also reduced the attractions of gold.

Far and Middle Eastern fabrication and hoarding demand for gold waned when prices rose above \$400, said Stewart Murray, chief executive of Gold Fields Mineral Services, a metals consultancy owned by GFSA, Newmont and Renison.

The collapse of the yen had also raised the price for Japanese investors and jewellers, he said. As a result, the Japanese were net sellers in recent weeks.

Mr Murray expects the price to rebound. At present levels fabricators and hoarders will return to the market, he says.

Gold share prices plunge by 7pc on JSE

By Derek Tomney and Sven Lünsche

Gold's steep fall yesterday to \$367.75 sent the JSE gold index into a tail-spin, losing 151 points, or 7 percent, on the day to 1890.

The JSE overall index slumped by 126 points, or 3.9 percent, to close at 3163, while the industrial index fell by a "mere" 45 points to 3008.

Gold is now at its lowest price

to share market chartists and technicians.

On the technical side, Stephen Raphael of London traders Brian Marber said: "The target is now \$375 to \$385."

"At some point gold will rally, but it is unlikely to go above \$402.10. In the end it will go down and test \$355," he told Reuters.

Gold touched \$424 in early February and was last com-

since October.

Dealers in London said many investors were selling the metal because the dollar itself was currently proving to be a better safe haven for funds than precious metals.

"The bull run has been convincingly broken with investors rushing into the dollar rather than gold," one analyst said.

squeeze the money supply, could make money even tighter than it is at present.

Already money market rates have started to firm. Eskom's E168 was yielding 16 percent last night, up from 15.54 percent on Friday.

The drop in the gold price will also put the gold mines on their mettle. At the current gold price

Analysts baffled by confidence

Optimism on JSE despite gold's slump

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B/D on 28/3/90

INVESTORS are remaining optimistic about gold's prospects despite the meltdown in the price of the yellow metal to five-month lows.

This confidence was reflected in the good demand by overseas and local investors for gold and mining financial shares on Diagonal Street yesterday.

Supported by a weaker finrand investment unit, the JSE all gold index rose almost 2% to 1 918 to lift the overall index 1% to 3 196, with the strength of the market surprising most analysts.

Demand came in the face of gold trading below \$370 for most of the day on nervous bullion markets after Monday's setback, when the metal plunged more than \$20 on reports that Saudi Arabia had sold 90 tons of gold to finance the purchase of Harrier Jump Jets from the UK.

After fluctuating narrowly around \$368, gold closed \$1,25 higher on the day in London at \$368,75, boosted by physical demand and technical short covering.

The JSE opened firmer on overnight bidding from New York for large lines of selected SA gold shares such as Kloof, Dries and Vaal Reefs. Dealers reported follow-through buying of gold shares from the Continent through London.

Demand was also seen in early dealings on Wall Street yesterday, with gold counter Homestake making a partial recovery from Monday's lows in active trading.

Local institutions tended to nibble at selected shares on the JSE while private investors entered the market on perceptions that shares presented a buying opportunity at their lower levels.

Dealers said trading was hesitant as people were still uncertain how to react in the wake of the collapse of the gold price.

MERVYN HARRIS

But the resilience of the market confounded most observers.

"It looks as if people do not want to believe gold has fallen so sharply. Many shares are still higher than they were in February, when gold was above \$410.

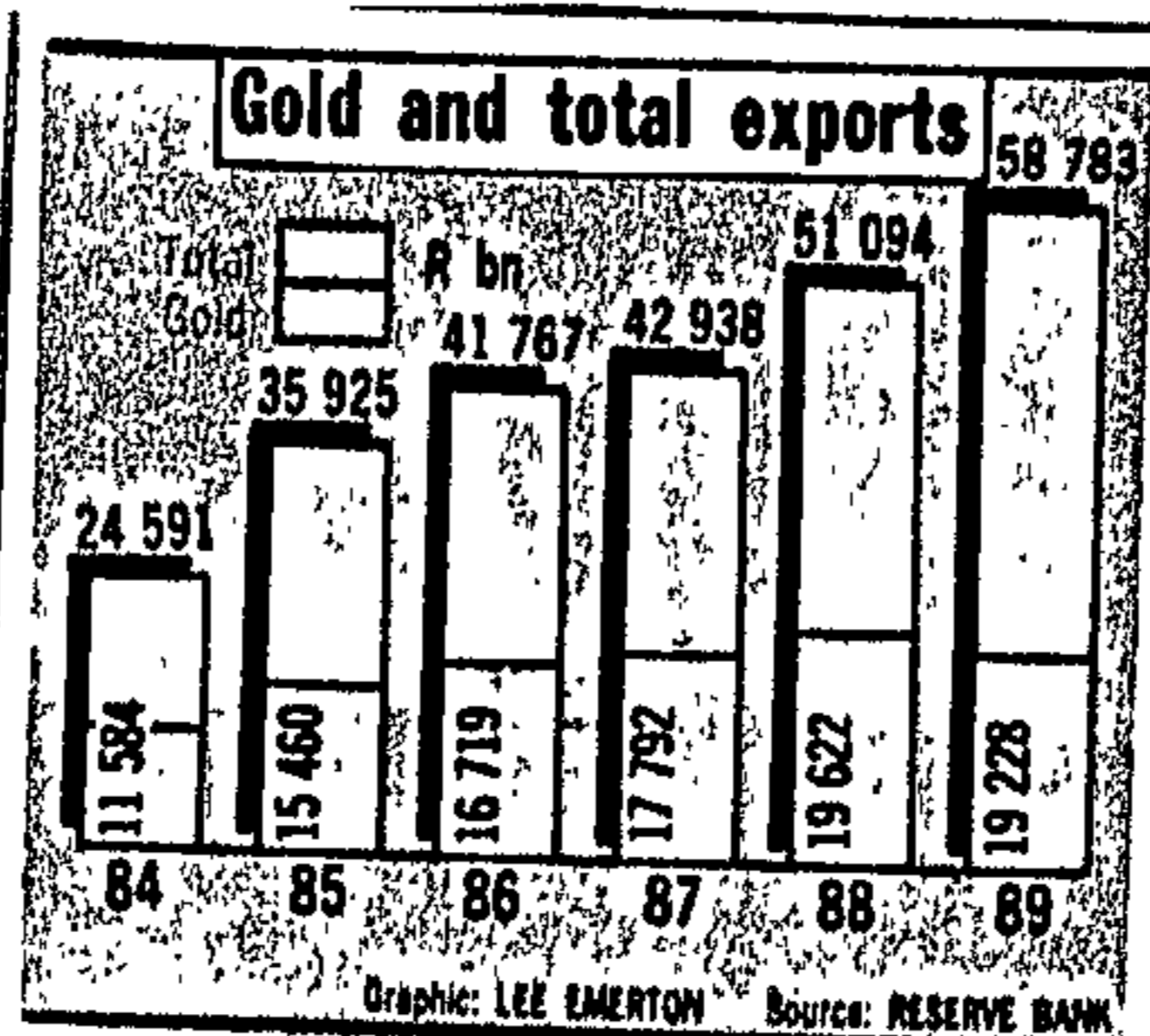
"Gold shares were then considered to be discounting a bullion price of \$500, and if gold does not recover share prices will be even more overvalued than previously," a dealer said.

An analyst said people probably thought gold had gone down too fast and should now go up. They were overlooking the fact that it had suffered a fundamental and technical knock, and it could be some time before it recovered to above \$400.

"I am a little worried and nonplussed by the optimism prevalent on the market. When too many people are positive that the market will go one way, it usually goes the other," he said.

Some investors might be pinning their hopes on how well silver has held up compared with gold. When gold was trading above \$410, the gold/silver ratio hit 80, but this has now fallen to 74. This indicates silver's relatively strong performance and could help explain some of the optimism, as silver has not buckled under the weight of a lower gold price.

The lower gold price continued to put pressure on the rand, which weakened to R2,6573 (\$0,3763) from the previous R2,6518 (\$0,3771) to the dollar. However, this helped lift the rand price of gold from R975,85 to R983,86. Reuters reports that the decline in the finrand from R3,8600 (\$0,2590) to R3,9550 (\$0,2528) came amid renewed political violence in SA.



SA facing forex loss of up to R1bn

GRETA STEYN

GOLD's plunge to below \$370, if sustained throughout the year, will cause SA to lose about \$1bn in foreign exchange — hampering efforts to build up reserves.

But buoyant non-gold exports should help the country over its foreign debt hump this year without the need for interest rate increases, economists said yesterday. Further support for the balance of payments (BoP) is expected from lower imports and favourable short-term capital flows.

Nedcor economist Edward Osborn's projection of a \$2,44bn current account surplus for the year was based on an average gold price of \$418. He said official projections of a R6bn surplus for the year were based on an average gold price of \$410.

"Gold remains the single most important factor for SA's balance of payments. But a decline to current levels will have to be sustained for a while before we start modifying our current account projections," he said. *By Day 28/3/90*

International demand for SA's non-gold exports should remain buoyant this year in spite of a slow-down in economic growth in the industrialised countries. Last year, a surge in merchandise exports neutralised a drop in gold exports.

According to the Economic Review, gold exports dropped from R19,6bn in 1988 to R19,2bn in 1989. Gold accounted for 32,7% of total exports — low when compared with past figures of about 40% and higher.

In February this year, total exports rose strongly from January in spite of a decline in gold exports.

Safto economist Bruce Donald expected growth in merchandise exports to moderate from its high levels of the past two years, but steady growth was still being expected for the year.

□ To Page 2

Forex loss *By Day 28/3/90*

First National Bank's Cees Bruggemans said: "SA's export performance remains remarkably strong, with export prices and especially volumes bearing up well despite the slowing of the US and UK economies and the lower gold price. This seems to bear out that continental European and Far Eastern growth performances remain strong."

Apart from the encouraging trend on the

(79) □ From Page 1
current account, reduced pressure on the capital account would further ease the impact of a drop in the gold price, economists said. Bruggemans said leads and lags had moved in SA's favour and the impression existed that "a massive improvement in the country's net foreign reserves had taken place". However, this inflow could prove to be short-term in nature and the Reserve Bank was wise not to bank on it.

Reserve Bank rules out rise in interest rates

Star 28/3/91 (79)

By Sven Linsche

Although gold failed yesterday to make a substantial recovery from Monday's six-month low, the Reserve Bank has ruled out a rise in interest rates in the near future.

Economists have speculated that the 10 percent plunge in the gold price, coupled with the continued high level of money supply growth, could lead to a further tightening of monetary policy.

But the senior deputy-governor of the Reserve Bank, Professor Jan Lombard, said yesterday the authorities did not envisage a change in their policy stance for the time being.

"It will take some time to establish where gold is heading, but my view is that we are witnessing just a temporary drop in price," Professor Lombard said.

"In any case, our policy is geared to weathering short-term windfall gains or losses."

In line with this view, the Reserve Bank did not intend selling any gold at current price levels and was prepared to build up its gold reserves, Professor Lombard said.

Economists say that under the reign of Dr Stals monetary policy has become more stable and more independent of temporary economic movements.

"The net foreign reserves are being rebuilt, not based on favourable short-term 'hot' flows, but through current account



Professor Lombard

surpluses and long term capital inflows," writes First National Bank's economist Cees Bruggemans in the bank's *Business Brief*.

"Such a restoration of healthy net foreign reserves will create a buffer against future setbacks that will make it unnecessary to shock the domestic economy unduly and make it possible to stretch out any needed adjustment over a longer period of time without inflicting too much damage," he says.

The view is supported by Standard Bank economist Nico Czypionka, who says the slump in the gold price "is not an immediate threat, although interest rates will most likely stay

higher for a longer period than originally estimated."

If gold remains at these low levels during 1989, it is estimated that South Africa could lose some R1 billion in foreign exchange earnings and the surplus on the current account of the balance of payments could well fall beneath the R6 billion required this year to meet foreign debt commitments.

But Professor Lombard says the Reserve Bank used a conservative forecast of the average gold price -- in the region of \$370 to \$400 -- when calculating the R6 billion figure.

In addition, says Mr Czypionka, some, if not a considerable portion of the foreign debt is likely to be rolled over, which would allow the Reserve Bank to strengthen its reserves.

Given the strong trade surplus achieved in January and February, the current account in the first quarter of this year could well rise to just under R6 billion, in line with the surpluses achieved in the preceding two quarters.

And, while a lower gold price will inevitably reduce export earnings, this could be partially offset by the more stable price performance of other metals.

More importantly, says Mr Czypionka, the slowdown in the economy will lead to a further drop in imports over the next few months, thereby reducing the outflow of foreign exchange reserves

Gold steady after plunge

Gold closed \$1 up in Europe yesterday after plunging more than \$21 on Monday when a huge Middle East bullion sale hit the market.

The sale of three million ounces of gold, worth \$1 billion, by a Saudi Arabian investment syndicate was linked to the acquisition of UK Harrier jets by Saudi Arabia.

Gold closed in London at \$368,75 an ounce after ending on Monday at \$367,75, its lowest for six months. In New York it closed at \$371,60.

On local markets the rand continued to weaken following importer activity in early trade and closed the day at R2,663 to the US dollar. The firrand weakened by 12c in response to sales of gold counters by foreigners and reaction to the unrest in black townships.

The all gold index recovered 37 points of Monday's 151 point fall. The overall index subsequently rose by 33 points to a close of 3196.

Bullion dealers were divided over the direction of the gold price. Some said it would steady for a while around present levels. Others said it would slide further as its lure faded against the attraction of high interest rates and the strong American currency.

Size 28/3/00
79

Some central banks face total loss on gold leasing

LONDON - Unusual gold dealings by some central banks have come to light after the bankruptcy of Drexel Burnham Lambert, the one-time junk-bond king of Wall Street.

Drexel leased \$500 million of gold from various sources, including several East European central banks, Portugal's central bank and a Japanese trading company. These institutions may never see their gold again or the cash.

Gold leasing involves passing title to the metal, usually unsecured, to (in this case) Drexel in return for a fixed rate of interest anywhere between 1.5 and 2.5 percent.

That more than covers the cost to the central bank of storing and insuring it. The banks sell the gold for cash and cover their liability to repay the central bank from which they lease the metal by buying gold futures.

Drexel Trading, the firm's commodity operation, sold the gold and lent the cash proceeds to its parent company, Drexel Burnham Lambert Group, which is now bankrupt. In effect the leased gold

was used to finance Drexel's illiquid junkbond portfolio.

It looks as if the bankrupt parent company cannot repay its subsidiary, as it should do if Drexel Trading is to make good on what it owes to central banks.

Drexel owes Portugal's central bank \$120 million, a mere fraction of its \$6.4 billion in gold holdings.

However, the Federal Reserve Bank of New York has alerted the State Department to the potential political implication for East European nations, who might not have known their smallish gold supplies were not entirely safe at Drexel.

Poland, rumoured to be one of the countries that transferred gold to Drexel, owns less than 500,000 ounces of gold, or

The Drexel bankruptcy has caused many central banks to review the credit ratings of their partners in gold leasing. Some contracts have been terminated. Will central banks now demand letters of credit or collateral in the form of government securities before leasing their gold and passing title to it? They would be fools not to. — *The Economist*.

Gold's mighty impact on SA

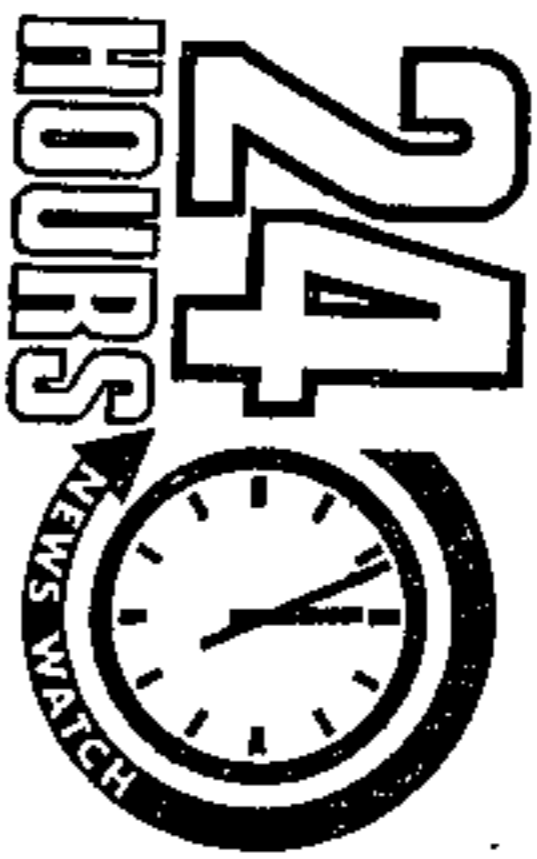
By **DICK USHER**
Business Staff

GOLD is a commodity and, like any other, is subject to the laws of supply and demand.

So when a large quantity, estimated at between 70 and 90 tons, suddenly dropped on the market there was only one way the gold price could go — down.

That much gold would account for more than 10 per cent of South Africa's annual production of around 620 tons.

The overnight collapse from around \$390 an ounce to \$362 an ounce, after it had reached \$420 only weeks earlier, has dented confidence in bullion as a stable investment, wiped out the entire rally since October last year and in one day blew about R5 billion off the value of gold-mining shares on the Johannesburg Stock Exchange.



Dealers, speculators, stock-brokers retreated with shell-shock as the gold price went down the tubes.

The gold glut was reportedly caused by Saudi Arabian Monetary Agency, which acts as the country's central banks, selling gold heavily to get the hard currency needed to finance buying Harrier Jump Jets from Britain.

As one economist said: "You learn humility in the gold market."

"No sooner do you think you know something about it than it does the entirely unexpected."

Not only did gold's slump drag other precious metals

down in its slipstream, but it also served to illustrate the sensitive inter-dependence of the world's major currencies and the dominance of their industrial muscle in the world.

As gold dropped, the dollar continued its recent strengthening against the Japanese yen, but this further fuelled the pessimistic attitude about gold.

A rising dollar lowers inflationary pressures in the US and reduces gold's value.

At the same time, Japanese institutions were reported to have unloaded gold to raise cash to buy stocks on the Tokyo Stock Exchange.

The market jumped nearly five percent on Monday, its second-largest single-day rise.

Meanwhile, the Soviet Union, facing economic difficulties arising from internal disturbances and shifting economic policies, added to the over-supply by selling gold to

raise hard cash.

Huge amounts of money were lost in the tumble.

Many foreign investors had recently bought gold above \$400 an ounce as it sustained its recovery since last October, possibly anticipating further upward movement, and many were forced to liquidate options and futures positions.

These sales brought additional downward pressure to bear on the gold price.

Adverse effects

For South Africa, a drop of this magnitude, if sustained, could pose a serious threat to the country's economic lifeline.

In spite of export growth in other sectors, gold still accounts for more than 30 per cent of South Africa's exports, the largest single earner, and a \$54 fall would cost the country about R3 billion in foreign exchange earnings. Such a drop would have a

seriously adverse effect on our balance of payments — the surplus earned by exports which provides the hard currency to finance imports and finance debt repayments.

According to Old Mutual's chief economist Dr David Mohr, South Africa is committed to a "quite heavy" debt repayment schedule this year.

The commitment is for about R6 to R7 billion, but the feeling in financial circles is that only about R4 billion need be paid in 1990.

"The drop puts us in a less favourable position to service that debt," said Dr Mohr.

A loss of around R3 billion in foreign exchange earnings would require the government to raise this elsewhere — either from increased exports or by restricting imports and domestic consumption.

"The government would have to keep expenditure under control which would inevitably mean the current higher interest rates would have to remain in place for longer than expected.

"We certainly cannot look for short-term interest rate relief after this drop," said Dr Mohr.

Interest rates are raised to encourage investment which will earn profits.

In the major industrial countries, although inflation rates are at relatively low levels of below 10 percent a year, interest rates produce a real return of around seven percent on investment which have recently provided attractive terms for investors.

But gold does not produce interest, only capital gains when it is sold, and this factor has also tended to keep a lid on the gold price.

Analysts suggest that a further effect on the South African economy could be to threaten marginal mines. Gold analyst Nick Goodwin

suggested that a quarter of South Africa's gold mines could be threatened with closure if gold remained at its current low levels.

Over the past few days the gold price dropped in random terms to around R980 an ounce, near or below the level required to create sufficient cash flow for marginal mines to continue a satisfactory capital expenditure programme.

The 16 mines he identified as marginal produce about 90 tons or 15 percent of the country's total gold production and, although any question of closing would depend on many factors beyond simply the price of gold, their loss would further undercut export earnings.

Ripple effects would be felt across the economy through increased unemployment and adverse effects on a host of industrial suppliers for whom the mines are important customers.

Overall index surges 64 points

(79)

~~232~~

Recovery on JSE gathers momentum

B/Day 29/3/90

THE SHARE price recovery gained momentum on Diagonal Street yesterday as fragile confidence returned to the market after Monday's tumble on the sharp plunge in the gold price.

The 64-point (2%) surge in the JSE overall index to 3 262 means it has recovered 99 points of Monday's 126-point plunge. The all gold index came off a high of 1 975 to close 49 points up at 1 967, recouping 82 points of Monday's 151-point tumble.

Dealers said the market undertone was firm with no supplies of scrip coming out of London or the Continent, and people who missed buying shares cheaply on Tuesday had to bid up prices to obtain stocks.

They said market confidence was boosted by the fact that investors did not panic and rush to sell shares when gold was tumbling, and came in as buyers on the metal's uptrend.

Trading remained nervous, but demand was fuelled by what one dealer described as "the Greenhouse effect": cash flush institutions with restricted investment outlets were incestuously feeding their own market.

Gold started slipping off its highs towards the close of trading and took leading shares off their highs as buying dissipated amid indications that New York might be a light seller of SA shares.

A late burst of selling wiped out gold's early gains for the metal to close in London yesterday a marginal 50c higher on the day at \$369,25 in active but choppy trading.

Dealers said the selling was related to the expiry of options in what they described as a market still nervous and unstable after the metal's plunge on Monday.

Inspired by buying by fund managers and gains on Far Eastern markets, gold opened in London yesterday at \$373,50 and

MERVYN HARRIS

surged to a high of around \$375. But it fell back in early New York dealings as US operators liquidated positions.

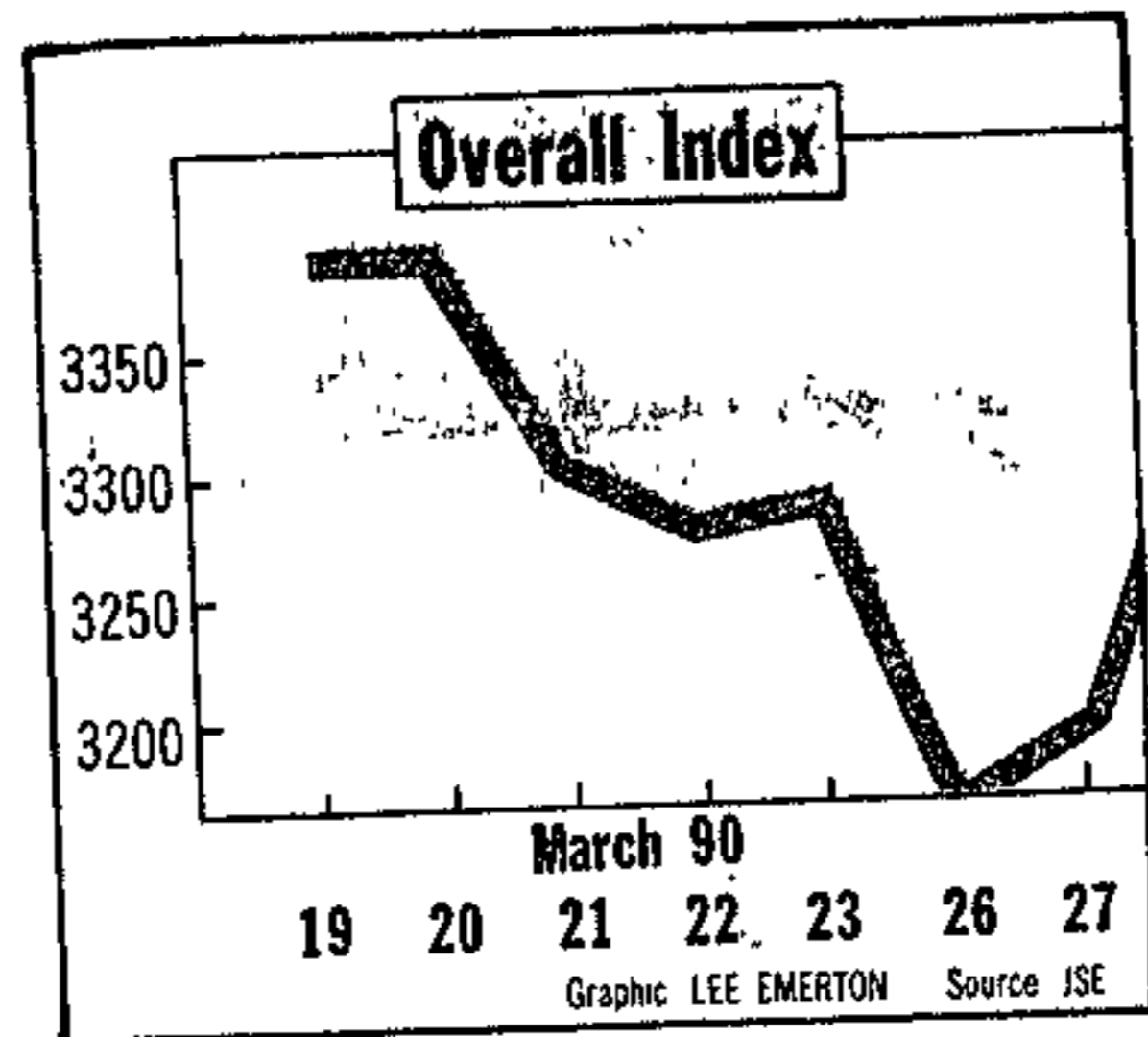
Dealers said the strong selling interest out of the US prompted European players to reverse direction, and gold consequently came under heavy selling pressure.

A Zurich trader said if gold closed above \$370 in New York it could move higher in Europe today — to around \$377 or \$378.

There was little change for the commercial and financial rands yesterday as the dollar eased from its highs in Europe after reaching levels likely to prompt central bank intervention.

The dollar closed in London at DM1,7095 after a midsession DM1,7133 and previous DM1,7115, and at 158,92 yen.

A report saying top US Treasury Department officials were unhappy with interest rates and were pressing the Federal Reserve to lower them took some of the shine off the dollar.



Fence-sitting on JSE as gold hovers at \$370

INVESTORS were fence-sitting on Diagonal Street yesterday, waiting for further direction on the gold price which attempted to consolidate at its lower level.

Gold held in a narrow band around \$370 but there were selected gains on the mining board because of the protection of a weaker financial investment unit.

The JSE all gold index firmed two points to 1 969 but dealers detected some hesitan-

MERVYN HARRIS

cy as gold shares formed a higher base at a lower price of the metal. (79)

The industrial index closed a marginal one point down at 2 986 and the overall index slipped two points to close at 3 260.

Dealers said the only action was the protest against privatisation outside the JSE by public sector trade unions.

8/Day 30/3/90

Waddell to head UK gold investment trust

B/Dam
30/3/70 JOHN CAVILL (79)

LONDON — Gordon Waddell, former chairman of Johannesburg Consolidated Investments (JCI), is to head a new gold investment trust, the first of its kind to be floated in London.

The sponsors, stockbrokers James Capel and the UK's biggest fund managers, Robert Fleming, hope to raise £100m when the shares are offered for sale on April 10.

Gold Investment Trust, which will be quoted on the International Stock Exchange in London, is being launched to fill a vacuum created when the Hanson group's take-over of Consolidated Gold Fields removed the only major British-based vehicle for investment in bullion and its producers.

It will be a closed-end trust with a worldwide portfolio of gold mining shares and the metal itself. Announcing the trust yesterday, Capels and Flemings said the portfolio was likely to have weightings in the following ranges: SA shares 15-40%; Canadian 15-40%; US 10-30%; Australian 5-10%; gold bullion (or options and futures) up to 15%, and cash up to 10%.

Flemings will deal with the day-to-day management of the trust with strategic advice from Julian Baring, partner in Capels and manager of the firm's Gold and General Fund.

Chairman-designate Waddell said yesterday: "I don't know how big the issue will be. That depends on the underwriters and institutions next week.

"But I've accepted the chairmanship — which will not be a fulltime job — because I've always been intrigued by precious metals. I also suspect the timing for such a trust is rather good."

FIM 30/3/90

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Red face for the bulls

Short covering meant there was only one way the gold price could go after Monday's bloodbath which, unusually, started in the physical markets of Zurich and London, before spreading to the futures in New York. Monday's 7% plummet, to US\$362,50/oz, triggered a host of stop-loss selling on the Commodity Exchange (Comex) in New York, followed by profit-taking.

Short-sellers covered in on high volume an estimated 90 000 lots of one hundred, up from 53 000 on Friday and 33 000 last Thursday. By Tuesday morning's fixing in London, bullion was back to \$369,75 in extremely quiet trading.

The Saudi Arabian Monetary Agency got the blame. Seeking, it was reported, £500m in foreign exchange and the 15% interest rates which go with it, the agency dumped about 62 t of gold. This is more than 10% of SA's annual output.

The agency said nothing but the London market reported it was joined by other well-known Arab players such as the National Bank of Jeddah and the Abu Dhabi Investment Trust, plus Italian jewellers and Swiss refiners seeking to hedge inventories.

In some ways it was surprising the net fall was limited to \$21,50 but longer-term factors had already been weakening the market.

Robert Guy, bullion director at NM Rothschild, says: "There was a noticeable drop in physical demand, especially in the Far East, when prices moved above \$400. When they fell below that level demand improved but not to the same extent as in the third quarter of 1989."

He adds: "The Japanese were pivotal in taking the price above the \$370-\$380 range but, with the weakness of the yen against the dollar plus the problems of the Tokyo equity market, they turned sellers. In addition, political developments in the Soviet Baltic states passed gold by. People looked to the dollar rather than gold."

The Bank of Japan's belated increase of one percentage point, to 5,25%, in the discount also failed to halt the decline of the yen. At Y157 to the dollar (against Y143 when gold was above \$420 in February), the Japanese gold price had barely moved from the peak of Y2 000/gram.

In January, Japanese imports fell to 16,4 t from December's 25,7 t. The Taiwanese took in only 5,8 t during February against 19,2 t the previous month.

Where does the price go from here? Analyst Ted Arnold says: "The short-covering rally may take us up \$10 or even \$20 but I've no doubt that, on Monday, the mini-bull market came to a complete and utter end. It will take months to recover and even then

will hinge on physical demand rising in the face of high real interest rates."

Technically, the dive through the 200-day moving average (at \$387) offers no encouragement. Chartist David Fuller, of Fuller Money International Investment Letter, believes gold will struggle against a trio of adverse factors in the short run — positive real interest rates offered by hard currencies, chiefly the mark and associates, the dollar's rally and perceptions of weakening crude oil prices.

He holds, however, to forecasts of a long-term recovery. Says Fuller: "There is support below \$370 to cushion the downside risk, and any fall to new lows under \$360 should be short-lived. We could be in for a dull phase ranging a few dollars either side of \$370, building an extended base to the recovery which started last year.

"I don't see the dollar's strength lasting and we'll soon be into the US grain planting season where anything could go wrong with the weather. A long-term recovery for gold is still very much on the cards but we'll probably have to wait until 1991 before interest rates start falling and start an upward move in bullion."

John Cavill

FIM 30/3/90

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The aftermath

Immediate reaction to the gold price plunge is disbelief and the hope it will not be lasting. Reserve Bank Deputy Governor Jan Lombard says: "If the low price is the result of one institution offloading gold, we do not plan any readjustments. We are not accepting this as a long-term trend until fundamen-

BANK FINRAND LOSS

UAL Merchant Bank, one of two major finrand dealers, has "suffered a loss in the market," says senior GM Chris Pearce. "One of our counterparties failed to deliver on a forward deal."

He says the unnamed counterparty has dealt with UAL "for a while" and still hopes some of the money may be recovered. He will say only that "a reasonable sum of money is involved." It is not clear whether it will affect profitability — net income in financial 1989 was R27,4m.

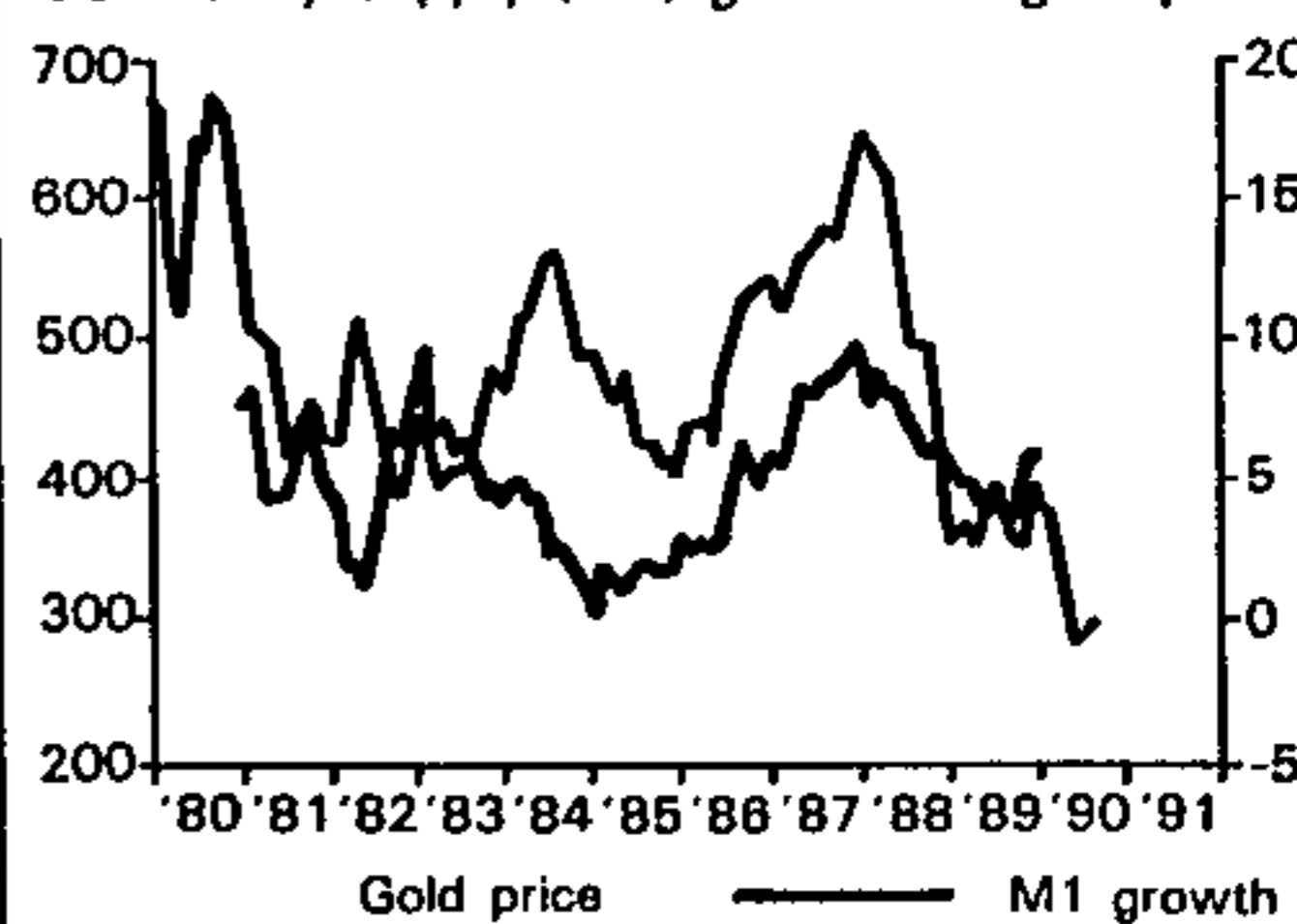
Pearce does not expect the loss to have any impact on UAL's activity and presence in the finrand market.

FIM 30/3/90

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Mirroring money supply

US money supply (M1) growth vs gold price



Source: Chamber of Mines

tals show gold is on a downward roll."

However, if fundamentals such as higher overseas interest rates or a strengthening dollar show gold is on a downward trend, the Bank would have to react.

Lombard adds: "Our attitude to domestic interest rates and exchange rates would depend on what forces were keeping gold down."

A continuation of the downward move in the gold price would mean lower export revenue, renewed pressure on the current account of the BoP and a lower R/\$ exchange rate.

On Monday the currency dropped from around R2,64/\$ to R2,65/\$.

The Bank may support the currency for a while but eventually would have to respond to the market.

A lower exchange rate would create a need for domestic economic adjustments in the shape of higher interest rates. Added pressure on local interest rates could come from expected rises in official rates overseas, especially in Europe.

Economists have been careful not to overreact.

Old Mutual's Rian le Roux says SA interest rates won't rise. "They'll just remain higher for longer. Real economic activity has been slowing, the surplus on the current account has been widening and imports falling, so the pressure is not there."

Chamber of Mines economist Ivor Leibowitz is more optimistic, seeing gold regaining favour once the panic is over.

"The gold price is often mirrored in the rate of money supply growth in the US and latest figures show it is turning up" (see graph).

Others say US authorities will opt for inflation, which is bullish for gold, rather

P.T.O.

FIM 30/3/90

(79)

than recession, given the high domestic debt in the US. Leibowitz sees negative implications for the gold mining industry but some positive short-term implications in the lower gold price.

"It's not easy to maintain tight monetary policy in the face of a rising gold price," he says. Dollars flow in when the gold price is high and money supply growth is difficult to curb.

"The weaker gold price should be used by authorities to hold interest rates at higher levels and get to grips with inflation."

For every \$10 drop in the gold price SA loses \$200m in export earnings a year. The profitability of between seven and 13 mines could be at risk while about 100 t of gold would be produced uneconomically with the price around \$360/oz. ■

Set for more falls

Gold analysts, none of whom foresaw bullion's US\$36 crash between Friday and Monday, concur there is fundamental support which should place a floor under the metal's Monday close of \$367,50 in London. They expect a recovery to above \$400 eventually, but warn of lower gold share prices meanwhile.

Gold's rot set in late in February after the metal touched \$416, but the real deterioration began when the \$400 level was breached on Tuesday last week. The 8% fall in the metal price in the following week was inevitably surpassed by the 11% fall in the All Gold index, from 2143 to 1918. However, at 1918 on Tuesday this week, the index was only back to its early March levels, when bullion was trading in the \$405 to \$410 range. In other words, the index has not fallen far enough against the metal unless bullion itself recovers very quickly.

Analysts also generally expect worse results from gold mines this quarter after some stronger operating performances in the De-

FINANCIAL MAIL MARCH 30 1990

cember quarter. Since January, gold's average rand price has been about R1 049/oz, according to Simpson, McKie's Rodney Yaldwin. That's only slightly above the R1 012 of the December quarter.

The rand gold price averaged about R1 000 in the June and September quarters of last year, but had tumbled to R975-odd by early this week. If the rand does not weaken in sympathy, 1990 June quarter results from the mines could be disastrous.

Widespread labour disruptions have also affected production on many mines, particularly in the Anglo American group. Elsewhere, Kloof seems to have been hit by labour problems and heavy ore dilution. And if that is coupled with Deelkraal's latest labour problems it might indicate mines in the anti-union GFSA group are being targeted for organisation by the NUM.

Analysts continue to advocate investment in high-grade, low-cost mines, though they are weak, many analysts expect interest-gold share purchases just yet. Not unexpectedly, marginal gold mine shares have suffered the most and worse seems yet to come. Since January 4, for instance, 28% has been clipped from Sub Nigel's price, Durban Deep is 25% down and Cons Modder 22%.

There are cogent reasons for believing the siege on the metal price may be extended. Though fundamentals for the US economy are weak, many analysts believe interest-bearing dollar investments will continue to be favoured over gold as a political haven. Against this, optimists argue that physical demand for gold, especially for jewellery, is now so strong that the metal's price will not stay depressed for long.

Economist Cathy Pott of AFC Investments, who earlier this month forecast weakness in the gold price, believes the metal is temporarily oversold. But, after an initial recovery, she reckons it could spend a long time consolidating below \$400. Chartist Tony Henfrey, who steadfastly predicted bullion's rise from early last year, believes the bull trend is still intact though gold shares are overbought against bullion.

Teigue Payne

Toying with Diagonal Street

Star 31/3/90 (79)

THERE wasn't much happening in the market this week, the drop in the gold price seemed to subdue things and people are apparently already winding down to the Easter holiday.

But there was a lot happening just outside the market including: an anti-privatisation march to the JSE; a marathon Spareco agm; reports of a UAL client reneging on a financial rand deal leaving UAL exposed to a fairly large loss and; more personnel moves at Nedcor.

Myles thought it was a great idea to put another Liebenberg at the head of Nedcor as it's bound to minimise the disruption with staff and clients... in a couple of months time perhaps nobody will even remember that there's been a change.

The fact that Hennie van der Merwe surfaced at Bankorp didn't surprise too many people and although the press releases were a bit vague about his position vis-a-vis Chris van Wyk, the feeling is that Hennie will probably tip the scales after a respectable period has lapsed.

Bankorp's problems

Mr P Liebenberg's move to Bankorp has certainly enhanced that group's rating. But Myles points out that the problems at Bankorp are of a far more fundamental and long-term nature than those suffered by Nedbank during the mid-80s.

The Spareco agm was quite an event. It started at 10am yesterday. At 10.10 it was adjourned for five minutes by the chairman who said he wanted that time to go off and consider the shareholders' questions (which had to be in writing on this occasion).

An hour passed and all was quiet as the few shareholders present (notably Peter George and Horace Sammel) entertained the media contingent (far outnumbering the shareholders) with gruesome tales of what has been going on between Lynsatt,



Inside Out

ANN CROTTY

Spareco, Juorum and Fleishmans.

After a while news came that the meeting would not be reconvened until 12.30pm. The last that Myles heard was that at 2pm it was still going strong. He assumes that it has finished by now.

The UAL finrand-Projec story seems to have everyone perplexed (or almost everyone). The precise nature of the goings-on remains a puzzle. At one stage it looked as though an overseas party had bought twice as many Projec shares as officially existed. But now it seems that the shares that were bought on the JSE were then sold to an SA resident outside the market.

Presumably (and on the basis of scant information) this would only make sense if the non-resident sold them at a profit to the resident and then repatriated the profit. But if paying a price/earnings of 240 times for Projec in the market (i.e R11) seems a bit strange then paying over R11 outside the market looks almost dodgy.

Without doubt the major event of the week was the "nationalisation" march of the "workers" on the JSE on Thursday. It seemed like a real jolly occasion with lots of singing and toyi-toying and waving of hands... but Tony and the boys didn't seem one bit inclined to join in the fun.

Myles reckons that all these people who are so mad keen on nationalisation should be shipped off to Rumania (all transport costs paid) and all the Rumanians who are keen for a taste of the delights of free-market capitalism should be shipped down here — shades of Stalinism!

THE Western world produced a record 1 656 tons of newly mined gold last year, 8% more than in 1988, the SA Chamber of Mines said.

Output from SA fell to 606 tons from 619 tons, reflecting a decline in grades which took the average of chamber member mines down to 4,99g/t from 5,13g/t, the chamber said.

It said in its 1989 annual review that net gold sales to Western markets by the Soviet Union, China and North Korea came to about 340 tons, well above the previous year's 260 tons.

Of this, about 235 tons was supplied by the Soviet Union.

It said Soviet supplies jumped sharply after mid-year to meet urgent foreign exchange need, before subsiding, during the latter part of the year. Soviet sales nevertheless represent-

(20) (79) B/0am 2/4/90
The West notches up a record in gold production for 1989

ed about 75% of that country's newly mined annual output, it said.

The review said the biggest increment to total supply during the past two years came from future mine output "thrust onto the market by the aggressive use of forward sales in gold financing by the mining industry".

Such transactions during that period brought forward into current supply about 770 tons of gold that had not yet been mined and in any cases, would not be mined until the 1990s, it said.

"This influx of gold, much of which

was borrowed from central banks and bullion dealers, was a major bearish element depressing the price during the past two years," it said.

However, the quantity of metal entering the market from gold financing activity and forward sales diminished in 1989 and was probably 190 tons.

It said jewellery provided the linchpin for demand in 1989, absorbing a record 1 600 tons.

Gold jewellery purchases in the six major markets — the US, Japan, France, West Germany, Italy and the UK — reached 550 tons. — Reuter.

Crash takes the shine off gold

^{31 Dec 2/4/90}
A TOP SA mining official has described as probably "wishful thinking" hopes he harboured a few weeks ago that the world gold price would rise to between \$430-\$450 an ounce this year.

"That now looks like wishful thinking," Chamber of Mines president Kennedy Maxwell told the AGM of the Association of Mine Managers.

Gold was fixed at \$372,20 an ounce in London on Friday morning, having rebounded from a crash to \$362,50 in world markets last Monday. But it remained well below its 14-month high of \$423 early last month.

Even if gold were to reach the levels hoped for only weeks ago, he said, it was crucial that the rand remained at current levels against the dollar so that

the local price could be realised.

Economists note that although gold's weighted average dollar price fell to \$382 last year from \$437 in 1988, its rand price rose slightly because of an overall depreciation in the rand of about 15% against the dollar.

In the context of costs, Maxwell cited a gold price prediction for the year of R33 400 a kg, which at current exchange rates would equal around \$391,95 an ounce.

He said that by the start of next July, 15 of 31 gold mines which are members of the chamber would be incurring production costs exceeding this cost.

These estimates, he added, made no allowance for capital expenditure.

During the 1980s, he said, SA had

79 moved from being the lowest-cost producer among the world's major mining countries, to the highest-cost producer. Moreover, since 1980 real annual profits had fallen each year, he added.

Maxwell said the coal mining industry performed encouragingly last year, producing 176-million tons of which nearly 48-million tons were sold abroad.

"This established a new record for coal exports and at a price of R27 per ton brought in more than R3,6bn — about 50% of total coal mining revenue for the year," he said.

Export prospects looked good for the current year, although a major headache facing the industry was the prospect of a substantial rise in rail tariffs. — Reuter.

6/10/74 214120
Gold trust faces uncertain future

Own Correspondent

LONDON — The ambitious new gold investment trust planned by merchant banker Robert Fleming and stockbroker James Capel, which has former JCI chief Gordon Waddell on its board, is hanging in the balance.

It could be aborted after the shock plunge in the gold price which has seen the precious metal fall \$15,40 to \$374 over the past week.

The Fleming-managed trust, the first of its kind in the UK since the early 1970s, was designed to fill the gap in institutional portfolios left by Hanson's takeover of Consolidated Gold Fields.

But it has been hit by a sharp downturn in the gold market which has shaken confidence — and left many would-be investors with cold feet.

Also on the Gold Investment Trust board is Anglo American investment manager Jack Desmidt.

Initial plans for the trust were laid when gold was more than \$400 and looked to be headed for \$450.

At one point last week it touched a six-month low of \$364,70. Dealers blamed a three-million-ounce sell order from Middle East investors worth about £1bn.

But for Capel's gold guru Julian Baring, this slump provides a classic buying opportunity.

One option for investors unsure of their timing is to make use of the Fleming monthly saving facility, enabling them to spread their purchase cost and benefit from pound cost averaging.

The trust intends to invest about 25% in SA gold shares, 20% apiece in the US and Canada and 10% in physical bullion.

Volatile quarter on JSE as index hits two peaks

THE JSE experienced a volatile first quarter with the overall market index hitting two peaks, one in February and one last month.

In between it has been a bumpy ride for investors with political events, unrest and the gold price causing wild swings on the charts.

The overall index peaked at 3 386 on February 7, dropping 9,8% before rising 11% to a new peak of 3 392 on March 19, falling again by 6,8% to 3 163 on March 26 when gold suddenly plunged.

However, investors did not take the metal's sharp fall seriously and the next day the major indices ticked upwards. The overall market index managed to recover 3% to 3 257 on Friday, the end of the quarter, despite a wobbly gold price and continued unrest.

The all gold index also showed two strong shoulders in January and February but took a knock — tumbling by 16,2% from the peak of 2 250 on February 2 to 1 885 on March 5.

The index clawed back to 2 137, a 13,4% rebound, as the mining sector was seen as a beneficiary of several of the Budget announcements.

However, the sudden plunge in the gold price, which appeared to be heading towards a \$360 support base, caused a plunge of 12% to 1 881 on March 26, when the index suffered a hefty 151-point one-day fall.

But by the end of the quarter the all gold index was up 4,2% at 1 960 in the

LIZ ROUSE

face of pressure on the gold price and lack of direction in the market.

Both corrections were sharp enough to have panicked investors, but every time they have rationalised the effects of the particular cause.

The recent immediate uptick on the gold charts has been largely due to a seemingly growing immunity on the part of SA investors to adverse political factors or even to cracks in the price.

Foreign investors — whose interest is mainly confined to gold and mining financial shares — abandoned the JSE after ANC deputy president Nelson Mandela's statement about nationalisation, particularly of the gold mines.

In any case, foreigners were mainly involved in the gilts market in the past

quarter and fear of a R5bn dumping of SA gilts stock, plus its depressant on the financial rand, was rampant at one stage.

This reaction was linked to sporadic bloodshed on the Tokyo, New York and other equity markets during the first quarter.

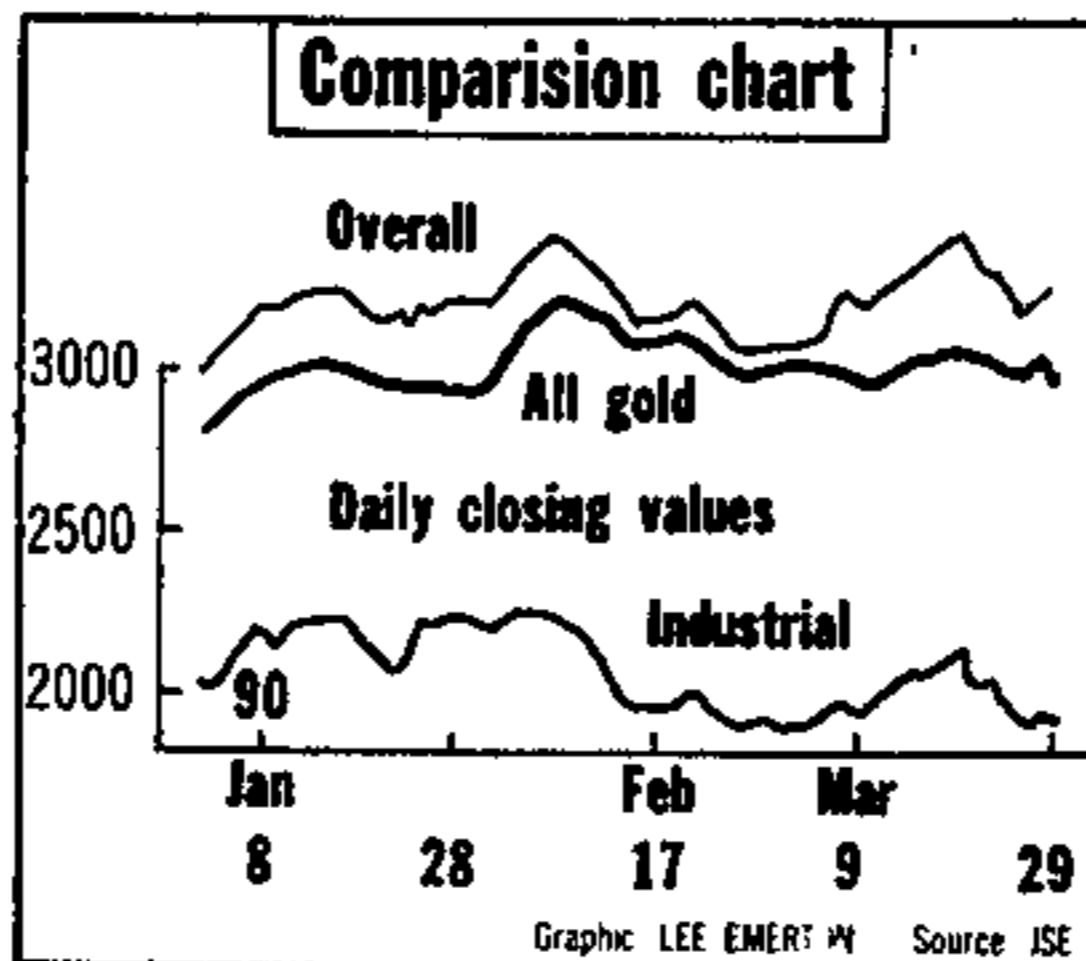
The industrial index has been less erratic due to support of solid institutional holdings. It peaked at 3 218 on February 7 (President F W de Klerk's new dispensation even briefly lured some foreigners into industrial blue chips at the beginning of February) before sliding 9,6% to 2 929 as unrest and Mandela's statements eroded optimism.

Recovery on the industrial board has been hesitant. However, the index quickly turned around after its 45-point one-day fall on March 26 to 2 963. It ended the quarter higher at 2 976, despite end-of-quarter book-squaring.

Because of the erratic background prevailing during the first quarter of the year, action was confined to the popular counters on the JSE.

Technically, gold, mining finance and blue chip industrial shares were in an overbought situation after strong rises since the beginning of the year.

They were thus more vulnerable just when sentiment wavered in the face of political change and a pedestrian gold price, which then succumbed to the sudden collapse below the support level of \$400/\$425.



5/19/90

Share prices slump

By Jabulani Sikhakhane

Share prices closed sharply lower on the JSE yesterday, with the overall index declining 129 points, or four percent, to 3128.

Dealers blamed the easier trend on falls in share prices in London and Tokyo, on the weaker gold price and on news that the ANC had postponed exploratory talks with the Government.

Gold-related shares were sharply easier in London on growing worries about South Africa's political future, after the ANC called off meetings with Inkatha and the SA government.

On the JSE the gold index shed 103 points (5,2 percent) to 1857 and the industrial index came off 96 points (3,2 percent) to 2886.

Even a sharp fall in the financial rand was not sufficient to stop gold shares closing lower. The financial rand plunged 3,4 percent to R4,23 to the US dollar which boosted gold shares only slightly towards the close.

The market gleaned some support, however, from limited early losses on Wall Street and London.

"Both London and Wall Street have fairly confidently absorbed the sharp falls in Tokyo," said a dealer. "We didn't follow Tokyo up so why should we follow it lower?" he asked, noting that Tokyo would have to spiral sharply lower to suggest a downward re-rating of overseas markets on the basis of fundamental investment yardsticks.

In Tokyo today the Nikkei stock index finished a rollercoaster morning down 77,19 points at 27 924,88 after plunging by 6,6 percent yesterday, Reuters reports.

Share prices resumed their upward struggle after the midday break on Tuesday, boosting the Nikkei index 191,02 points, or 0,68 percent in the first 15 minutes of the afternoon session.

The US dollar was changing hands late morning at 159,25 yen, slightly down on its 159,95 Monday close.

Wall Street closed lower, but managed to sidestep most of Tokyo's fall and limited the fall in the Dow Jones average to 6,76 points at 2 700,45.

The FTSE index in London closed 25 points down at 2221,6.

Gold price picks up

Sta 4/17/90 (79)

By Jabulani Sikhakhane

The gold price jumped almost \$6 in London yesterday to close at \$374,95 an ounce, its highest level for a week. It rose by a similar amount in Hong Kong this morning to an opening rate of \$376,05.

The higher gold price pulled up gold share prices on the Johannesburg Stock Exchange but some of the early gains were lost in late trading.

The overall share index rose 38 points or 1,21 percent to 3161 after Monday's four percent fall. The gold and industrial indices were up 39 and 22 points to 1895 and 2913 respectively.

Analysts were optimistic yesterday that the gold price may have bottomed out and will start moving up again. Middle East buying of bullion was evident in London yesterday morning, dealers said.

David Giese, analyst at Davis, Borkum Hare said the system has absorbed the over one million ounces that Arabian institutions swapped for sterling last week, leading to a \$25 drop in the bullion price, and Middle Eastern buyers were returning to the market.

He said there were also reports that central banks could have lost gold as a result of the liquidation of the US stockbroking firm, Drexel Burnham Lambert, which could create additional demand for gold. The Soviet Union was also reported to have been a big seller on the market last week.

Robert Gillan of Frankel Kruger Vinderine said the gold price has excellent support at the \$368 level and its next resistance levels could be at \$380 and \$395.

Millions loaned to bankrupt US firm

SA's bid to get back gold

CAT TIPS

4/4/90

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From JOHN CAVILL

LONDON.—The South African Reserve Bank is one of several world central banks seeking to recover \$500 million (R1,3 billion) in gold loaned to the huge United States group Drexel Burnham Lambert which collapsed in February.

Yesterday the Daily Telegraph reported that governors of the central banks would meet this weekend at the Bank for International Settlements (BIS) in Basle, Switzerland, to discuss action on the gold bullion loans which

have caused acute embarrassment.

Portugal has publicly admitted it is trying to get back \$100m (R280m) lent to the New York "junk bond" specialists who have filed for bankruptcy protection.

Last week the governor of the Banco do Portugal (the central bank), Mr Tavares Moreira, said: "We are doing everything we can to recover the money. It will take time, probably two or three years, but the likelihood of recovery is very high."

He said other central banks also faced losses but had not disclosed the fact. Portugal, with the highest exposure, could not avoid public disclosure. "We wanted to be on the creditors' committee. That is why we made our declaration," said Mr Moreira.

In addition to Portugal and South Africa, banks from the Soviet Union, Yugoslavia and China are said to be among those who loaned gold to Drexel.

The problem arose because the banks thought they were lending bullion to Drexel Burnham Lambert Trading Ltd, the British affiliate of the New York firm, which is a member of the London Bullion Market Association and therefore under the supervision of the Bank of England.

Instead the gold went to the US parent where the market is supervised by the Securities and Exchange Commission, not the United States Federal Reserve Board.

Mr Moreira said its dealings with Drexel started in 1985 and the gold had been transferred "as part of a standard operation".

He said the Banco do Portugal should have acted earlier, "but the company was an affiliate of Drexel and a member of the London Bullion Market which comes under the Bank of England, so we thought it must be all right".

No loans are outstanding in London. A Bank of England spokesman said: "All the counterparties of Drexel Burnham Lambert Trading, which was a member of the London Bullion Market Association, have been met in full."

Gold firmer but ⁷⁹ ~~hesitancy~~ ^{BID 4/4/90} remains

A FIRMER gold price boosted sentiment on Diagonal Street yesterday but investor optimism was tinged with caution on concern over the political situation in SA.

Hesitancy was apparent as trading tapered off and share prices came off their top after a flurry of buying at the opening. A 4.6% rise in the finrand to R4,0800 to the dollar also kept a lid on prices and the JSE overall index ended 38 points up at 3 161.

Gold rose nearly \$7 to close in London yesterday at \$375,75 and bullion dealers were mildly optimistic the metal would consolidate at the new higher levels. The metal also ended at \$375,75 in New York.

The rise was sparked by rumours that Middle East operators who sold large volumes of gold last week were buying back.

Market talk was that Japanese interests were following suit.

Some traders said the sudden climb was backed by technical factors and generally buoyant physical demand. A Soviet official's statement that Russia was not involved in discounted gold sales and might publish production and reserve data, gave the metal added support. One dealer said: "The gold market is recovering from an oversold position and we could see the metal heading towards \$380."

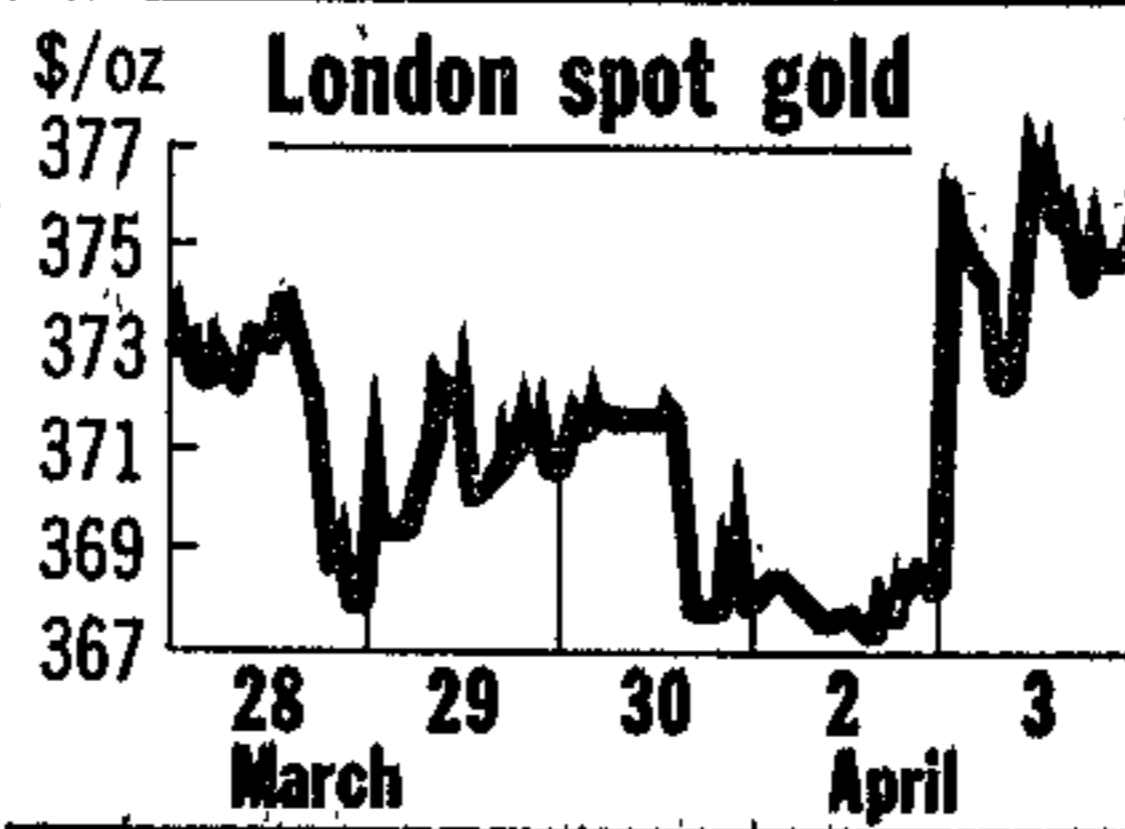
Initial figures indicated that about 4-

MERVYN HARRIS

million ounces of gold were liquidated last week. But a New York commission house trader suggested that the combined sales of Arab and Japanese interests were more like about 6-million ounces.

Major global stock markets were also on the recovery trail yesterday after the Tokyo Nikkei index recouped almost a third of Monday's second largest one-day fall on a rise of 2,7%.

Wall Street was boosted by a Treasury official's statement that signals suggesting declining inflation were creating an environment for lower US interest rates.



Graphic: FIONA KRISCH Source: REUTERS

BUSINESS

Sentiment rather than logic drives JSE

CONFIDENCE is a fragile thing and nowhere has this been more evident than on the volatile Johannesburg Stock Market in recent weeks.

The JSE overall index started this week by falling by almost four percent on Monday, after going up a bit on Friday. Then prices rose again by the close of trading on Tuesday. Monday's falls were said by share dealers to be a response to the African National Congress calling off the scheduled April 11 talks with President FW de Klerk, as well as to the gold price, which remained below \$370, and to the falls in international stock markets, particularly Japan.

On Tuesday the index rose again, apparently in response to the gold price fix of \$375 and De Klerk's stated plans to curb violence in Natal.

Political factors and the gold price have made for a great deal of volatility in the market this year — although the JSE has still not been as badly hit as some of the foreign markets — by the middle of last week it was only 7,5 percent below its peak while the turbulent Tokyo market was 18,2 down, Hongkong 24 percent and the Australian market 32 percent below its peak, according to *The Economist's* index.

The theory is investors make rational decisions to buy or sell shares (or other assets) based on the expected stream of future earnings — what the share will yield in dividends and via a rise in its price.

Of course investors must look to the environment — economic and political — to forecast the outlook for companies and the expected returns from their share investments.

But the response of the JSE to daily political developments recently has looked like over-reaction — based on the front pages of the daily news-papers or the TV news, rather than on considered assessment.

In practice the JSE is usually driven by what the brokers call "sentiment" — rather than detailed financial or economic calculations.

This is particularly so because the JSE is a "marginal" market — well under 10 percent of the shares are traded each year, in contrast to major overseas markets which have turnover of at least four times that. The result is JSE share prices often go up or down on just a few trades — the price of a share is simply the price at which it was last traded.

If a few individual investors or a couple of London brokers take fright, this can have a substantial impact on the day's index, even though those who hold the bulk of the shares are sitting tight.

Political sentiment has carried much weight lately, particularly with foreign investors. It was selling from London which was said to have started the market falling this week — and it was buying by foreigners which boosted the JSE in the brief period following De Klerk's speech.

Picture the investor in London — who can buy shares anywhere in the world — who decides following De Klerk's speech that South African gold shares are now a good bet (most foreign investment in the JSE is in mines and foreigners held at least 24 percent of gold mine shares and 25 percent or more of De Beers shares in December last year, according to stockbrokers Davis Borkum Hare). But on hearing about nationalisation (or perhaps seeing nasty Natal scenes on the BBC), our investor decides his/her money is safer in American or Australian gold mines, even if financially they are not as good. That the ANC's views on nationalisation are not new is probably not something the investor in London knows or cares about.

In a recent report, Davis Borkum Hare's Dana Wakefield has noted that "many recent overseas investors have not previously been familiar with South African shares due to political factors during the 1980s. And they often have only limited or no first-hand knowledge of this country. The result can be false expectations based on simplistic applications of their experience in mature first-world countries on to the South African scene".

Wakefield adds: "This promotes speculative trading rather than medium- to long-term investment intentions."

But the JSE's volatility cannot be blamed only on unsophisticated foreign investors. Local investors have reacted in similar ways. In part they are merely making rational decisions based on the "sentiment" expected of others: if you believe other people will be selling their shares and driving prices down, it may make sense to get out now.

But jittery investors are also acting on the basis of their perceptions of the future — which may or may not be well-founded. While there is a whole industry of well-informed investment analysts in the stockbroking firms and the

Fluctuations in Johannesburg Stock Exchange prices depend more upon the news of the day than a considered assessment of the market, argues ANN FRIEDMAN

financial institutions, it can't be assumed that their political analysis is necessarily sophisticated. Most are CAs, MBAs or BComms — not political scientists or sociologists.

JSE investors also become jittery when the gold price falls (and euphoric when it rises). The gold price is perhaps the strongest and most consistent influence on the JSE. This is rational — although only up to a point.

One reason the focus on gold is rational is, obviously, its price influences the outlook for gold mines and therefore for gold shares.

Some investors react to any move in the dollar gold price, but the important price is not the dollar but the rand gold price, since the mines are paid for their bars of gold by the Reserve Bank in rands.

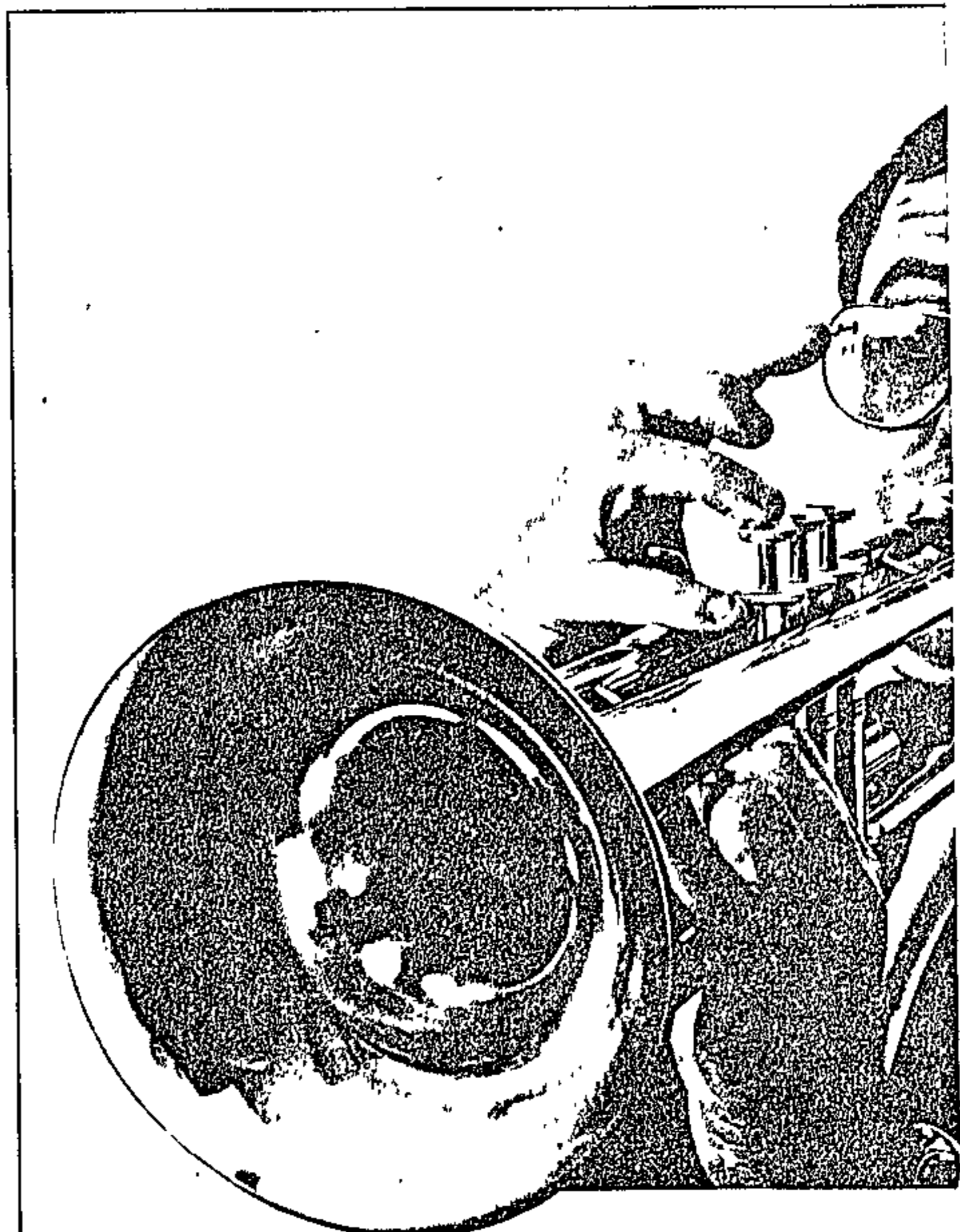
If the dollar gold price falls but the rand falls against the dollar to the same degree, the

mines' position should be unchanged. But recently the rand gold price has been falling — to below the R1 000 an ounce mark. If this continues, some mines may be producing at a loss. More risk-averse investors would want to put their money elsewhere, in industrial shares, for example.

Perhaps a more important reason for gold's dominance — one whose importance is difficult to quantify — is the centrality of gold in the South African economy. It accounts for 40 percent of export revenue and a \$10 movement in the gold price average for the year would make a R500-million difference to the country's export earnings.

The gold mines are such large customers for many of South Africa's manufacturers that what happens to them has a ripple effect through the economy. That perception looms large in the imagination of investors — and when the gold price looks bad, some become altogether disenchanted with the stock market.

● The JSE overall index yesterday was down slightly to 3136. But it was still 23 percent up on a year ago while the all gold index was 16 percent higher and the industrial index was 17 percent up. Gold was at R374,25.



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Bank acts on rand as dollar inflows dry up

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HUGE dollar inflows into SA this year abated in the second half of March and the Reserve Bank is now acting to keep the rand from depreciating too fast.

Foreign exchange dealers said the situation had turned around from when the Bank was doing its best to push down the domestic currency to retain export competitiveness.

The lower gold price is cited as the major factor behind the about-turn. The inflow during the first quarter of the year is put at about \$1bn.

Earlier this year, a perception that the rand was set to climb led to a favourable leads and lags situation — which improves the cash flow of SA's foreign exchange re-

GRETA STEYN

serves. This combined with other factors to bolster SA's net reserves.

First National Bank economist Cees Bruggemans said it was always clear from the Reserve Bank's actions in the foreign exchange market that the short-term capital inflows were "hot".

"These inflows are said to be the result of favourable leads and lags. That just means that we are not sure that they are of a permanent nature. They might include the favourable roll-over of forward contracts on third currencies — a factor that cannot be counted on indefinitely."

However, he did not expect an adverse leads and lags situation to develop after the drop in the gold price and the depreciation of the rand.

"It is by no means clear we have moved into a new period of rand depreciation. The Reserve Bank is looking for stability on the currency."

The rand has been stable around the R2,65-R2,66 to the dollar level.

The adverse movement in the gold price has not damped Bruggemans's optimism on the balance of payments.

"The current account is particularly healthy and the prognosis for the capital account still looks good. This should be an easier year than originally thought."

Mine results nudge gold share slide

MERVYN HARRIS

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THE slide of gold shares on the JSE yesterday was given a further nudge by the March quarterly results of mines in the GFSA fold which showed the tough conditions for mines at the current gold price.

The report, from the first of the mining houses to announce quarterly results, also indicated that mines are losing the ability to switch mining areas in order to maintain grades.

Gold failed to make fresh headway yesterday and eased \$1,50 to close in London at \$374,25 as bullion markets abounded with rumours over Tuesday's sharp gains to a high of \$378.

Widespread market talk of Middle East operators buying back gold they had sold last week was discounted by some analysts who suggested the talk was an attempt to manipulate prices.

Most analysts were seeing the advance as a technical short covering rally rather than as a significant inflow of fresh interest. "Gold could go either \$10 higher or \$10 lower," a Zurich trader said.

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Uncertainty over the direction of gold, the shakiness of global stock markets, jitters over the current political situation in SA, and the approach of the public holidays, combined to make investors reluctant to take up positions on Diagonal Street yesterday.

"When dealers and fund managers are uncertain, they sit on the fence, markets follow the least line of resistance and share prices drift and tend to go lower," a trader said.

In slow trading the JSE overall index shed 26 points to 3 135 on a 27-point decline in the all gold index to 1 868 and a 12-point fall in the industrial index to 2 901.

A firmer firrand investment unit, up from R4,0800 to R4,0100 to the dollar, provided no support for share prices but dealers noted little stock coming out at the lower levels so that investors would have to bid up prices to obtain scrip.

Uncertainties have Krugerrand trading at high premiums

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Monday 5/4/90

THE Krugerrand was trading at a high premium of 20% on the rand/gold price yesterday, an indication of the level of uncertainty about SA's future. The one-ounce gold coin traded at R1 195 yesterday compared with the rand/gold price of R996,11. In New York, the premium was a realistic 1,6% with the coin quoted at \$378,20/\$381 on the London afternoon gold fix of \$375.

The high premium of the gold coin is seen as a barometer of political turmoil in SA where investors distrust the currency and equities, analysts said.

The chart reflects the changes in political sentiment — from optimism as the Krugerrand traded in line with the gold price after President F W de Klerk's announcement of a new dispensation and Nelson Mandela's release to pessimism, which has catapulted the Krugerrand into a high premium situation.

Trade in Krugerrands on the JSE, which represents only part of overall trade in the coins, has shown a sharp increase in the past month. Last month 11 606 coins worth nearly R14m changed hands, mainly one-ounce coins.

This compares with an average monthly trade of 7 677 coins worth R8,85m over the past 12 months.

However, the domestic market in Krugerrands is minute compared with the amount of Krugerrands existing overseas. Deborah Davis of the SA Gold Coin Exchange said there were more than 45-million ounces of gold in Krugerrand coins throughout the world — only about 8% of these coins were in SA.

Before sanctions more gold had gone into Krugerrands annually than all other bullion and restrike coins produced in the world in any one year, including the US, Canada, Britain, Australia, Austria and Mexico, Davis said. As many as 6-million SA coins had been produced in 1978.

Davis said the premium of 20% represented, in fact, the downside risk of the

LIZ ROUSE

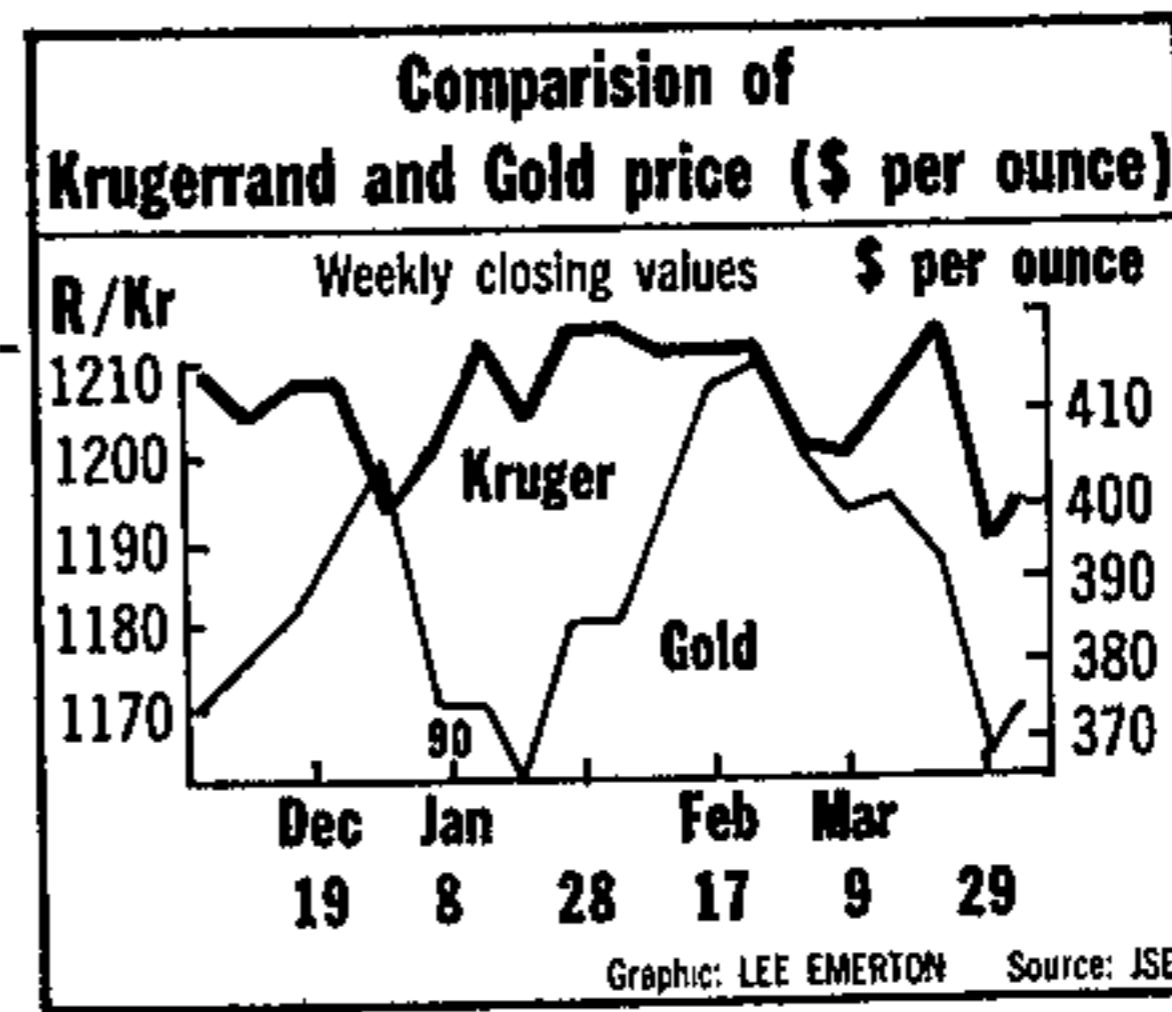
Krugerrand. No investor overseas would pay such a premium for an ordinary gold coin — he would buy a bar of gold at the current spot gold price.

However, were exports to become a reality in a changed situation, SA could be in the forefront of coin markets, as the SA Mint's products were reckoned among the world's best, Davis said.

In fact, at one stage there was brief foreign interest in Krugerrands. On February 7 — when political sentiment was buoyant — most London attention was focused on the Krugerrand which traded at a premium of \$3-\$4 above spot gold that day when gold was fixed at \$423.

However, at the moment there is little international investment interest in ordinary coins. If a foreign investor were interested in coins, he would go for the growing market in rare coins, which are now counted among the top appreciating assets.

Merrill Lynch had sought approval for the formation of a \$50m publicly offered, limited partnership in rare US and foreign coins, with the option of pushing the ceiling to \$75m. The American Rare Gold Coin Fund expected to invest \$100m in 1990, according to Coin World.



Santam forecasts gold will hit the \$500-mark in two years' time

8/10/90 5/4/90 (79)
THE gold price will be in the region of \$500-\$600 in about two years' time, although in the short term it has an uncertain future, forecasts Santam Insurance's GM of investments Roy Justus.

In his quarterly review of the economy and the investment climate, Justus says developments in the world economy will have an impact on the gold price.

"Inflationary trends should start building up overseas in the near future.

"The US is likely to start boosting its economy, which is a little bogged down at present, and we can also see that the anti-inflationary action in the UK, together with financial and fiscal disciplines there, have become extremely unpopular and unacceptable."

More important, though, are developments in Eastern Europe where economic reconstruction will call for vast expenditure, and require the sacrifice of monetary disciplines of the developed countries coming to their aid; thereby fuelling inflation, he says.

Inflationary consequences of the continuing integration of Europe are also likely, especially because of the uncertainties over currencies such as the Deutsche

LINDA ENSOR

Mark, which is to be merged with the East German mark.

"These uncertainties would build up and result in a rising gold price," Justus says.

Middle Eastern developments and foreign perceptions of the SA political situation will also have a significant influence.

"As far as gold share prices are concerned, they look very expensive based purely on the fundamentals of today. But if you accept, as I do, that the gold price could be over \$500 an ounce in 18 months' time, then gold share prices should rise substantially."

SA's inflation will remain high because of the likely "enormous" expenditure on social projects.

Other forecasts made by Justus include:

- Relatively high interest rates for the rest of 1990, especially short-term rates;
- The Reserve Bank will continue to try to keep the consumer in check; and
- The rand will be fairly steady on foreign exchange markets, depending on the internal political situation, although it will come under pressure from time to time.

Amgold fortunes show steady decline

A FLAT rand gold price in the second half of the 1980s has translated into declining earnings for Anglo American Gold Investment Company (Amgold) since its 1986 financial year.

Amgold's 1990 annual report shows earnings for the year to end February declined 6,6% to R308,5m, after earnings of R330,3m for the 1989 financial year, R341,3m for 1988, R372,6m for 1987 (the highest ever), and R336,5m for 1986.

While market value, including unlisted investment at directors' valuation, has increased from R5 098,7m in 1988 to R8 455,5m for the year to end February, investment income has declined every year during this period. It dropped R27,3m for 1988 and R3,5m and R12,5m for 1989 and 1990 respectively.

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RIAAN SMIT

Dividend a share declined 175c for the 1988 financial year, 75c for 1989 and for 1990 Amgold paid 100c less at 1 250c on the same amount of shares in issue.

During the financial year ended February 1990 earnings were hit by reduced income from Amgold's investments in heavyweight gold mines.

Income from Vaal Reefs Exploration and Mining Company were down from R59,9m in 1989 to R50,5m in 1990. Similarly, income from Hartebeestfontein was R28,7m (1989: R29,6m), Kloof R12,1m (R13,5m), Southvaal R19m (R24,6m), Western Deeps R17,9m (R20,5m) and Elandsrand R18m (R20,3m).

BIDAY 5/4/90

G-7 decision on yen crucial to gold price

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By Neil Behrmann

LONDON — Gold and currency markets are anxiously awaiting a key weekend meeting of the Group of Seven finance ministers.

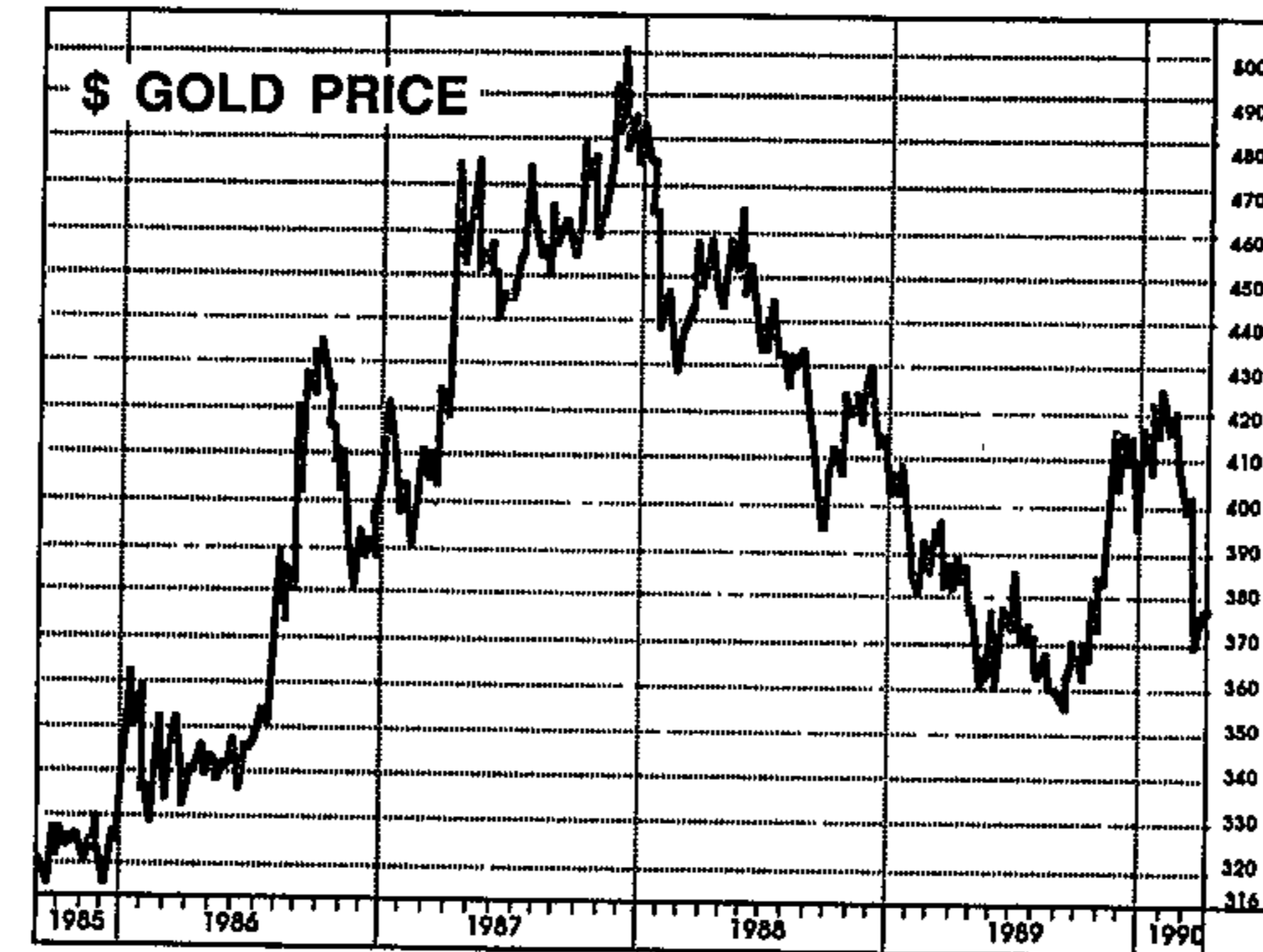
If the US and Japan decide to support the yen, the dollar is likely to weaken against other currencies and the move could lift bullion.

Alternatively if the yen continues to slide, a further slump on the Tokyo stock exchange could precipitate a downturn in gold and world share markets. So far other markets have decoupled from Tokyo, but another Tokyo slide is bound to make New York, London and other bourses nervous.

The yen, however is undervalued. In the past six months it has fallen by 23 percent against the D-mark, 11 percent on the dollar and by 14 percent against sterling and the rand. The trade weighted index is 22 percent below its 1988 peak.

The Japan Centre of Economic Research estimates that the economy will grow by 4.5 percent in 1990, inflation will fall below 2 percent and the current account surplus will rise to \$57 billion from \$47 billion last year.

Meanwhile there are signs that long-term capital outflows are abating. In January and February, the Japanese bought only \$2.5 billion of foreign bonds compared with \$96 billion in the whole of last year. Real interest rates in Japan are climbing to 5 percent,



double those in the US and only 1 percent below sterling.

Since the vast majority of currency dealers and analysts are pessimistic about the yen's prospects, short-term capital outflows have been extensive. Any support measure could thus squeeze yen bears and push the currency up sharply.

Badly bloodied in the past ten days, few analysts and dealers are now prepared to put their money on that "gold bull market" that they were so confidently predicting.

"There has been such a shake-out in the market that the price is likely to be stuck in a trading band of \$355 to \$400," says a Swiss dealer

It has now emerged that Japanese investors joined their Middle Eastern counterparts and liquidated gold. This is hardly surprising considering the losses on the stock market.

"It was in the early Eighties that we last experienced such overwhelming sales," says a London bullion manager.

Middle Eastern syndicates bought back some gold and set off this week's rally. Yet other investors are not rushing in.

"There is nothing mystical about gold," says Edwin Arnold, metals analyst at Merrill Lynch Pierce Fenner & Smith. "The price will only move upwards for lengthy periods if underlying jewellery and investment demand

is strong."

The gold market cannot be sustained by concerns about the stockmarket, Eastern Europe and other political and economic hot spots, he says.

Indeed jewellery consumption, which absorbed nearly 70 percent of last year's total supplies of 80 million ounces, is price sensitive.

Gold jewellery fabrication surged to around 54 million ounces in 1989 from 48 million ounces in 1988, estimates the World Gold Council, mainly because prices were depressed during most of the year.

The big question for 1990, however, is whether an expected slowdown in the international economy will curb fabrication demand. Certainly at prices of more than \$400 an ounce, European and Middle Eastern fabrication demand was down by a half on peak levels of last year, says Arnold.

Slack market

Even though prices have fallen, consumption is still slack, he says.

Given the collapse of the yen and the Tokyo stock market Japanese fabricators and investors are unlikely to increase purchases of gold. In yen terms, gold's price has risen by 14 percent since October and speculators have taken profits.

Other investors are bitterly disappointed with gold.

It is too volatile and risky. Copper and sugar have been better performers. Real interest rates are high and if investors want to hedge against a depreciating dollar, they can receive high income from sterling, swiss franc, mark or other currency deposits.

If investors decide to buy physical gold, they must pay storage costs and forego interest. Those who decide to buy gold through the futures and options market generally pay annual premiums over spot prices of 5 to 12 percent, depending on market volatility.

FIM 6/4/90

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\$1,6460 on the Middle East switch from 2m 07 gold to £500m, fell back to \$1,6260.

While the Saudi Arabian Monetary Authority (Sama) denies it was the seller that precipitated last week's \$23 fall in bullion, London traders say the source was Middle Eastern. Nonetheless, Sama's denial did quieten the market.

"But it is very nervous," says Shearson Lehman Hutton precious metals analyst Rhona O'Connell. "We are awaiting today's (Monday's) purchasing figures from the US to indicate how the economy is going and which way interest rates may move next. After what happened in Japan, everyone has their knickers in a twist over interest rates."

SA economists are not easily discouraged. Despite the recent plunge and continuing weakness, some predict a gradual recovery in gold. The reason, they say, is that the fundamentals are in place: a strong demand for jewellery, higher world inflationary expectations and global political uncertainty.

Chamber of Mines economist David Kennedy expects an average price over \$400 this year, against about \$390 so far. Says Nedcor's Edward Osborn: "Last week's dumping was a unique occurrence. Supply and demand should be more stable in future." ■

GOLD FIM 6/4/90

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Vasbyt

Gold was trading water in London this week, even though the panic sell-off on the Tokyo Stock Exchange — when the Nikkei Dow index dropped 6,7% in its second worst day on record — added further strength to the dollar. While some selling was reported from the Far East as the *FM* went to press, gold eased only marginally to US\$368/oz.

By contrast, the dollar continued to climb, reaching nearly Y160 (against Y153 a week earlier) and DM1,70 (from DM1,69). Sterling, which had charged up US5c to

Confidence returning to gold market

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IT APPEARS that confidence is returning to the international gold bullion market after the recent sharp falls. (79) (80)

In weekend trading in Hong Kong, the yellow metal received a boost from heavy Swiss short-covering, which stimulated late trading. It ended at \$379.15.

The market was also influenced by heavy European short-covering, while the dollar's easing against the Japanese yen encouraged gold bullion buying.

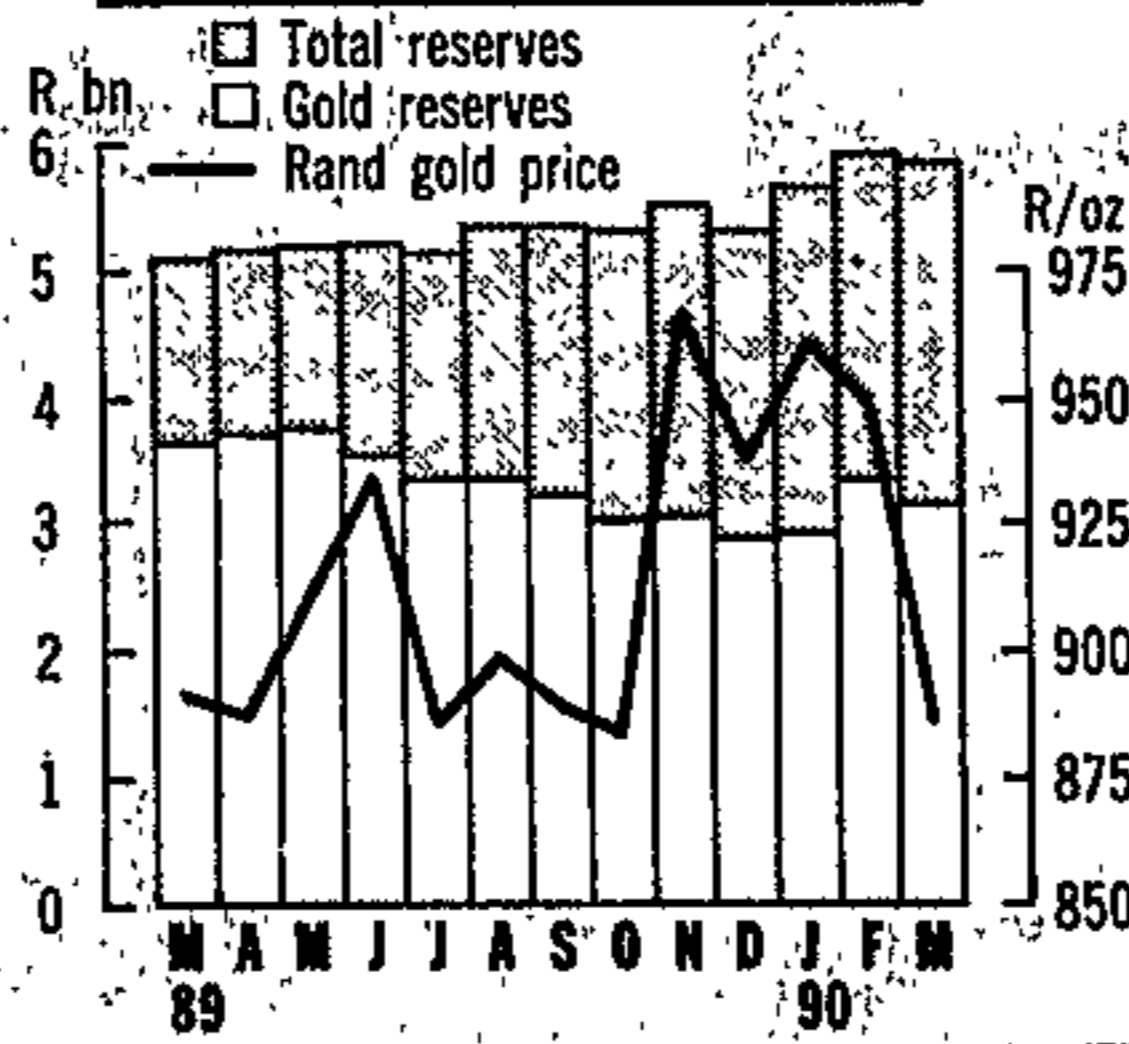
Stock prices drifted lower on Wall Street on Friday as the Dow Jones industrial

Business Day Reporter

average dropped 4.06 to 2717. In Tokyo, popular stock averages zigzagged amid rumours of speculators' financial woes.

Diagonal Street investors appeared reluctant to take positions ahead of the long weekend. The firmer gold price did little to generate confidence in the market. The overall market index had difficulty making progress as the all gold index remained near its recent lows, while industrials were under pressure from the poor performance of foreign equity markets.

Gold and forex reserves



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Gold fall hits Bank foreign reserves

By Greta Steyn

GOLD's plunge at the end of last month shaved about \$100m — or more than 4% — off the value of the Reserve Bank's holding of foreign reserves at the end of March.

The metal's fall from grace puts a dent into the kitty built up this year as SA reaped the benefits of a robust current account and an encouraging capital account of the BoP.

Reserve Bank figures released yesterday show the reserves' decline from March to February was not pronounced in rand terms (under 1%) from R5,95bn to R5,90bn.

The value of gold holdings dropped by 7%, largely because of a plunge in the rand valuation of gold (R886,65 versus R949,17).

Physical gold holdings were down slightly (3,54-million ounces from 3,55-million ounces). The Bank's holding of currency was up R182m to R2,76bn.

TrustBank economist Nick Barnardt said the reserves had weathered the storm of the lower gold price impressively.

"The figures are better than expected, indicating the underlying position on the BoP remains strong."

He said there was "statistical noise" in the figures because the Bank tended to hold a smaller percentage of SA's foreign reserves at the end of a quarter, while the banking sector's increased.

Nedcor economist Edward Osborn said: "The reserves will come under severe pressure in the second quarter of this year after a healthy first quarter. More than \$2bn of foreign debt falls due in the current quarter. There can be no question of policy relaxation before we clear this hurdle."

Gold trust's JSE listing 'will aid capital inflow'

B | Day 12/4/90

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THE mooted Gold Investment Trust (GIT) will be listed in London and on the JSE, subject to SA regulatory authorities' approval and the finding of an acceptable financial structure.

SA sponsoring stockbrokers George Huysamer and Partners Inc say the £100m which is expected to be raised in the first tranche would provide investors with a new and specialist investment opportunity.

According to Huysamer's John Clemmow, GIT could mean a material inflow into JSE gold equities.

"The fund will have investments in SA, Australia, Canada and the US. Given the green light, one of the most important aspects of GIT would be SA's re-acceptance by the international gold investing community."

Bargain

For years foreigners have been unloading SA equities, inevitably under pressure from anti-apartheid forces. One result is that today's price:earnings multiples on the JSE have been forced down to bargain basement prices.

By the same token, gold equity PEs are significantly lower than gold equities with operations on other continents, particularly North America.

The idea for GIT originated in London with stockbrokers James Capel, although there were then no plans for a JSE listing. George Huysamer and Partners learned of GIT via its close contacts with James Capel and asked whether the company would consider having GIT listed in SA.

Clemmow felt there would be strong institutional demand for such a fund. "Capel was a little hesitant about accepting the offer at first, but as the advantages of an SA listing were spelt out for them they became far more interested."

At this stage it is understood the JSE has given the go-ahead for GIT, subject to exchange control approval. George Huysamer and Partners has been negotiating

BARRY SERGEANT

with other regulatory authorities for about three weeks on an acceptable way to list GIT.

Says Clemmow: "We understand the various authorities taking their time. But we are optimistic, given that GIT will encourage investment in SA gold equities." Clemmow argues GIT will be the only pure gold investment with a diversified geographical spread available to the SA investor. Trustees would be experts in the international gold bullion and equities markets.

Clemmow says GIT will be managed by James Capel and merchant bankers Robert Fleming. Sponsoring brokers will be George Huysamer and Partners in SA and James Capel in London.

Clemmow points out that GIT will bring with it a number of advantages to SA and the JSE. "It would improve marketability on the JSE and general market turnover. Its international interests would offer both a rand hedge and an entry into a fund that is highly geared to the gold price."

Clemmow points out that James Capel has been seeking an alternative investment medium for its clients since ConsGold was taken over by Hanson.

Result

"Perhaps more important, the fund, by nature of the James Capel world gold index, would result in a net inflow of capital into SA.

"It is well known that attracting foreigners into any SA stocks is no easy task. GIT, with its international spread of gold equities, would have an obvious bias towards SA. On the basis of a world index, it is likely that GIT would invest 25% to 40% of its funds in SA gold equities."

GIT's listing in both SA and London would not be new. Northam Platinum is the most recent example of an equity listed on both markets.

Standard's Mutual Fund at 30,5% liquidity

UNCERTAINTY in world and local markets has led to Standard Bank's Mutual Fund having a 30,5% level of liquidity at the end of the first quarter.

And managers of Standard Bank's Gold Fund have adopted a cautious stance towards gold share investments due to the sharp drop in the gold price. Gold's fall has increased concern about mines' operating margins.

At the end of the March quarter, the general fund consisted of 29% mining shares, 10% banks and insurance, and 30,3% industrial. The "clean" repurchase price increased by 12,1%, excluding a 28,93c dividend per unit compared with the net capital gain of 9,52% in the JSE's overall index.

The Standard Bank fund's announcement said: "On the world front, bond markets are in turmoil and the Japanese equity market has declined some 22,9% since the beginning of the year.

"During the quarter, the gold bullion price came under pressure and with the difficulties facing the current

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LINDA ENSOR
socio-political changes in SA, it is likely that local markets will be more realistically appraised in the future, we therefore think there is enough uncertainty to maintain our current asset mix."

The same uncertainty was reflected in the capital markets, which Standard believed were unlikely to show much appreciation in the near term. Movements in long-dated interest rates showed only a marginal change.

The bank's Extra Income Fund showed a price appreciation of 4,12c (3,51c interest income and 0,61c capital appreciation), representing an annualised compounded total return for the quarter of 20,2%.

An interest income distribution of 3,51c has been declared by the Extra Income Fund investments of which at end-March were comprised 17,59% of debentures and notes, 15,62% gilts (11% short to medium dated and 4,62% long dated), and 66,79% liquid assets.

A consulting geologist says SA's gold reserves have been under-estimated.

John Handley of brokers Kaplan and Stewart says although the industry has already produced 42 000 tons of gold, it is capable of producing another 40 000 tons.

This is more than double the amount believed to be in reserve, and will make SA the dominant

Gold for Africa

source of gold until 2040.

He says the large tonnage results from mining fringe areas, extensions and a new goldfield which appears to be emerging in the Potchefstroom area. — Sapa.

Sluggish bullion price scuppers UK gold trust

By Neil Behrmann

LONDON — The failure of the bullion price to break out of its narrow trading barrier of the past two years has scuppered Britain's first gold investment trust.

Brokers James Capel and investment bank Robert Flemming, which planned to launch a huge £300 million bullion and gold share investment trust, called off the launch of the fund last week.

Originally hoping that the fund would fill the investment gap left by Consolidated Gold Fields, Capel and Flemming may try to save the issue by applying for a listing in both Johannesburg and London.

But less than £50 million is estimated to have been pledged to the issue and uncertainty surrounding bullion and gold shares has forced the backers to postpone it.

Julian Baring, already in charge of a successful mining fund at Capel, hoped to raise £100 million initially. At the time of the launch at the end of last

month he thought the timing was good, even though gold had crashed back to the lows of last year.

Although gold unit trusts generally underperformed during the 1980s, Mr Baring believed "that gold had reached natural support levels, and that the timing is good for a UK investment vehicle which offers liquidity and ready marketability."

The trust aimed at holding 15 percent of its funds in bullion and investing the rest in South African, North American and Australian gold shares. The fund manager, Mr Andrew Spencer, of Fleming Investment Trust Management said that the trust was aiming for "stable growth in the long term".

As a closed-end trust it would not be vulnerable to redemptions and Capel hoped that it would in some ways replace Consolidated Gold Fields as a gold hedge. The minimum investment was £1 000 and charges, including commission, were 3 percent.

Yet the projected yield after expenses was only one percent. Given this poor return, institutions did not believe the issue was attractive in view of the disappointing performance of gold.

Ahead of the launch, James Capel was embarrassingly over-optimistic about gold's prospects.

After bullion rallied and broke through \$380 in October and gold shares were already substantially above their 1969 lows, its chief gold analyst, Robert Weinberg, insisted that bullion had entered a new long-term bull market, which would end at very much higher prices.

Although Mr Weinberg still claims that gold is in a bull trend, it has remained trapped within a narrow \$355 to \$425 range for nearly two years and according to other analysts shows no sign of moving out of this level.

In a recent report the International Gold Mining Newsletter said that if gold failed to lift itself from the current bear sentiment within the next few months the

price consequences for the metal were dire.

"Gold will have lost its appeal to investors in troubled times, perhaps for ever," the magazine said, adding that the metal's price has sunk recently despite considerable economic and political uncertainty.

"Certainly a case can be made for abandoning gold and its equity proxies.

"The fundamentals suggest that the world economy is not overheating, and there is no serious threat to world inflation. Moreover, interest rates are high and rising.

On the political front bearish factors which could affect the metal are the ANC's talk of nationalising the gold mines as well as the Australian gold tax to be introduced next year, the magazine writes.

It adds, however, that the failure of gold to respond to the recent political problems in Lithuania and Japan's economic volatility, remained a major mystery.

Turnover for the SA Gold Coin Exchange improves by 48.6%

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DEMAND for investment coins in unsettled economic conditions boosted SA Gold Coin Exchange (SAGCE) turnover in the year to December 1989 by 48.6% to R25,397m from R17,093m in 1988.

In its year-end report published for the information of investors in rare coins, the exchange says this topline performance produced a profit exceeding R1m for the second year in succession.

The bottom line of R1,2m translates into a growth of 9% on the 1988 profit of R1,103m.

This modest increase is attributable to a rise of 27.5% in operating expenses to R2,59m (R2,03m), which is largely due to increased expenditure on advertising to counter greater competition in the market place.

The profit is not subject to tax since the exchange has an assessed loss of R6,015m arising from the compromise agreement sanctioned by the Supreme Court in 1986 after which the exchange resumed trading.

The loss has now been reduced from R9,468m in the 1986 balance sheet.

Deputy chairman Deborah Davis says the investment coin sector, conservatively put at R300m in a total SA bullion and numismatic market of more than R27m, performed well in 1989's unsettled economic conditions.

Investor demand for investment coins during the year pushed sales up by 34.2% to R10,43m from R8,32m.

This growth compared with zero growth for the Krugerrand and a decline of 2.3% in the price of gold in US dollar terms over the past year.

Davis says this suggests investment coins are increasingly being regarded as one of the best medium to long-term growth investments available.

This trend was borne out by the sharp rise in the exchange's income from rare proof coin evaluations. Fees from this service rose 210% to R145 000 from R69 000.

Davis says investors have shown particular interest in the SA "Golden Era" commemorative coins comprising the Protea series and the Gold Reef City minted proof Krugerrands, as well as the 1988 Portuguese Prestige proof sets, which showed a 100% growth in value during 1989.

VIEW ON JSE TURNAROUND

MERVYN HARRIS

THE two factors that have combined to prostrate the JSE — the gold price decline and the negative behaviour of world bourses — could in the not-too-distant future work towards a recovery of prices on Diagonal Street, according to stockbrokers V H Simmons & Co in their latest newsletter.

They say gold has been under pressure from short-term influences but once these have petered out, the metal will resume its long-term bull trend.

Gold shares at their present levels offer good value, as do industrials, which must soon start to reflect the substantial benefits flowing from the abolition of tax on dividends in the hands of individuals.

V H Simmons finds it difficult to subscribe to the view that the Tokyo stock market's performance mirrors pending Japanese economic disaster.

"Interest rates might be high, the yen falling and Japan's positive trade balance might be growing less positive. Yet Japan is still the world's leading nation in terms of productivity, industrial efficiency, work ethic and export performance.

"It is the American economy ... that has passed its peak."

The Japanese economy is in the ascendancy and the country's poor stock market showing must therefore be a reflection of a severe fundamental overvaluation rather than a signal that the economy is in secular decline.

If so, says V H Simmons, stock market indices should level out, at which stage the need to sell gold for near-term liquidity will diminish.

13/Jan 18/4/90

FINANCE

US meetings see long-term optimism for gold

THE general mood of the Gold and Silver Institute's meetings in the US on the outlook for the gold price has been one of short-term neutrality, but cautious optimism for the medium and longer terms.

This summary of the meetings' view has been made by Mike Brown, Frankel Kruger Vindermine representative at the Scottsdale, Arizona, meetings.

Brown says the near-term nervousness stemmed predominantly from concerns that new investors attracted into the gold market in the final quarter of 1989 had been disappointed by the gold price performance, and could turn to sellers — fears apparently proved justified by the investor liquidation of gold holdings in recent days.

LIZ ROUSE

The US dollar, which was attracting political hedge funds seeking safety from developments in Eastern Europe and the Soviet Union, and which was also benefiting from weakness in other major currencies.

Reflationary

The more optimistic tone to gold price projection for the second half of 1990 and beyond stemmed from the following factors:

- The US dollar recovery could be tenacious as it is based more on yen (stock market), mark (re-unification with East Germany) and pound (economic and political stagnation) traumas rather

than fundamental strength in US economic aggregates;

- World money supply growth is accelerating. Expectations are that Eastern European integration and the repairing of Japanese equity market damage will require reflationary policies and promote further growth in money supply;

- International inflation is providing some cause for concern, disguised by high yields on long bonds, but this is unlikely to provide a sustainable cure;
- Economic strategy worldwide could be coming to a cross-roads.

Conservative economic policies might end up proving unpalatable in terms of the pain caused by high and real interest rates when economic growth slows.

British Prime Minister Margaret

Thatcher is encountering voter resistance brought about by stagflation — a message not likely to be lost on other nations;

- World gold production appears to be peaking. The strong growth from under 1 000 tons in 1981 to more than 1 700 tons last year in Western World gold production is slowing, and could be close to topping in the next year.

Patience

- Industrial demand, particularly jewellery fabrication, has expanded substantially in recent years, rising by about 600 tons since 1985, and has been at all-time record levels for the past two years.

In conjunction with the slowing growth in world gold production, buoy-

ant physical demand provides an argument for supporting the gold price. Brown says these arguments outlining the prospective improved fundamentals for gold suggest the gold price hiatus is cause for patience rather than panic.

Longer-term investors might require strong nerves to sit out the current liquidation of gold holdings by speculators, but such patience could be rewarded by a more favourable climate for gold investment.

Speculator disillusionment with gold and the dollar strength are, however, burdens that the market will have to work through, says Brown. Accordingly, it might take some time before the gold market re-focuses on improved fundamentals and, in the interim, the gold price could endure another phase of "bottom-fishing".

In search of the true heart-beat of the

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In any search to find the heart-beat of the Oppenheimer empire, perhaps one should start at Brenthurst, the 20 ha estate enfolded in the seclusion of Johannesburg's more exclusive northern suburbia and the home of the current ruler of the dynasty.

It is in the private library here that Mr Harry Oppenheimer, surrounded by the finest collection of Africana in the world, likes to retreat to meditate over the future.

The meditation is rarely confined to balance sheets of the multibillion-rand empire that reigns as the world's largest gold and platinum producer, controller of most of the world's diamond supplies, and which stretches from banking and insurance to supermarkets and vineyards.

There is not a single volume about mining or finance on the shelves. Here, the most powerful business tycoon in South Africa is more likely to reach for such favourite poets as Byron, Keats and Shelley.

It reflects the intellectual preoccupations of the patriarch about the role of the Anglo American Corporation and De Beers in society as well as on global stock markets — and concern about the shape of the new SA awaiting a combined labour force running well above 200 000 workers.

Now in his 80s and in semi-retirement, Mr Oppenheimer leaves the hard-nose day-to-day business for visits to 44 Main Street, the empire's head office in the heart of Johannesburg's financial district.

That is where Bill Jamieson makes his next stop in the hunt to feel the pulse of the corporate giant.

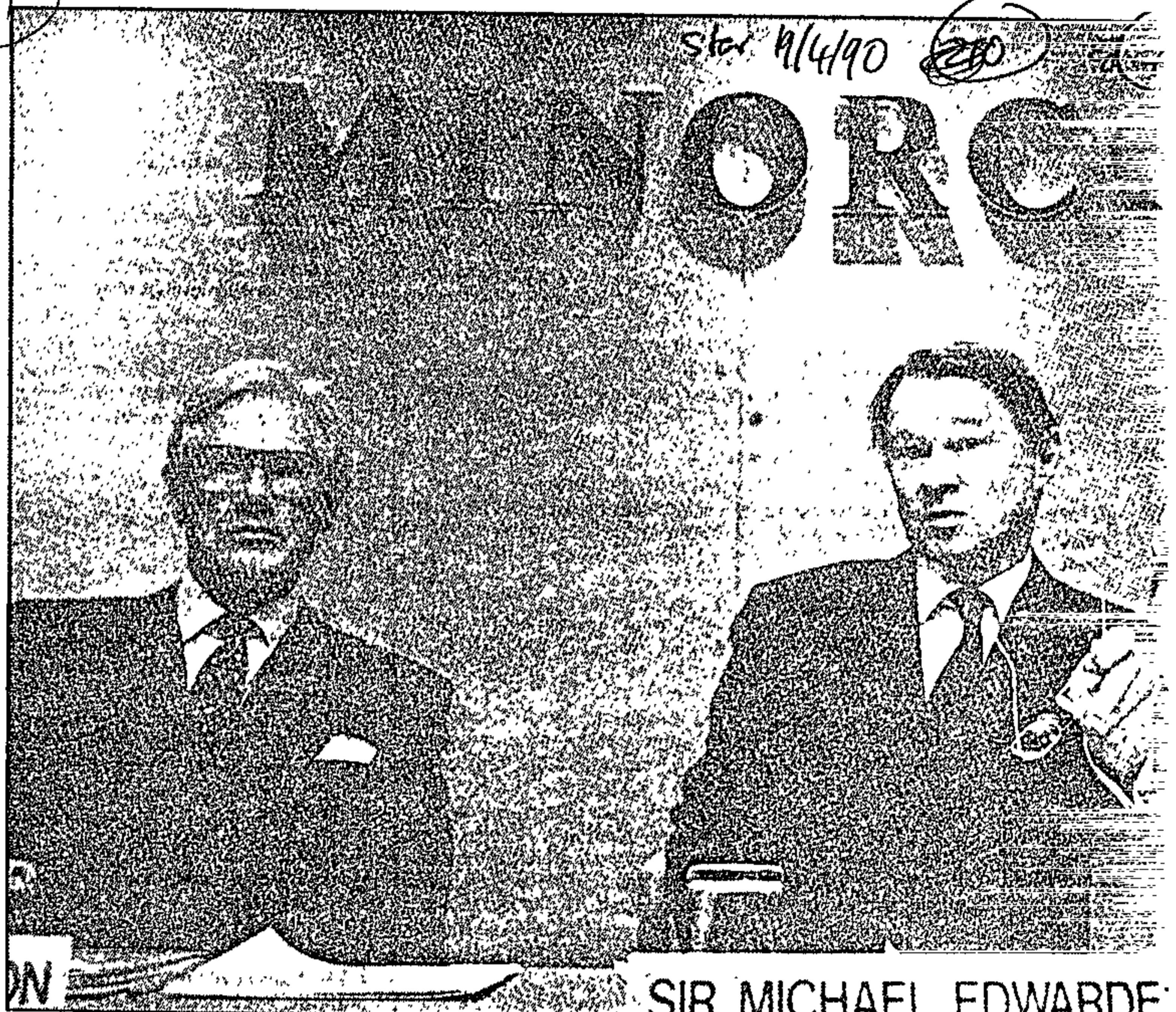
Cathedral

And that is where the piquant irreverence of the book starts, making it plain the author has little use for the golden prose of press releases.

"Sir Ernest Oppenheimer said he wanted a building that was a marriage of a gold mine and a cathedral," he writes. "He ended up with what can be best described as a police station designed by Mussolini."

Jamieson makes clear at the outset a determination to underscore the hold of the Oppenheimer dynasty on the empire, whatever the announcements of retirements and moves at boardroom level.

What he hopes it shows is that the Oppenheimer family's direct shareholding in Anglo American of a relatively modest 8.3 percent belies the enormous influence it wields and its dominance over corporate culture — "Sons and son-in-laws (sic) and godsons and cousins



Minorco's battering ram Sir Michael Edwardes (centre) makes his point at the press conference to launch the Julian Ogilvie Thompson (left) and Minorco's finance brain,

pepper the hierarchy".

It especially shows, he feels, in the opulence of the private dining room retained for the Oppenheimers — where even the cigar cutter is encrusted with diamonds.

But the author of Goldstrike! sounds as if he is equally close to finding the true pulse of the empire when he meets Mr Falang Mobe, a 40-year-old machine operator from Lesotho who works at Anglo's Western Deep Levels mine, 70 km west of Johannesburg.

He follows Mr Mobe down into the deepest gold mine in the world to watch him drill into the rock in temperatures as high as 55 deg C — and hears how he tries to support a family of seven on R28,85 a shift.

The author was moved. In fact, he has dedicated the book to Mr Mobe, along with two of his workmates.

Jamieson's odyssey to try to solve the Oppenheimer enigma takes him hopping around from South Africa to Britain, the United States, Luxembourg, Australia — and layer after layer of the empire comes under the microscope.

But the author — not surprisingly as deputy city editor

In a new book, "Goldstrike!", British financial journalist Bill Jamieson fathom the enigma of the Oppenheimer rule over the Anglo American gold and diamond empire, and what went wrong in the famous Minorco takeover of Consolidated Gold Fields. MICHAEL CHESTER reports

of The Sunday Telegraph of London — shines best when he flexes his knowledge of high finance and the manoeuvres that go on behind the scenes in complex business deals.

In particular, Goldstrike! homes in to concentrate on the attempts of Minorco to camouflage any links with Anglo or De Beers or South Africa, and so escape political flak, when it swooped into its famous 1988 takeover bid to gain control of the multinational Consolidated Gold Fields group in London.

Alarm

Jamieson makes the battle of the giants — the biggest and most bitter takeover bid ever seen on the London stock market — a thriller that will startle most readers by its duplicity and intrigue.

He adds to the excitement by a liberal sprinkling of all the different code-names that were used in the attacks and count-

er-attacks — Mark (Minorco), Caesar (Gold Fields), Achilles, Hector, Wedding of the Romans, Snakepit...

Cons Gold, it will be recalled, exploited the Anglo percentage of Minorco in spreading alarm about the chances of absolute control of the world gold market landing in South African hands — and laid booby-traps galore to sink the bid.

Minorco managed to defuse most of the booby-traps. It even succeeded in securing a majority vote from Cons Gold shareholders — throwing its own shares into the pool — to put the seal on the takeover.

But the booby-trap that finally torpedoed the takeover was one set in the New York District Court, which ruled a standstill on the bid because it could involve South African control of Newmont Mining Company, the biggest gold mining group in the US, with close links with Cons Gold.

The clock struck midnight

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Heart-beat of the Oppenheimer dynasty

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ORCO



SIR MICHAEL EDWARDES

... makes his point at the press conference to launch the epic bid, flanked by Anglo American deputy chairman Ogilvie Thompson (left) and Minorco's finance brain, Tony Lea.

... book, "Goldstrike!", British financial journalist Bill Jamieson attempts to demystify the enigma of the Oppenheimer rule over the Anglo American/De Beers empire, and what went wrong in the famous Minorco bid to take over Consolidated Gold Fields. **MICHAEL CHESTER** reports.

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— and the strict deadline set for the expiration of the bid chimed out. Minorco, in total frustration, had no option. It had to throw in the towel.
 The only winners were the legal experts engaged by both sides. Between them, they shared well over R1 million a day while the battle raged.
 Yet, even as the gunsmoke cleared from the battlefield, there was still an opportunity for Sir Michael Edwardes to toss in what the author calls the "Minorco cyanide kiss of goodbye"
 A chance at vengeance, to lift the despair of the Minorco camp over the failure of its bid, was provided on whispers that Lord Hanson, the celebrated takeover king of Britain, was a possible next predator.
 Sir Michael sold Minorco's substantial 29 percent stake in Cons Gold to milord — and Lord Hanson moved in with a takeover offer, unsullied by South African connections, that

Cons Gold found it couldn't refuse.
 So far, so good.
 Where the author strays into the real minefield of controversy is listening too hard to the remarks made by Mr Rudolph Agnew, chairman of Cons Gold, on first news of the defeat of the Minorco bid.
 "What we proved in New York," Mr Agnew is quoted as saying, "was that South African control is just not acceptable in large areas of the world."
 "The harm comes from direct political opposition right across the spectrum to subtle denial of business by local authorities and private industry, people who are members of the anti-SA industry."
 "The second reason was the dead hand of Anglo American: the examples are a multitude of the failures of Anglo investments overseas. And when they came to make their biggest acquisition move overseas in what was the largest takeover ever, the dead hand appointed a godson and a son-in-law to lead the bid. You see, at Anglo there is a family agenda and a corporate agenda. And the two are mixed up."
 One suspects that the part-

ing shots delivered by the Cons Gold chairman were a main motivation behind a final chapter in the book in which the author sets out an argument that the Oppenheimer empire faces at least a trio of crises.
 ● An investment crisis — "both at home, where inflation and political uncertainty have put a question mark on long-term investment, and abroad, where there are few natural resource areas which would not challenge the entry of Anglo American or its affiliates";
 ● A crisis of management succession,
 ● A political crisis — "Here, Anglo American faces a central Catch 22: how, on the one hand, it can help speed up political change at home and, on the other hand, protect itself against the consequences of that change — one likely to result in a multi-racial state where the principal new actors are committed to socialist solutions, and, at best, a limited role for the market economy".
 Unhappily for the author, the clock that defeated the Minorco takeover bid was against him too. The deadline for last copy for the book came too soon to record interim events.
 An investment crisis? The goal-posts may have shifted as SA starts to promise to make amends for its catastrophic apartheid policies — and seeks to remove the tarnish in the international arena.

A crisis of management succession? The author had no chance to see the smoothness of the accession of Mr Julian Ogilvie Thompson to the chair at Anglo, with Mr Nicholas Oppenheimer moving into place as an almost certain successor.
 A political crisis? True, that still needs to be settled.
 The final chapter of Goldstrike! in many ways brings us back to the prologue, with Mr Harry Oppenheimer sitting in his private study at the Brenthurst looking at a Thomas Baines painting of Table Bay — with galleons at anchor.

Chuckle

Jamieson takes the view that the galleons have nowhere to go — each a Flying Dutchman, doomed to sail the oceans with every port closed to it.
 One can also visualise Mr Oppenheimer looking up from the desk in his Brenthurst library to admire the galleons from a much different angle. Not totally without consternation, perhaps. But with an irrepressible chuckle as he charts new routes on the world's new shipping lanes...
 ● Goldstrike! — The Oppenheimer Empire in Crisis, by Bill Jamieson, published by Hutchinson Business Books.

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Low gold price and inflation threaten mine

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IRIAAN SMIT



GENGOLD's Stilfontein mine in the western Transvaal faced closure if the gold price and inflation remained at current levels, MD Gary Maude said yesterday. At the release of the group's March quarterly results, Maude said Stilfontein's high grade Vaal Reef had been mined out and Gengold was trying to keep it profitable by stoping the remaining low grade Ventersdorp Contact Reef.

He said a decision about the 38-year-old mine's future would be taken at the end of the current quarter, and added that it was Gengold policy to close a mine if it had made losses for three consecutive months. *B1 Day 19/4/90*

Gengold's Marievale gold mine on the East Rand will no longer publish separate results as the mine is winding down its operations.

The company said yesterday its Grootvlei mine had assumed management responsibility for Marievale with effect from April 1. The ore produced from the winding down of Marievale's operations is being treated at Grootvlei.

Gengold said the arrangement enabled the plant clean-up at Marievale to proceed. Average taxed profit at the group's 11 mines fell by 3% to R11,2m. However, yields were up at seven of the mines.

Winkelhaak was the star performer for the March quarter with an increase of 8,7% in taxed profit to R33,1m and a R768/kg reduction in cost.

Gengold's average working cost a kilogram increased by 3,9% for the March quarter, reflecting the cost squeeze in the industry due to a flat rand gold price and inflation.

Last year the group showed decreases in average cost per kilogram of 1,8% in the second quarter, a 1,9% increase in the third and a 1,9% drop in the December quarter.

Discussing the quarterly results, Maude said gold mines were caught up in political action by unions aimed at government and had suffered production losses during the quarter.

Maude said President F W De Klerk's speech on February 2 and the release of Nelson Mandela had heralded the start of a National Union of Mineworkers (NUM) campaign against "perceived discrimination" at some mines.

Bl Day 19/4/90
Quarterlies
show how
big problems
were tackled

BARRY SERGEANT

GENGOLD's quarterlies for March illustrate how management has tackled a flat rand gold price combined with deepening labour problems and stubbornly rising costs.

The policy is shown in the quarterly results for 11 fully operational Gengold mines: yields are up in seven of 11 cases, allowing gold output to be reduced at a lower rate than cutting ore throughput.

For the March quarter, the 11 mines increased yield on average by 2,6% (to 5,2g/t); throughput was down 6,2% to 3 955 000 tons, and gold output down 3,8% to 20 690kg. There have been inevitable retrenchments on some mines.

The results echo top gold analysts' expectations that — subject to a far better gold price — SA's gold recovery in calendar 1990 is expected to be 50 tons down on 1989's 600 tons.

Analysts say reduced gold recovery is inevitable. The alternative of not changing production in the face of relentless cost increases would mean more mines with unsustainable losses.

Gengold's gold output rates it third after Anglo American and Gold Fields. Gengold has no huge mines: only Beatrix and developing mine Oryx rate around 10th in market capitalisation, of about 60 SA gold mines. The balance of Gengold mines may be described as middleweights, characterised by great comparative production flexibilities.

Fundamental rankings show four Gengold mines as low-cost producers (Beatrix, Kinross, Unisel and Winkelhaak) four as medium (Grootvlei, Leslie, St Helena, Buffels), and three as high (Bracken, Stilfontein, West Rand Cons). In terms of gold recovery, Gengold's 11 rank between Buffelsfontein (around 12th, with 3 696kg in the March quarter) and Bracken (around 34th, with 530kg in the March quarter).

While critics say that Gengold's current policies are only good for the short term, the long-term outlook has brightened after the latest quarterlies. (Disappointments at Grootvlei, Unisel and Stilfontein were due to a mixture of fires, strikes, accidents and declining grades at Stilfontein.)

A general picture of the balance of mines that increased working income during the quarter is given by star performer Winkelhaak. It cut working costs to R20 351/kg, producing a working profit of R14 137/kg on revenue received of R33 779/kg. Its yield was up from 5,8g/t to 5,9g/t; taxable income of R49,4m (R37,7m) was smacked by imposts of R16,3m (R7,3m).

Gengold's successful policies should pleasantly surprise shareholders and the market, with Winkelhaak's unchanged "interim" dividend of 165c per share, Kinross's 160c, (150c a year ago), Unisel's 50c (45c), Leslie's 40c (15c) and Bracken's 30c (10c).

Egg in chartists' faces as the golden bull dies

THE gold bull is dead, technically and fundamentally, according to the respected International Gold Mining Newsletter for April.

It died on March 26 after egg was splashed on the faces of many chartists who saw their cherished resistance levels swept aside when Middle Eastern selling of 2-million ounces of gold crushed the price.

The bull market of 1989-1990 was the shortest ever, lasting only six months. No other has ever lasted less than a year.

The 200-day moving average has changed direction only 10 times in the past 20 years, last doing so in November.

It is set to do it again, unless the price can hold between \$370 and \$390 for the next month.

Fundamentally, gold failed to prosper while the world was suffering a bout of political and economic uncertainty.

By Julie Walker

The Soviet Union's attitude to Lithuania has reminded the West of the "fraught path to full conciliation" with the Russian bear.

Banking

Equity markets have felt the full blast of a chill economic wind, especially in Japan where there are reports of a banking crisis.

The Bank for International Settlements has announced new capital adequacy rules to be introduced in March 1993.

The capital-to-assets ratio will have to be at least 8%. The problem is compounded in Japan because its

banks are allowed to count as capital 45% of their unrealised gains on securities. This is shrinking fast because of the falls on world bourses.

Gold looks cheap in currencies other than dollars, but there are few buyers. It has hit a five-year low in Swiss francs. In German terms, the November peak in the gold price was the anomaly, not the most recent fall.

But two influences could have caused the heavy dumping of gold on a fragile market. The huge sell order originated in the Middle East the day before the start of Ramadan, during which devout Muslims refrain from trading for a month. Ramadan ends this Thursday.

An uncertain outlook for gold could have precipitated heavy selling ahead of a period of forced inactivity.

The second factor could have been the Indian Government's repeal of the Gold Control Act, which prohibited the holding of unwrought gold, limited goldsmith's stocks and restricted gold imports.

The newsletter says the decision triggered selling from suppliers elsewhere.

It says there is a good case for abandoning gold and its equity proxies, which are already down.

"The fundamentals suggest that the world economy is not overheating, there is no serious threat to world inflation, and moreover, interest rates are high and rising."

Gold should have been under-

pinned by political instability, and the failure for it to do so is a mystery.

Australia faces a new administration with a small parliamentary majority and next year's gold tax, and South Africa must come to grips with the ANC's talk of nationalising the mines.

Malaise

"It remains to be seen if these events can lift gold from its current malaise. If they do, then the current bear sentiment (if not yet a fully blown trend) could also set a record for the shortness of its duration.

"However, if gold fails to break free from the shackles within the next few months the price consequences are dire. Gold will have lost its appeal to investors in troubled times, perhaps forever."

SA's squeezed mines face an even tougher path unless the gold price rallies or the rand collapses.

Barend declares a 'soft landing' (79) ~~79~~

Reserves at highest level in 30 months

B/Day 25/4/90

CAPE TOWN — SA's gold and forex reserves stood at R8,3bn at the end of February this year, the highest level since October 1987, Finance Minister Barend du Plessis said yesterday.

Speaking in the debate on his budget vote in Parliament, Du Plessis said the downturn in the economy was being weathered far better than was the previous one in the mid-1980s.

"We are seeing the positive results of measures taken, in the form of what is popularly known as a soft landing," he said.

Du Plessis said R8,3bn constituted only about 1,5 months of export cover, and government was seeking to double this ratio. "There can thus still be no question of relaxing exchange control."

Although it was still too early to give figures for the first quarter, there were indications there had been a considerable improvement on the capital account which, together with a surplus on the current account, would result in a large increase in net foreign reserves. A R2,9bn increase in net foreign reserves was recorded in January and February.

But while it was clear the economy was heading for a soft landing, there were a number of disturbing tendencies which made it necessary to continue applying strict monetary and fiscal policies.

The most disturbing factor was the continuing increase in labour costs, combined with declining productivity.

The authorities have done their part — by monetary and fiscal discipline and wage restraint — to reduce inflation, but

MIKE ROBERTSON

this stands to be negated by inordinate wage increases."

Fighting inflation continued to be a main priority, and the fact that the inflation rate was 14,9% in March (higher than last year's 14,7% average) was a reminder that much still had to be achieved.

However, the sharp decline in the rate of increase of the production price index from a high point of 15,8% in May last year to 12,9% in February this year was an indication that forces were at work exerting downward pressure on inflation.

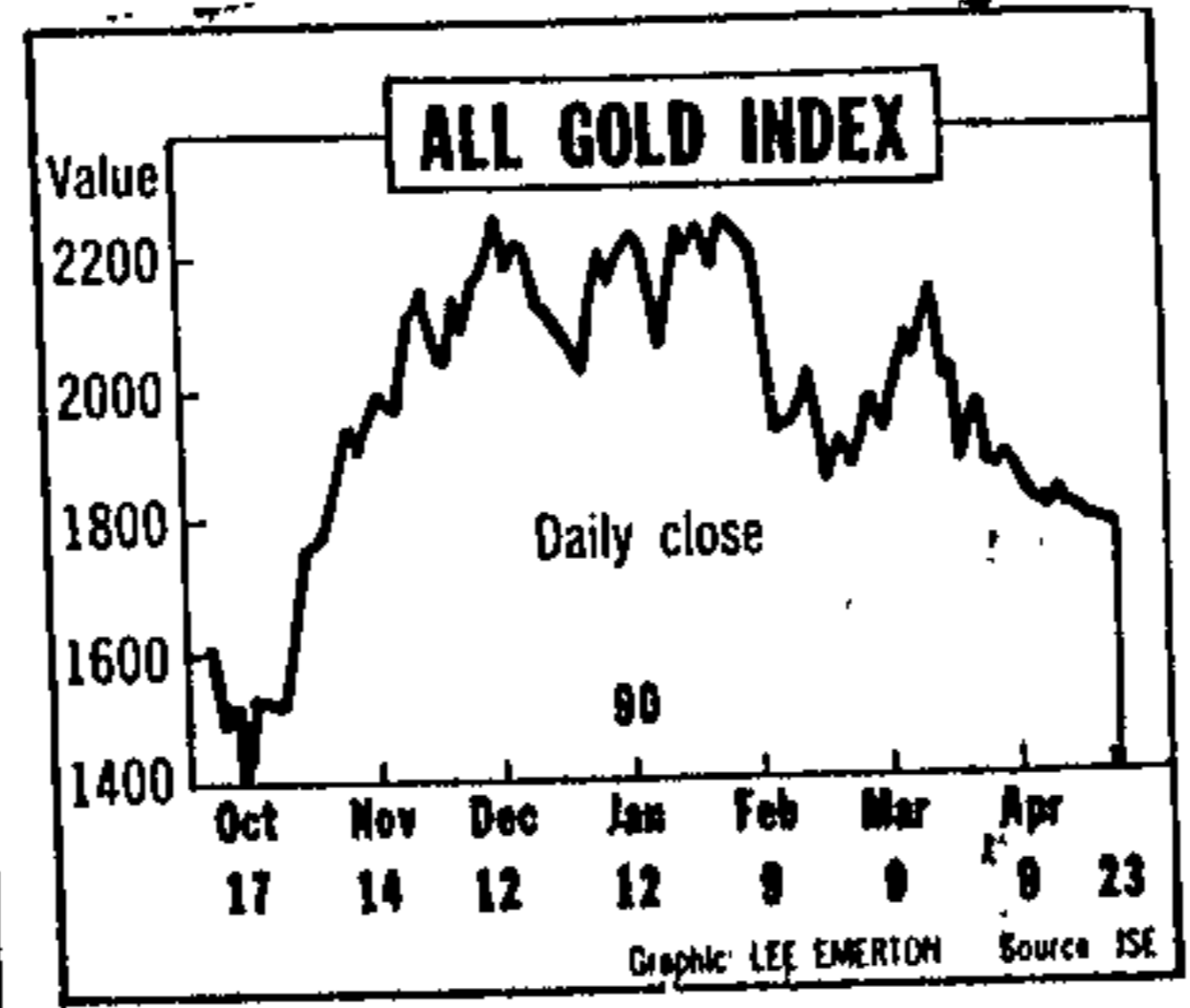
A further worrying factor was that the 21,4% growth in M-3 in February was far outside the target of between 11% and 15% for the period between the fourth quarter of 1989 and the fourth quarter this year.

Despite high interest rates and a more restrictive policy of accommodation by the Reserve Bank, the granting of credit by monetary institutions still remained at unacceptable levels.

But it was clear the present downturn was being weathered far more easily than was the previous one, Du Plessis said.

"The private sector is now much better geared to the required stabilisation measures, and the regrettable but unavoidable toll of the downswing has been much lighter. Indeed, one could say confidence has continued so high through 1989 and even into 1990 that the cooling-down measures have taken some time to bite."

● Comment: Page 10



Gloom sets in on Diagonal Street

B/Dump 2449 **MERVYN HARRIS** (79)

GLOOM set in on Diagonal Street yesterday as poor March quarterly results of gold mines sent shares of marginal mines reeling and caution over political and economic events weighed on industrials.

The market opened weaker on New York selling of SA shares on Friday and in London yesterday and continued to edge lower on lack of major buying to bring the JSE overall index down almost 2% or 60 points to 3 033.

"Sentiment has taken a swing for the worse and the market is in a bad way," said Mannie Fisher of stockbrokers V H Simmons & Co.

The all gold index fell 2,5% or 46 points to 1 762 but it was the non-index weighted

□ To Page 2

Diagonal Street

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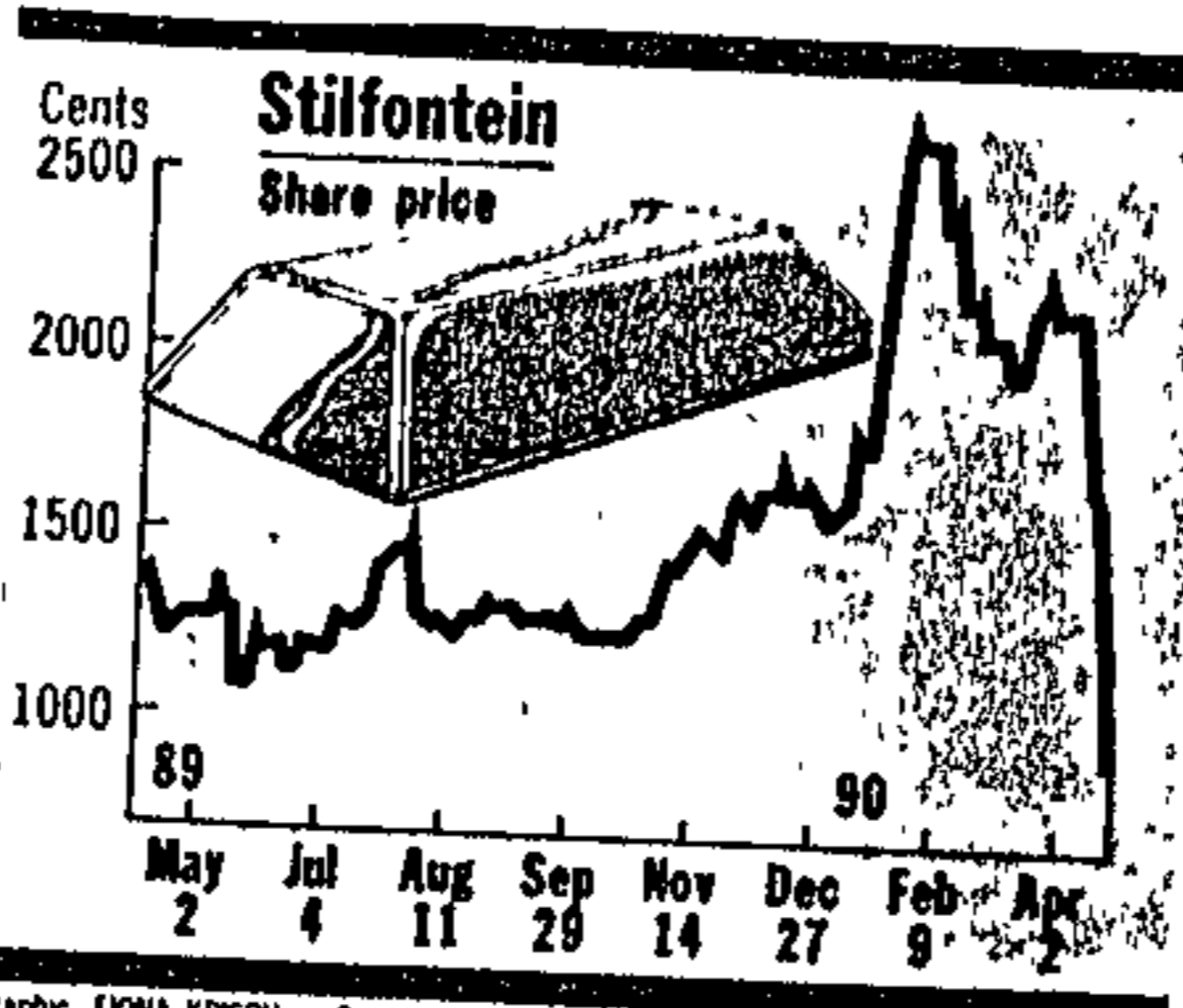
shares which bore the brunt of the declines in the wake of disappointing March quarterly results. The softer trend came as a firmer dollar kept a lid on gold which closed unchanged at \$375,75 in London.

Dealers said recent speculation of possible interest rate hikes and disillusionment

(79) □ From Page 1

over political events dampened interest in industrials. The index closed 1,2% or 36 points down at 2 833.

"People are opting to remain liquid. The market needs something positive to come out of next week's talks between the government and the ANC," a dealer said.



Graphic: FIONA KRISCH Source: JSE

Marginal mines' shares battered

79) ~~79~~ MERVYN HARRIS ~~79~~

SHARES of marginal gold mines were battered on Diagonal Street yesterday and even a firmer gold price failed to spark buying in the rest of the market, which remained despondent.

Stilfontein Gold Mine, under threat of early closure, plummeted 44% to surpass its low of R11 a year ago and closed at 925c. The shares hit a low of 750c but Brussels shareholders, who have a stake of about 60% in the company, provided support.

Analysts said if the mine was to close, shareholders could be paid out a final dividend of up to 500c or 600c.

Libanon, which is also battling to survive, fell 13,6% or 75c to a new year low of 475c after peaking at R10,50 at the end of January. Durban Deep fell 13,6% or 300c to R19 after peaking at R41 in February.

Dealers said the weak gold price, rising costs and looming wage negotiations weighed on the gold market.

Reflecting the general downward drift in share prices, the JSE overall index declined 16 points to close at 3 017 — despite gold rising \$2,50 in London yesterday — to end at \$378,25. *bidan 25/4/90*

Stewart Penn, of Greenwich Futures and Options Brokers, said: "We expected the market to perform after the overnight rise in the gold price. But it has done nothing. This reflects nervousness and bearish sentiment, but if gold breaks through to \$382 we could see short-covering in futures."

The June all gold futures contract is trading at a 23-point premium to the spot market, while the June all share and industrial contracts are trading at slight discounts to the cash market.

Gold and platinum stage minor comeback

79 (162) JOHN CAVILL (126)

LONDON — Platinum and gold prices staged a minor recovery in Europe yesterday after Wednesday's sharp retreat.

At the close in London platinum had recouped nearly \$5 of the \$17.35 fall to reach \$474 while gold at \$372.75 was \$1.50 up after its \$6.75 drop.

Reports from New York blamed platinum and gold sales by the Soviet Union, looking for foreign exchange to pay for imports, for the setback. Platinum did lead the way, falling in New York as Rustenburg confirmed plans to increase output by 30% over the next four years.

London traders, however, said there was no single cause. At Kleinwort Benson, one precious metals analyst said: "The market was already nervous. Some of the American professionals had tried to crank gold up but they failed and had to cut losses. Rustenburg only added to the situation."

Albert Loveless, at Smith New Court Ltd, said: "There was no special reason why gold should fall. Uncertainty is everywhere." *5 Day 27490*

US analysts, however, maintained that Soviet problems with paying for imports are the primary cause as the oil price has weakened.

□ MERVYN HARRIS reports that Diagonal Street recovered yesterday from an oversold position after this week's sharp declines to enable the JSE overall index to retrace 34 points and go back above 3 000 and close at 3 011.

Dealers said the rebound was on a combination of technical factors with professionals covering short positions, further weakness in the finrand and buying at the lower levels.

79

Spiralling costs take the shine off gold profits

If a post-apartheid government wants to nationalise the gold mines to spread their profits, it had better bet on a rising gold price. Because while South Africa remains the world's single largest gold producer, its mines are ageing and their average profitability declining.

Not that this means great numbers of mines are about to close, despite what the Chamber of Mines says. April is traditionally that time of year, prior to the start of wage negotiations in the industry, when the chamber goes public on the poor financial health of its 31 member mines. Chamber president Kennedy Maxwell said earlier this month 15 of the mines would be producing at a loss by July if the gold price did not exceed R33 400/kg.

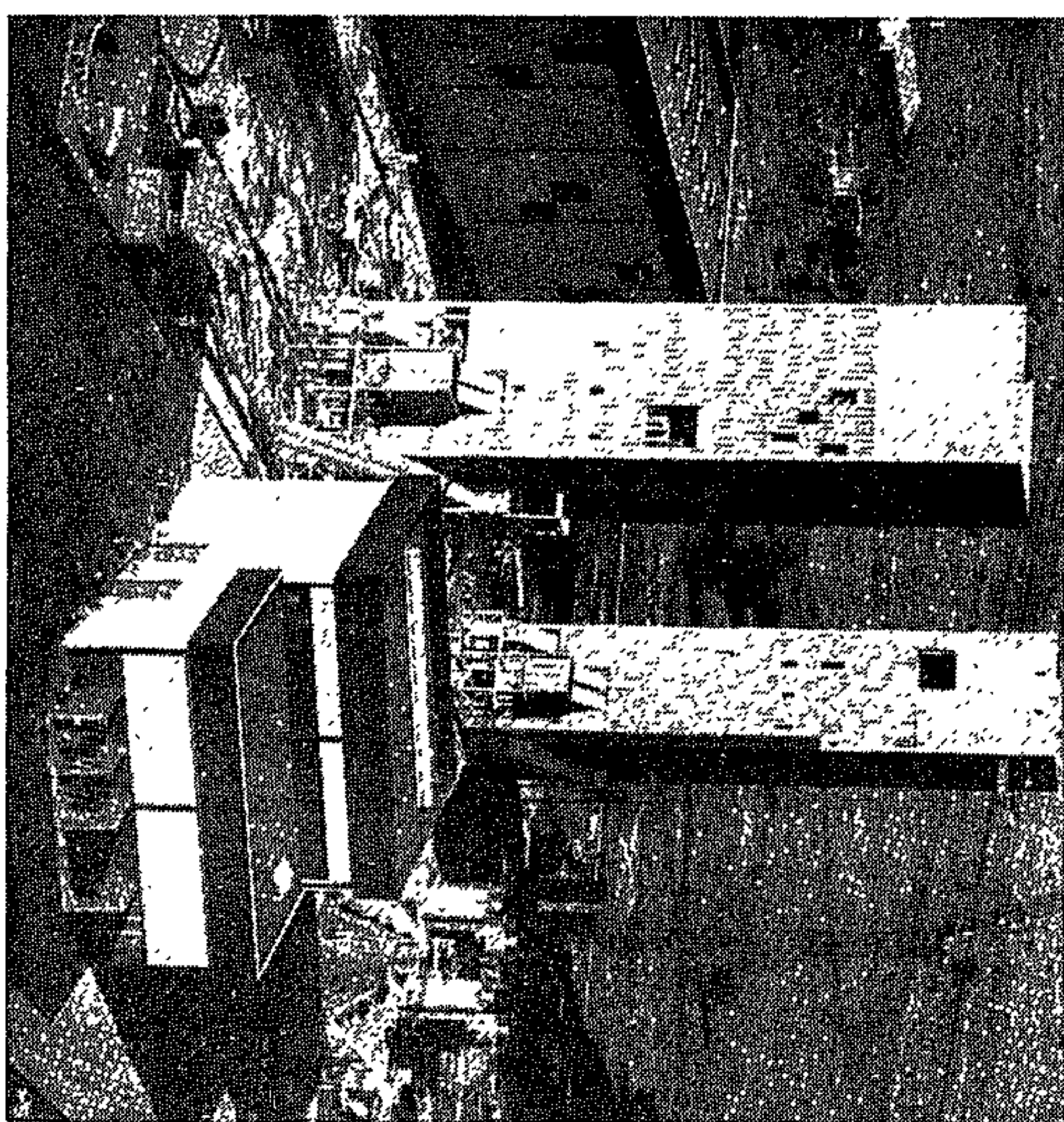
However, mining houses tend to do whatever they can to keep failing mines open for as long as possible because the gold price may increase and it's not easy to increase production on a mine if there have been cut-backs. The only two mines in immediate danger are Rand Mines' ERPM and Gencor's Stilfontein. Gencor's Bracken mine is already on a planned path to closure.

Many in the mining industry believe the gold price will rise (though that is what one would expect them to say), but they can't be sure when. Gencor's Gary Maunde has said the

A sluggish gold price is making it increasingly difficult for gold mines to pay for operating costs and investment, reports ANN FRIEDMAN

price has to go up from \$600 to \$700 an ounce, although when this will be is another matter. And in a recent report on the 1990 annual meetings of the Gold and Silver Institutes, Mike Brown of stockbrokers Frankel Kruger concluded there were promising signs for gold because while demand for the metal continues to grow, Western world gold production is slowing down. Production is expected to peak at around 1 800 tons this year but in the coming few years will drop to 1 600 tons or less (with South Africa producing 34 to 36 per cent of this).

But whatever gold might do eventually, it is not doing much now. It has not regained the over-\$400 levels seen in a brief period of euphoria late last year and early this year. This week it continued at levels below \$380. The average price for the first quarter of this year was R33 621 (\$406,72), higher than the average for last year of R32 048 (\$381,51). But the average rand price will probably be down again in the current quarter ending in June. The mines have been caught in a



Expensive investment ... the new twin shaft system at Vaal Reefs

Picture: ANGLO AMERICAN

profit squeeze for some time now. On the one side the Rand gold price has hardly risen. Over the last 10 years the increase has been an average nine percent a year. Against this, the average cost of producing a kilogram of gold has been increasing by around 17 percent a year.

Costs do increase naturally as a mine ages. And yields decline — there are fewer grams of gold from each ton of rock as the richer parts of a mine are mined out. Successful unionisation of the mines' black workers has helped to push up costs. The mines, historically built on cheap labour, have in recent years found themselves suffering the consequences of past policies as they have had to start redressing the balance. On one estimate, labour costs have been rising by 20 percent a year.

The National Union of Mineworkers this week presented its wage demands for an average 35 percent increase, which would bring the industry minimum wage to R543 a month for surface and R600 a month for underground workers.

The cost pressures, falling yields and static gold price have cut profit margins for the gold mines from their peak of 70 percent in 1979 to below 15 percent now.

The latest quarterly results from the gold mines confirm the trend. Costs rose by 2.2 percent over the quarter to the end of March, faster than the previous quarterly increase of 0.7 percent. The overall grade (gold a ton of rock) mined by the industry fell by 1.6 percent over the quarter and was nearly three percent down on the March quarter last year.

Profit margins fell at Anglo American, Gold Fields, JCI and Rand Mines, although Anglo and Gold Fields are not exactly doing badly — margins were 23 percent for Anglo and 38 percent for GESA. Both Anglovaal (35 percent) and Gencor (30 percent) saw profit margins increase.

As the mining houses have come under pressure, different mining strategies have emerged.

Some mines — particularly those managed by Gencor — are now mining more selectively to keep up profits. They mine fewer tons of rock but with higher yields of gold. This strategy is also being adopted at marginal mines in the Rand Mines stable — particularly Durban Deep and ERPM — and at Anglo's Freegold.

This helps keep mines financially healthy and viable (except ERPM, which remains distinctly sick). But if the gold price does not rise, this could be a strategy which eventually shortens the life of the mines. And it has heavy costs. For example, Gencor shed around 17 000 jobs between September 1988 and the end of last year. Rand Mines' labour force dropped by more than 17 500 over that period. Other mining houses which have cut their workforces.

Anglo American has tended to a different strategy on its mines, of keeping its mills full, even if this means mining low-grade rock. This strategy may turn out to be financially risky.

Gold Fields is described by one stockmarket analyst as mining very slowly on the basis that it has some of the richest mines (such as Kloof and Driefontein) and eventually its strategy will pay off. Its rich mines have seen some of the highest cost increases in the industry over the past year.

The March quarter saw capital expenditure cut-backs by all the mining houses. While this helped to keep profitability up, it is a worrying trend. This kind of spending is usually essential to keep the mines viable in future years, by providing them with new areas to mine.

Also significant during the March quarter was the effect on production of labour action, which hit hardest at Unisel (Gencor), Freegold and Vaal Reefs (Anglo).

Midas loses golden touch

8/21 3-14/90
27
Attributable profits for Midas, the nation-wide parts distribution group, fell to R8,3 million compared with R15,6 million in the previous year.

This was equivalent to earnings per share of 60,3 cents compared with 118,8 cents the previous year.

The final dividend has been cut from 21 cents to 5,5 cents, making a total of 20 cents for the year against 35 cents previously. Dividend cover comes down from 3,4 times to 3,0 times.

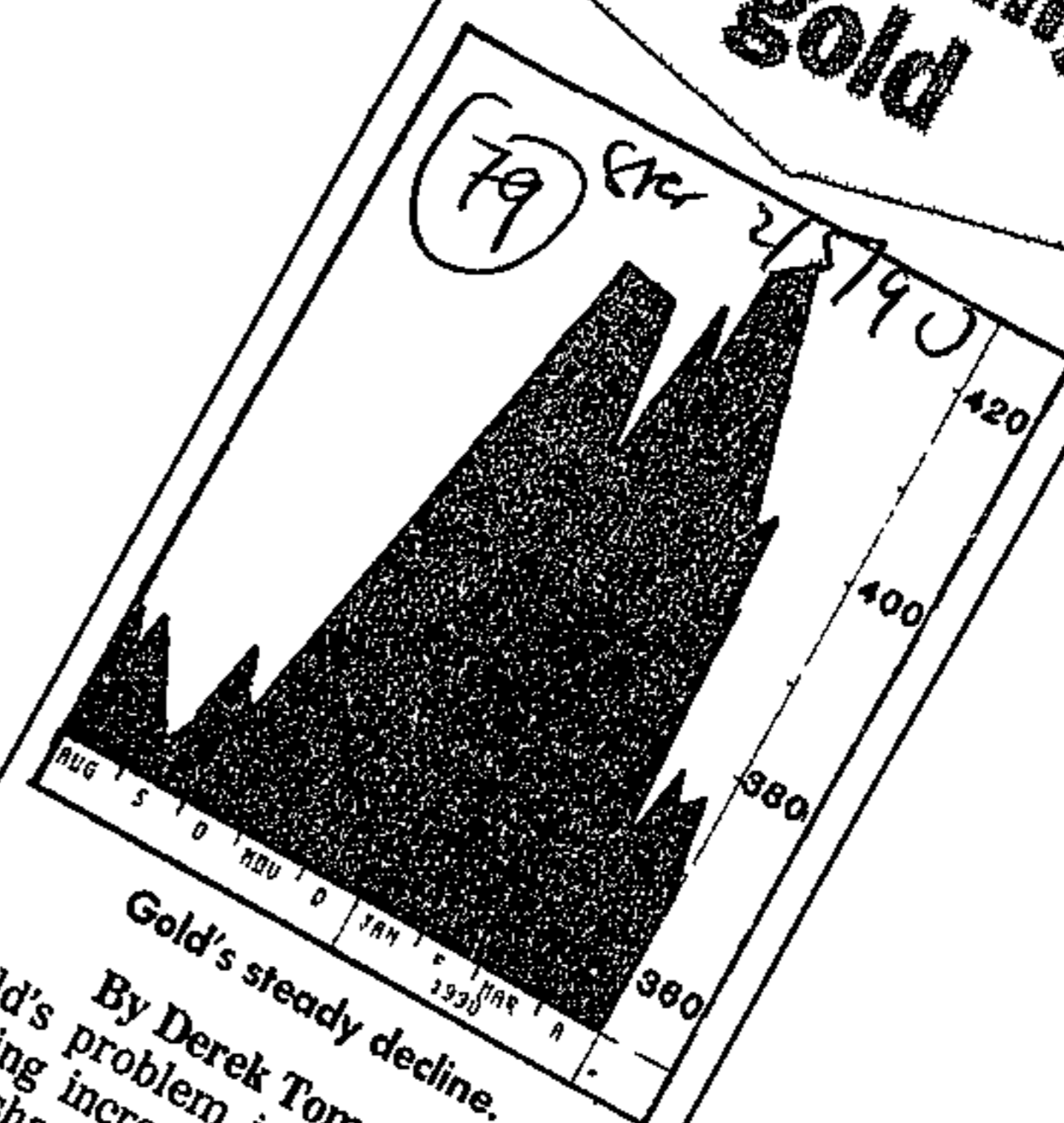
Turnover for the year ended February 28, 1990 was R45 million or 25,5 per cent up from R175,9 million to R220,8 million. Operating profit came off from R20,9 million to R16,5 million.

Interest jumped from R2,3 million to R6,4 million, as a result of financing of increased assets.

Profit before tax came in at R10,2 million — down 45 percent from the previous year's R18,6 million. Tax came to R1,6 million whilst associates delivered an attributable loss of R253 000 against profits of R370 000 in the previous year.

Profits were further diluted by extraordinary items totalling R5,6 million which included a R3,5 million write-off of goodwill in terms of accounting policy and a R2 million write-off of an investment in an associate company.

Investors shunning gold



Gold's steady decline.

By Derek Tommey
Gold's problem is that it is becoming increasingly friendless, a gold share specialist, Mr Philip Taylor of London stockbrokers Warburg's, said yesterday.

He was commenting on the fall in the metal price to \$367.75 on Monday. This was gold's lowest price since last October. It was also less than \$10 above the price of September 11 which was in turn the lowest gold price for three years. The lower price for metal recovered to \$369.50 at yesterday's London fixing. But Mr Taylor did not see the metal recovering much more at the moment.

Best guess is that the gold price could fluctuate in the next four to six months by plus-minus \$20 from the current price, he said. The public has lost interest in the metal. There has not been any aggressive selling. But the market is becoming increasingly thin so that when any selling takes place the price tends to be hit.

Mr Taylor said he could not see anything in sight to move the gold price.

Interest rates were expected to fall in the United States but now look like remaining at their present level for some time. The dollar was also expected to fall but this is also remaining steady. The upsurge in inflation in the United States is becoming something of a problem, but there has been no reaction in the gold market.

Mr Taylor said the failure of the gold price to rally further after reaching \$420 an ounce earlier this year showed how little the public was interested in the metal.

The professionals moved the gold price to \$420 at which point the general public would normally have helped the movement along. But the gold price stuck there and then dropped sharply because there was no interest by the public in the metal.

Gold firms in quiet May Day trade

BID... 215190
GOLD firmed slightly yesterday in quiet trading due to the May Day holiday closure of European precious metals markets.

The gold price was fixed quickly in London at \$368.95 in the morning, slightly above Monday's close of \$367.50 but barely

(100) (79)
LIZ ROUSE

changed from its opening of \$368.80.

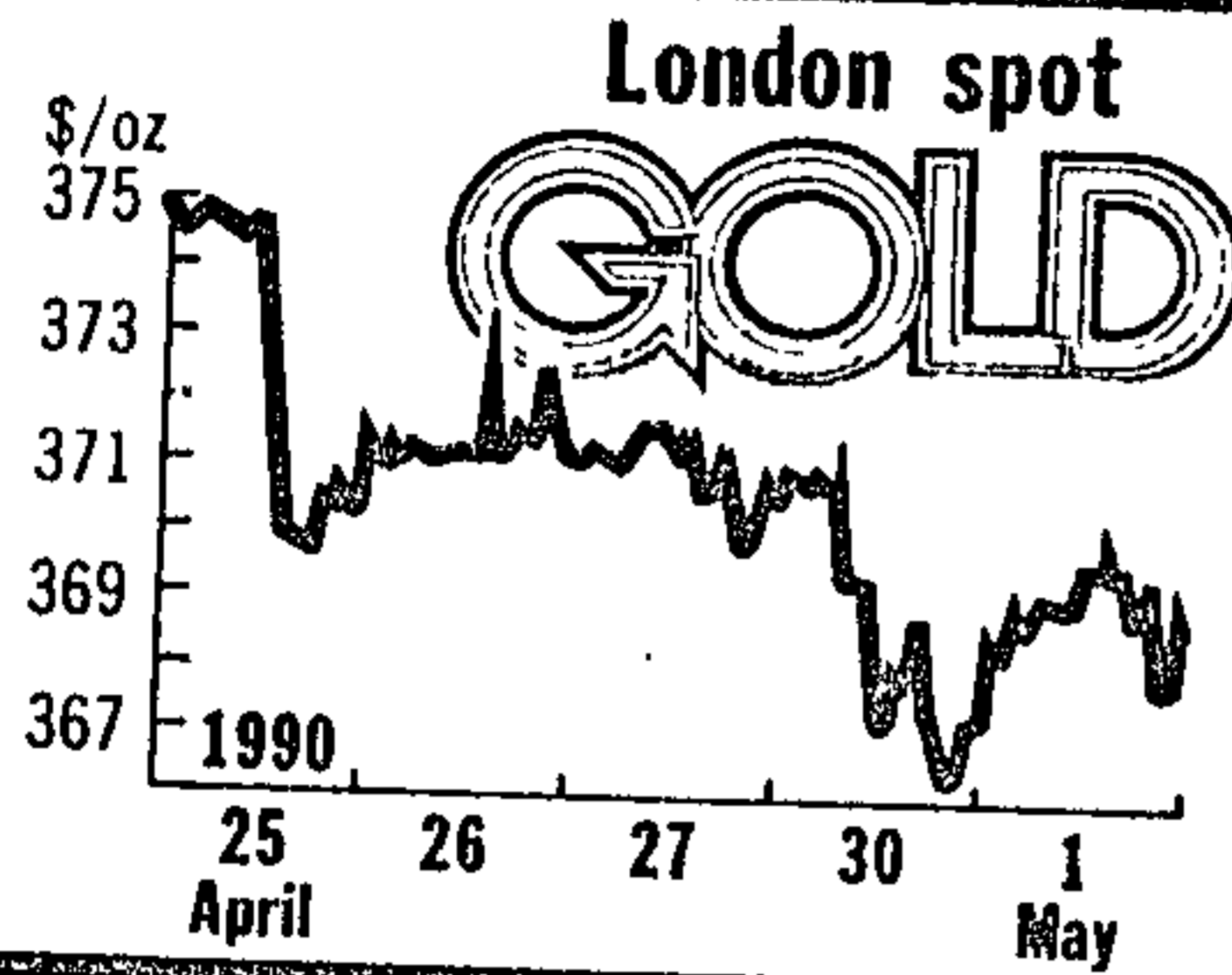
London fixed the afternoon price at \$369.50 after a prolonged session during which New York spot gold kept hitting \$370. The metal closed later in New York at \$370.25; up from Monday's close of \$368.85.

New York dealers described the rise as essentially a reflex rebound after Monday's sharp break. There was short-covering overnight and during the opening.

The white metals such as platinum appeared to be pulling gold up with them, dealers said.

Dealers said concerns about SA's ability to resolve labour conflicts may have had a positive impact on platinum metals.

However, gold remained in a bear trend, most dealers said. Chart watchers saw support for cash gold at \$365 and resistance at \$372.



Graphic: FIONA KRISCH Source: REUTERS

'Sell less gold, turn it into jewellery'

SOUTH Africa should stop selling so much bullion and, instead, turn more of it into jewellery says a scientist with the mining research establishment, Mintek in Randburg.

A small increase in jewellery production could earn South Africa an additional R1,5 billion a year in foreign exchange, according to the president of the Council for Mineral Technology, Dr Aidan Edwards.

In an interview at Mintek, he said domestic exploitation of gold was essential to uplift the sagging South African economy.

Jewellery is one of the major consumers of South Africa's gold.

World gold production is estimated at 1 625 tons a year and last year 1 600 tons were used in the manufacture of jewellery.

With an estimated annual gold production of 610 tons, South Africa dominates the supply of gold to

By ^{SA} JACQUELINE MYBURGH ⁷⁹

the world — but it uses very little of its own gold for jewellery.

"If South Africa were to produce 10 percent, instead of the current 0.1 percent, of the world's jewellery, we would earn an additional R1 500 million in foreign exchange.

"In addition, a number of job opportunities and levels of technical expertise would be created," he said.

The most popular argument against adding value to the country's raw materials by turning them into end products — such as jewellery — has been that South Africa would run the risk of going into competition with the countries to whom it exports gold.

Dr Edwards envisages not competition, but partnership with these countries.

South Africa and Taiwan have entered into a number of agreements, particularly with regard to mineral and metallurgical operations, he said.

Of particular interest to South Africa, is Taiwan's access to the jewellery markets of Japan and South East Asia.

"Our local jewellers and designers are recognised internationally. But our jewellery is among the most expensive in the world, which has led to an illicit trade that has flourished.

The continuous rise in world jewellery manufacture, together with the recent abolition of the ad valorem excise duty in South Africa, offers the local jewellery industry the opportunity of becoming a world leader.

● Next week, on May 9, the deputy Minister of Finance Dr Org Marais, will open a conference, hosted by Mintek, on the state of the jewellery industry following concessions made by the Minister of Finance.

Minorco in US move

9/13/90 (79)
LUXEMBOURG — Anglo American's overseas investment arm, Luxembourg-based Minorco, reported on Tuesday the formation of Minorco (USA), to consolidate its North American interests.

Based in Denver it is intended that Minorco (USA) will ultimately hold all of Minorco's North American investments.

Minorco said in a statement yesterday: "The creation of Minorco (USA) establishes the base for the development and expansion of the corporation's asset in North America.

Minorco earlier this year acquired Freeport-McMoran Gold, based in Reno, Nevada, which recently changed its name to Independence Mining Company.

Reuben Richards, the chief executive of Inspiration Resources, will be chairman of the group.

The board of directors include James Glanville, a partner at Lazard Freres, Thomas Barry, president of Rockefeller Company, William Brown, former CE of Gold Fields Mining Corp, and Minorco's Hank Slack, Tony Lea and Roger Phillipmore. — Sapa

Gold, forex reserves fall as debt is repaid

stra 9/5/90 Finance Staff

(79)



South Africa's gold and foreign exchange reserve fell by R429 million to R5,47 billion in April, as the country met a large foreign debt commitment of \$200 million over the month.

Economists said yesterday that in view of the large repayments, which equal about R500 million, the reserves actually held up well as they declined less than the debt commitments.

Most of the country's foreign debt repayments are due in the current quarter, but the boost to the net reserves of about R3 billion during the first three months, should ensure that these commitments are easily met.

It is also likely that a substantial portion of the total \$2,2 billion debt this year will be rolled over in view of recent political developments.

The value of gold holdings during March declined by R51,7 million to R3,19 billion, although the gold holdings rose by 39 777 ounces to 3,58 million ounces.

Gold was valued at April 30 at R891,23 against R886,65 on March 31.

The foreign exchange reserves fell from R2,76 billion to R2,28 billion.

Government deposits dropped by R474 million to R8,7 billion.

Best to back off market, say analysts

SA STOCK prices are seen declining in the short-term, with analysts seeing little on the immediate horizon to attract interest.

They say gold stocks will continue to slide if the bleak outlook for the price of bullion becomes reality. An economic slowdown in SA, meanwhile, is seen resulting in a continued weakening in prices of industrial issues.

Moreover, the stock market isn't seen getting much help from political developments, analysts assert. "If anything, there is a down side (risk) rather than upside from the political point of view," says Rob Cattich, industrial analyst at stockbrokers Mathison & Hollidge.

Under these conditions, analysts suggest staying away from all but the best in gold stocks. They say attention should instead be focused on diamonds and other metals such as copper and manganese. Several also suggest a look at mining financials despite their relatively high price.

With the economy now showing unmistakable signs of slowing down in response to monetary measures aimed at protecting SA's payments position, analysts don't see much to attract invest-

Analysts find little to attract immediate interest in SA stocks and prices are seen declining in the short term. ^{6/24/89} JULIAN KRAFT reports. (79)

tors in the industrial sector. Nervousness is exacerbated by political uncertainty.

"It's better to back off from the market for a while," advises gold analyst Bruce Williamson of stockbrokers J D Anderson & Co.

Industrial analyst Syd Vianello of stockbrokers Ed Hern, Rudolph, says the industrial index has been "on a slow-motion downward track" since Nelson Mandela's release.

Industrial company results are expected to reflect the slowdown in the economy in coming months and several analysts predict that leading industrial group Barlow Rand will show a decline in net profits in its half-year results, due to be released towards the end of this month.

Analysts expect bullion to improve in the medium term because the US economy is seen as peaking, with the dollar weakening and the country possibly facing higher inflation.

A continued low gold price in the interim, however, poses a threat to the viability of several marginally producing gold mines in SA, some of which could be forced to close this year.

Tom Dale, head of research at Ed Hern, Rudolph, says mining houses which have not yet rationalised marginal mines through re-trenchments and cutbacks in production will probably have to start doing so this year to restore profit margins.

Plums

Mining financials with a broad spread covering gold stocks, other metals and industrials are seen as the best option for investors in the current climate.

While strong support by local institutions in particular over the years have kept them well rated, says analyst Bowler, they are a good investment for buyers prepared to take more than a short-term view.

De Beers is seen as one of the plums right now. The share has taken off, increasing by 30% since the company announced good results for 1988 as well as the split of its non-SA operations under new Swiss-based De Beers Centenary AG.

But with sales moving up strongly in the early part of this year and another sparkling performance expected from the company in 1990, analysts believe the share is still underpriced.

Other metals are a mixed bag. Prospects for platinum, though offering good value in the medium to long term, are seen remaining flat in the short term.

Nickel, a by-product of platinum production and a major component in stainless steel production, is helping to underpin platinum stocks, although the metal's price is off its highs of last year.

SA coal producers, which did well in the export market last year on good world prices and the weak rand, are hampered this year by a decline in demand as world economic growth slows down and a sharp increase in local rail rates. — AP-DJ.

Drop in Soviet sales expected to lower world gold output

79

JOHN CAVILL

LONDON — Soviet sales of gold may drop sharply this year — in spite of the USSR's economic problems — causing a decline of 3% to 2 070 tons in world supplies, says the 1990 review of the world gold industry by Shearson, Lehman Hutton published here yesterday.

And while jewellery demand is forecast to weaken by 5.5% to 1 350 tons, as disinflationary measures dampen spending, the "surplus" to be mopped up by investors should fall by more than 100 tons.

Shearson, however, is not looking for much excitement in the gold price. "We do not expect the 1989 low of \$355 an ounce to be severed, but similarly see little potential for any substantial upside," it says.

The review's "best estimate" for the bullion price, assuming slowing world economic growth and maintained stability, is an average of \$395 this year with a range of \$362-\$425. Looking at next year on the same assumptions it projects an average of \$410 and a range of \$380-\$450.

On the supply side Shearson is looking for an overall drop of 126 tons in sales from the Eastern bloc and central banks to 375 tons.

It argues that (mainly Soviet) supplies of 360 tons last year will fall by 90 tons even though other forecasters are expecting the USSR to use gold — and platinum — to bolster foreign exchange earnings hit by the drop in crude oil exports.

Coronation

Shearson says last year's estimates suggest the USSR sold from its reserves. "It is unlikely the government would wish to repeat this," it claims.

Central bank sales of 105 tons (141 tons) will reflect the minting of gold coin to mark the coronation of Emperor Akihito of Japan towards the end of the year. This will largely be taken up by an increase of 90 tons to 200 tons in demand for official coins — which Shearson sees as continuing in 1991.

But, it points out, at \$360 an ounce an estimated 100 tons of SA output becomes uneconomic. Average SA costs last year were \$285 an ounce compared with \$260 in Australia, \$225 in the US and \$215 in Canada.

On demand Shearson thinks investment markets in Europe and North America are likely to be "neutral" during 1990 although there "are risks and uncertainties" in the major markets.

"This is likely to make would-be sellers cautious, especially if the dollar comes under pressure later in the year. These factors suggest gold should have cleared the \$400m barrier by year-end and tested the resistance at \$425".

After that the supply-demand balance should be tighter but with the Western economies slowing, inflationary expectations being lowered and the dollar recovering "gold looks set to peak in the first part of 1991 and drift lower over the course of the year".

Gold's lethargy halts JSE rally 79

GOLD markets remained in a rut yesterday and the metal's failure to respond to further sharp dollar weakness brought an abrupt halt to the strong two-day rally on Diagonal Street. *5/15/90*

The JSE overall index declined 26 points to 3 205 as share prices succumbed to profit-taking, with market leader De Beers coming off the R100 level to close at R99,25 in good two-way trade.

Gold closed slightly firmer in London at \$371,25 but traders said the dollar's slide should have caused it to move higher. The US currency remained under pressure from last week's soft jobs data which

MERVYN HARRIS

changed views that US interest rates would go up.

Zurich dealers blamed selling by the Soviet Union for gold's disappointing performance but noted industrial buying and short covering at the lower levels.

A US analyst said news that SA gold production might decline could set up an interesting supply-demand situation in two to three years' time. But he thought the report would have little short-term effect. The dollar closed in London at DM1,6380 its lowest level since January 1988.

Politics? Maybe. But gold knocks BCI

By REG RUMNEY ⁷⁹

THE gold price had more to do with the fall of the South African Chamber of Business' Business Confidence Index in March than anything else. But political sentiment also played a part.

The index is a composite of a number of economic indicators rather than a survey of businessmen's feelings about the economy. A drop in some of the indices of which it is composed caused it to fall 1,7 points to 94,2 (base: October 1987) compared to February.

- The dollar price of gold fell and the rand dollar exchange rate declined.

- The overall market index of share prices on the stock exchange dropped.

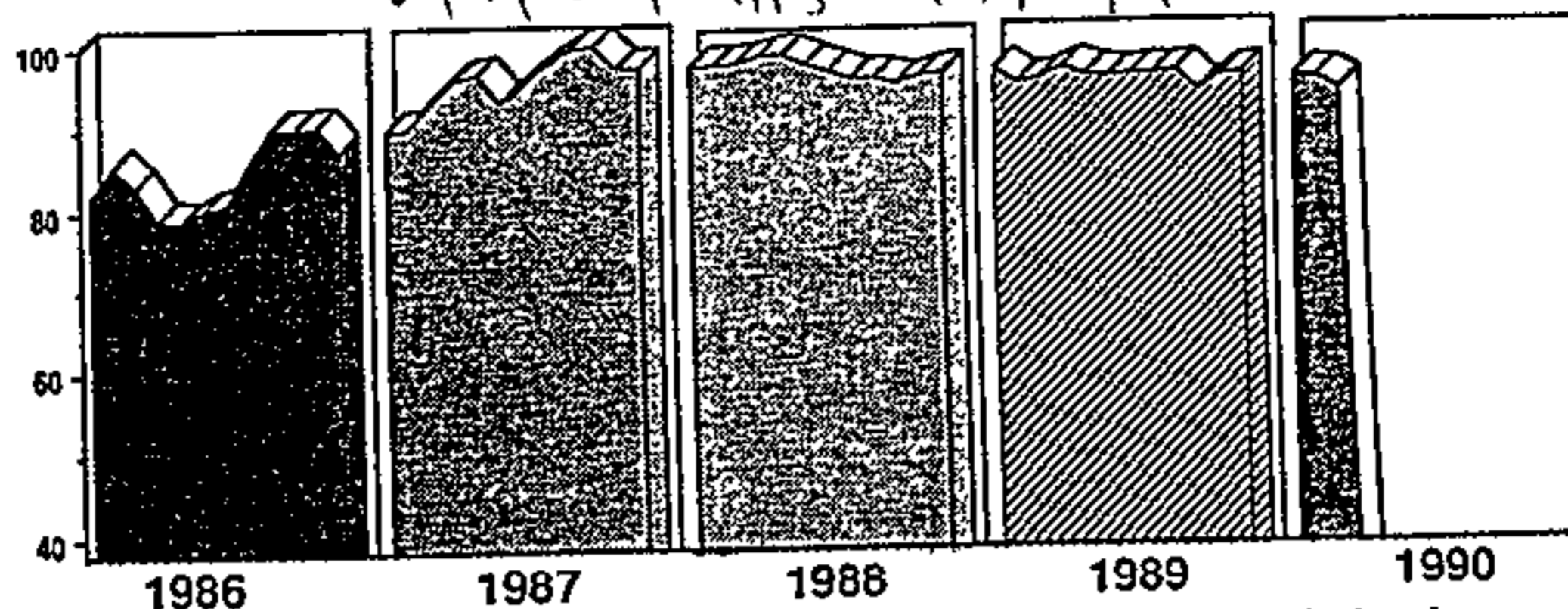
- Imports declined in real terms against the figure for the previous month.

Moreover, retail sales fell compared to February, manufacturing output slipped and the number of new companies registered declined.

Against this, but not sufficiently: the rate of inflation dropped a bit, more new motor cars were sold, more building plans were passed, and exports went up.

The dual role played in depressing the index is explained in notes accompanying the release of the latest BCI. Nervousness on world stock markets has spilled over onto the JSE. Usually, gold would come to the rescue.

According to the chamber:



The Business Confidence Index shows the recent dip — and also how much better sentiment has been in the last couple of years

Source: SA Chamber of Business

“Traditionally, the gold price has tended to act as a stabilising influence on the JSE, as investors fleeing from paper investment have turned to gold. However, the large fall in the gold price late in March, even if the reasons for the drop were of a technical nature, has led many investors to doubt the attractiveness of gold as an investment in the current climate.

“It was this drop in the gold price, the resulting negative impact on share prices on the JSE, that provided the major reason for the large drop in the BCI. In addition, uncertainty on the JSE has been increased as a result of the political developments within the country.”

Gold bulls were taken unawares by the drop in the gold price. The bears are just as likely to be caught out by a sudden rise.

Southern Life's latest economic comment believes the price is to rise.

It says: “Gold's dramatic rise between September 1989 and February this year was largely a reflection of a weaker dollar exchange rate. Gold's sharp fall in the last week of March was at least partly due to the renewed strength in that currency, which laid the metal open to the adverse effects of high and rising real international interest rates.

“It is likely, though, that the international fundamentals regarding gold are as adverse as they are going to get. The threat of eventual severe contraction in international output as a result of ongoing tight monetary policies makes for a high probability that the peak for real international interest rates has been reached. Gold will benefit from the subsequent decline in these rates but the metal's unexpected upward trend has been delayed and will come off a lower base than the \$410 plus of a month ago.”

Gold lingers at \$370 as dollar slumps to new low

Star 14/5/90 (79)

By Neil Behrmann

LONDON — During the past few weeks the behaviour of gold has been disturbing.

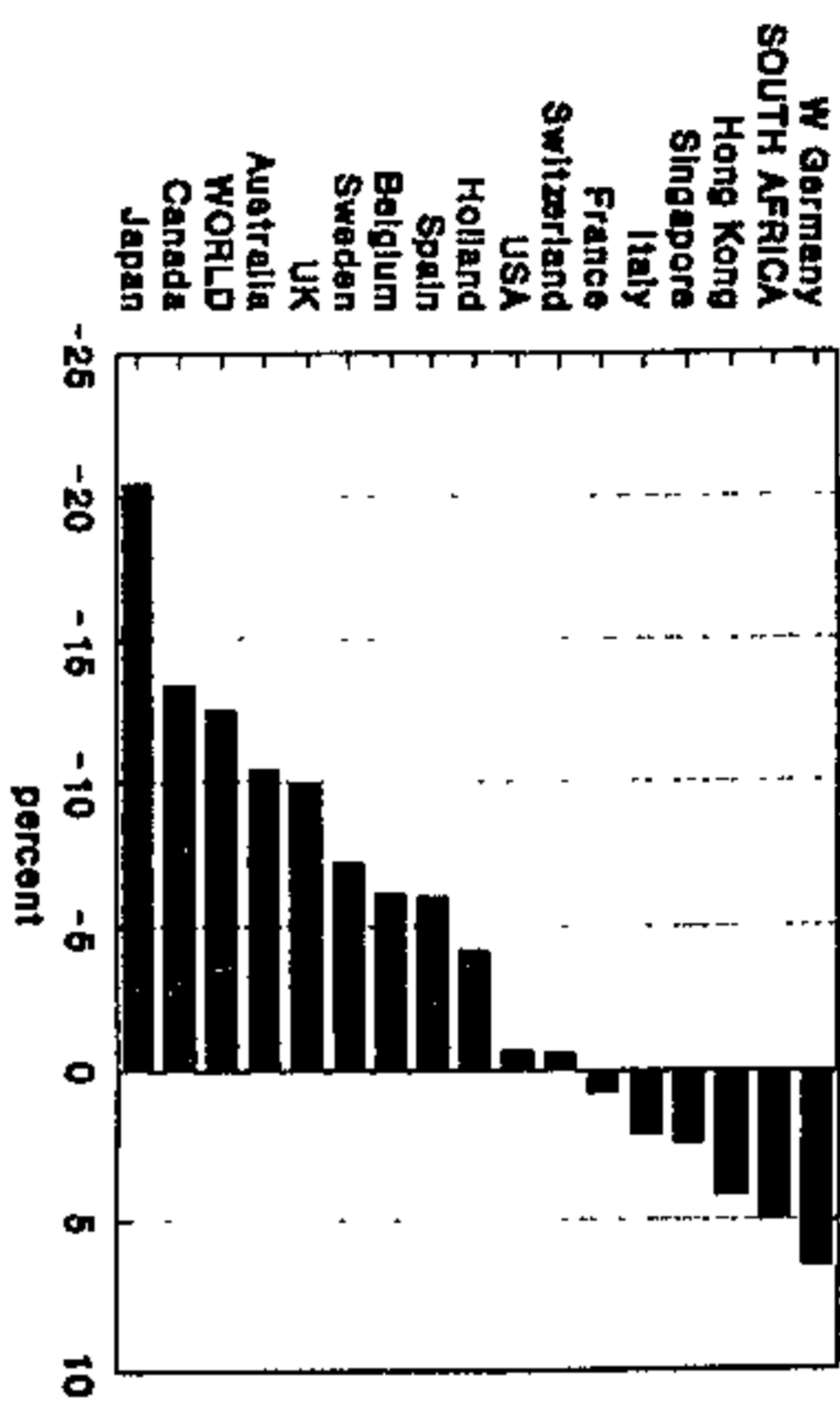
It has failed to respond to a tumbling dollar, which went into a tailspin last week, hitting two year-low against the Deutsche mark.

Generally, when the US currency depreciates, gold rises sharply, but this time round, it has remained depressed. Following the sharp decline in March, when bullion slumped to a low of \$362 from over \$400, gold recovered slightly and is trading around \$369.

Yet the relative stability has been seen only in dollars. Since the dollar began to slide in the past few weeks, gold priced in Swiss francs has collapsed by eight percent, fallen by five percent in D-marks, by two percent in sterling and 1.5 percent in yen.

Thus major currencies which yield high real interest rates have outperformed gold by a long way.

Of course in the past, there have been delayed reactions. Sometimes gold has languished whilst the Swiss franc, Deutsche mark and others have surged. Soon afterwards, however it would revive strongly.



The poor gold price has generally depressed share prices on the Johannesburg Stock Exchange this year. But stock market investors have one consolation — most other world stock exchanges have put up even worse performances. This graph, based on information supplied by The Economist magazine, shows how the world markets have behaved since the start of the year. However, if the weekend movement on the New York Stock Exchange is sustained, this graph could look much different in a month or two's time.

So far, however, the signs do not point to a repeat of history.

In a relatively bullish report, Rhona O'Connell of Shearson Lehman Hutton expects that gold will peak in the first few months of 1991, although it is unlikely to exceed \$451 an ounce. She contends that dollar

tralia and North America.

Ms O'Connell's analysis is similar to studies of most other bullion analysts, but even though they have repeated themselves, they have not succeeded in generating interest in gold.

Whilst analysts were previously boldly predicting gold prices of \$450 to \$500 by the end of this year, they are now hoping that it will rally to \$400.

Why is gold refusing to move in the face of a weak dollar?

Edwin Arnold of Merrill Lynch has some interesting explanations, although the overriding cause is high real interest rates denominated in all major currencies.

Japan is proving to be disappointing in terms of gold offtake, he says. The weakness of the yen and poor stockmarket has dampened enthusiasm for gold. In the first two months of this year Japanese gold imports fell to 35.5 tons against 64.5 tons in the same period in 1989.

Meanwhile first quarter imports of Taiwan totalled 36.8 tons compared with 54.3 tons in the same 1989 period.

Experienced bullion market dealers doubt whether the Far East will be big volume buyers this year, says

Arnold. Although they would increase purchases markedly if gold slipped below \$350, at higher prices Asian investors have become indifferent. Disposable income is expected to shift into other consumer items.

Meanwhile Commodities Research Unit shows that supplies consistently exceeded fabrication demand in all of the quarters of last year, even though the most enthusiastic bullion bulls had projected a deficit in the market. The surplus was as high as 366 tons in 1989.

That surplus, of course must be absorbed by investors and to get them moving back into gold, real interest rates must fall sharply.

Yet why buy non income producing gold when the deposit rates on Swiss francs are over nine percent and capital appreciation of the currency against the dollar has been nine percent this year.

Now that the Swiss franc has risen, why not switch into the depressed yen which is yielding more than seven percent, a real return of nearly five percent.

How can gold compete with this high yield currency game, even if it rallies to \$400 by year-end.

Q

Q

Firmer tone on JSE in spite of weak gold price

LIZ ROUSE

THE JSE had a firmer undertone yesterday on both the mining and industrial boards, in spite of the weak gold price.

Improved political sentiment — induced by President F W de Klerk's successful talks with foreign leaders — outweighed the softer gold price, said a broker.

He said the equity market's behaviour indicated that investors expected it to go better on political factors, but the current weakness of gold was a negative factor.

Gold sector leaders performed well against a gold price which touched \$367 during trading hours, but improved to \$369 at the London afternoon fix from \$368,50 at the morning fix. *Bloom 15/5/90*

However, a gold price of at least \$375 was needed to set the market on a definite uptrend, said a broker.

The all gold index gained 4 points to 1 736. Heavyweight Vaal Reefs put on 400c to R333, a gain of 1,2% while Kloof and West Deep firmed about 1%.

Mining houses were also firm, the index rising 40 points to 4 581. Sector leader Anglo rose 250c to R130, a gain of 1,6%.

De Beers — with a high turnover of over 106 000 shares worth over R10m — was on the uptrend again as the pressure of the financial rand eased (down to R4 to the dollar). The diamond counter chalked up an advance of 115c (1,2%) to R98,65, lifting the diamond index by 208 points to 17 779. De Beers peaked at R101 last week before the finrand strengthened.

Lebowa Platinum's dismissal of workers because of illegal strike action (which will result in lost production) caused Leplat shares to decline 10c to 930c. In reaction to Leplat's loss of platinum output, Rusplat firmed 175c (2%) to reach its previous high of R90 and Lydplat advanced 250c to R65.

However, Impala Platinum was unchanged and the index rise of 85 points to 6 202 was achieved on Rusplats only.

SA Brews featured on the industrial board, firming 100c (2,9%) to R35 ahead of results, pushing the beverages, hotels index up 142 points to 5 678. The heavily weighted liquor counter — plus firmer Barlows, Richmemont and Rembrandt counters — resulted in a 12 point-rise in the industrial index to 2 941.

The overall market index gained 19 points to 3 200.

JSE knocked by hectic trade in gold

LIZ ROUSE (79)

HECTIC trading in gold bullion markets, which at one stage pushed the gold price to a crucial support level during JSE trading hours, knocked golds and mining financials yesterday. Buy 161590

Even platinum shed earlier gains, although opinion is that the mines face labour problems that might affect production. Industrials were softer.

The overall market index shed 27 points to 3 173 as the gold index lost 59 points to 1 677, the mining house index fell 55 points to 4 521 and the industrial index slipped six points to 2 925.

A flurry of gold buying in New York sent the metal through \$370, changing the background picture for Diagonal Street today.

Strong buying emerged in New York and the price surprisingly firmed to about \$372 in early New York trade against earlier expectations that \$369 was the cut-off point. Short covering may account for some of the gains.

The European session opened with the metal under pressure from selling that began in the Far East, according to AP-DJ. The market pushed gold to \$367 from around \$367.70 before physical demand and short covering emerged, dealers said.

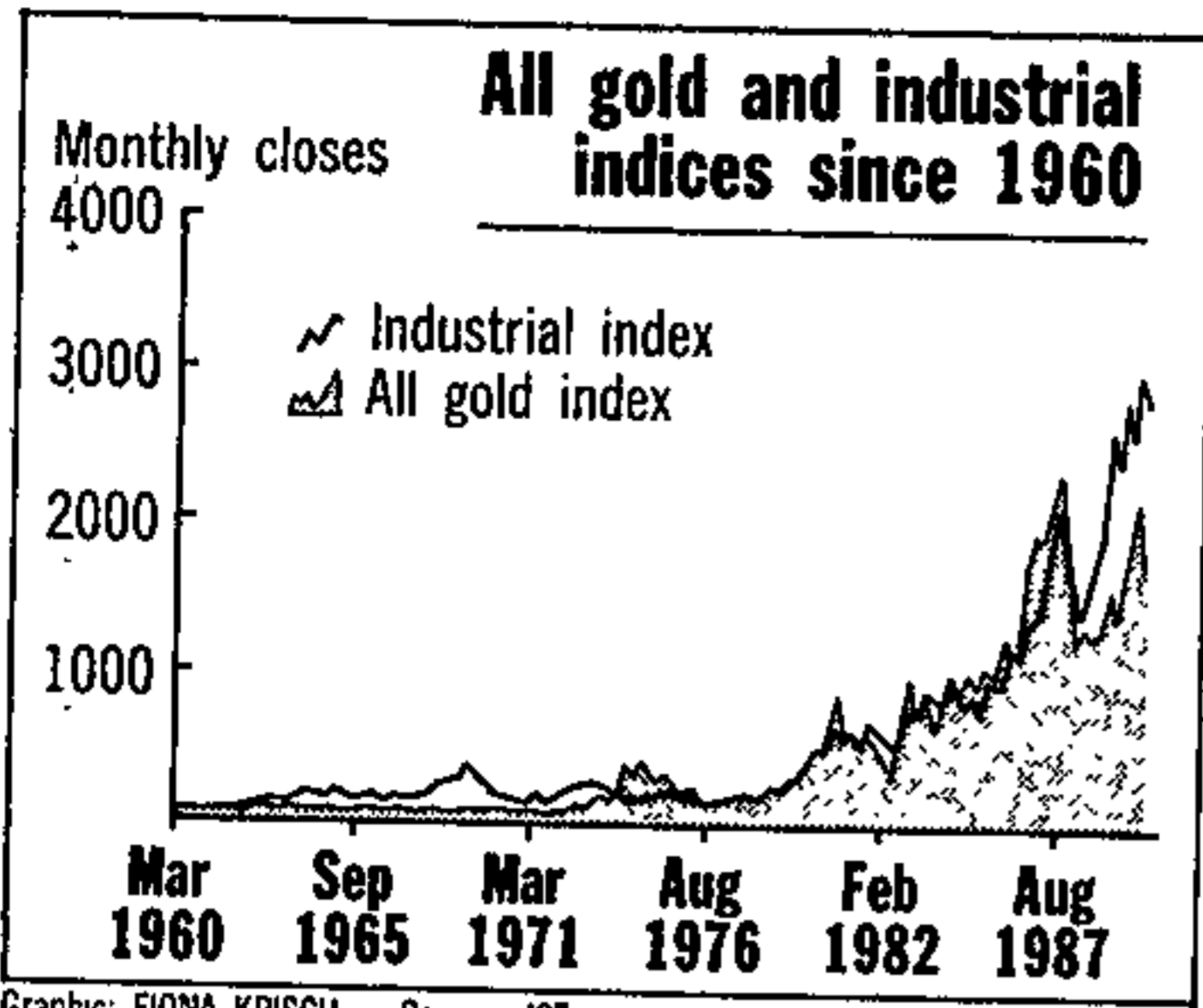
As a result the metal bounced back to its opening levels, where it hovered until midday. Renewed downward pressure, motivated by players eager to test support just above \$366, then sent the metal tumbling once again, this time touching \$336, before once again receiving support, traders said.

When US players entered the market, the bias on the downside picked up momentum and gold managed briefly to touch \$365, propelled this time by stop-loss selling. But news that unarmed Soviet troops had entered the Latvian parliament halted the metal's slide as players scrambled to cover short positions, AP-DJ reported.

By the end of the European session gold has climbed back to \$367 and was fixed at \$367.75 in London in the afternoon. The metal closed at \$370.50 in New York yesterday, \$1.95 up on its Monday close.

79 B/D 18/5/90

Gold shares more volatile



Graphic: FIONA KRISCH Source: JSE

LIZ ROUSE

THE JSE gold and industrial indices run roughly in tandem, gold being a vital element in the SA economy on which stock market sentiment is based and SA's balance of payments.

However, the graph illustrates the greater volatility of gold shares compared with that of industrials.

The times of increased volatility occurred when foreign investors were still a factor in the gold share market, causing sharp movements in the gold index.

Both indices reflect the pre-1987 boom but golds outran industrials before the October crash.

The recent short-lived run in the gold index was largely inspired by foreign investors, who moved their millions into and out of the SA market according to changing socio-political sentiment.

There was, however, foreign interest also in selected industrial leaders in February this year.

Shaky gold ^{CMT} could ^{Imp} falter ^{19/5/90} still ⁽⁷⁹⁾ further

The nation's total import bill rose to \$41.7bn in March from February's \$37.9bn. The cost of imported oil — the major factor in shrinking February's deficit — rose \$40m to \$4.75bn in March. Total exports increased by 4.6% from February to a record \$33.3bn in March. The resulting March deficit was well above economists' expectations for a \$7.8bn trade gap.

From the US, Barclays Bank's vice-president Robert Hatcher said "while the deficit might be wider than anticipated, the high 10% import bill indicates the economy has strength, counterbalancing calls for a decline in interest rates."

At present the US boasts interest rates of 10% and with the updated April inflation rate of 4%, provides investors with a 6% real return. SA has managed to keep pace with this return, albeit at higher levels, with the prime rate of 21% and inflationary figures of 15% yielding similar real returns.

Little potential seen for firming of rand

NEIL YORKE SMITH

WITH gold trading around the \$370 level, the potential for a significant firming of the value of the rand was small, said Senbank's May currency review.

The rand was expected to trade in a narrow band, although in the longer term a slight firming was possible as SA's balance of payments (BoP) continued to improve, it said. *Blowing 2215790*

Reduced US economic growth, especially compared to the strong German economy, was likely to result in the dollar depreciating against the Deutsche Mark (DM), it added.

With inflation accelerating, a weaker performance by the dollar in the medium

to longer term was envisaged — especially against the DM, it added.

However, stringent monetary policy being applied to curb US inflation and political and economic uncertainties in some other industrial countries could lend some support to the dollar in the short-term, it said. *(79) (2)*

High UK interest rates were still supporting the British pound but uncertainties including rising inflation and the growing unpopularity of the Conservative Party would contribute to a weaker pound in the longer term, it added.

Gold plunges in London

^{ster 24/3/90}
GOLD closed in late London trading yesterday at \$386,95 — a decline of \$6,10 from the closing price on Thursday. The afternoon fixing yesterday was \$393,50, which was up \$1,50 from Thursday's fixing.

(79) (10)

Threat to gold

79
M645 24/5/90

Arab selling causes bullion slump

By TOM HOOD, Business Editor

A NEW threat to gold — the country's lifeline — has emerged after Arab sellers collapsed the price by dumping about R2-billion of bullion on the London gold market.

The sell-off yesterday followed a plunge in crude oil prices as a result of a glut of oil, which could slash the earnings of Arab oil producers and threaten their economies.

Between 40 and 50 tons of gold was unloaded yesterday, lowering the price by \$17 to \$363 an ounce within minutes.

Unless the price recovers, South African reserves could fall by more than R1-billion over a year and more than 20 of the country's 31 mines will be running at a loss.

This is the second major slump through heavy Middle East selling in two months.

Rich Arab speculators also have been blamed for manipulating the bullion market in a bid to increase their fortunes.

Seller of the gold was the National Commercial Bank of Saudi Arabia, which wanted sterling to buy arms and invest the rest of the proceeds in more profitable ways, according to London reports.

'2-m ounces sold'

The same bank was blamed for dumping gold on March 26, collapsing the price by \$29 to \$360 an ounce in a day.

Bullion dealers estimate about two million ounces of gold was sold yesterday morning — 20 times the average level of sales.

One dealer said the behaviour of the Arab gold sellers was reminiscent of the "robber barons" who manipulated the New York Stock Exchange at the turn of the century.

These new robber barons, he said, chose their time precisely, striking 20 minutes before yesterday morning's London gold fixing, giving other investors no time to get out of the market.

Long session

The London morning fixing, normally a meeting among five merchant banks and bullion trading houses which lasts a few minutes, went on for two hours and 26 minutes — the longest session in 20 years.

They set the price at \$363,25, the lowest since last October.

Gold dropped below \$361 later, but recovered to \$367,25 today at the market opening in London.

The drop in the gold price made little impact on the share market. The 3.7 percent drop in the gold price resulted in only a 2.9 percent drop in the gold share index on the Johannesburg Stock Exchange.

• Odd spot

The pilot who forgot to duck ...

JUNEAU (Alaska). — The co-pilot was a dead duck, but the pilot and passenger lived to tell the story.

A 1,36kg duck landed in the co-pilot's seat after crashing through the windshield of the single-engine Piper Cherokee plane.

"It happened real fast. I saw a shadow closing in on my windshield and then felt a rush of air coming through," pilot Mr Oddvar Sand said. "I had feathers in my mouth."

"The duck is in a freezer," he said. "I'm going to have it stuffed for the memory."

CRUISING ALTITUDE

The accident occurred while Mr Sand was taking a passenger from Hoonah to Juneau — a 64km flight.

Mr Sand said he was climbing to cruising altitude when he ran into a flock of ducks.

One bird crashed through the plastic windshield, bounced off the dashboard, hit Mr Sand in the chest and fell into the co-pilot's seat.

Mr Sand had a gash on his head but he landed the aircraft safely. His passenger in the back seat was not hurt. — Sapa-AP.

Window-buster jailed

LONDON. — Jobless and homeless South African-born Elvis Hamilton, 29, has been jailed for 28 days for smashing South African Embassy windows during the poll-tax riot in March. — The Argus Foreign Service.

The weather Fine and mild

(Details — page 2)

Police swoop on city trains: 177 arrested

Staff Reporter Argus 24/5/90
POLICE arrested 177 people in a widespread eight-hour crime prevention swoop on trains in the Peninsula.

Major Gys Boonzaaier said 27 people were arrested for serious crimes and 150 on lesser charges.

About 300 policemen, including detectives and members of the mobile unit took part in the crime prevention drive between 2pm and 10pm yesterday under the command of Colonel Philip Delpert.

Suspects arrested for serious crimes were booked on charges of possession of dagga, mandrax, stolen property, dangerous weapons, theft and possession of property stolen from motor vehicles.

SABC-TV on the ball ...

The Argus Correspondent

DURBAN. — The SABC will screen the World Cup soccer finals live, according to a reliable independent source. An SABC spokesman said today he could not confirm this.

Meanwhile, a spokesman for M-Net station said his station would definitely not show the World Cup which takes place in Italy from June 8. He had heard "through the grapevine" that the SABC had secured the rights.

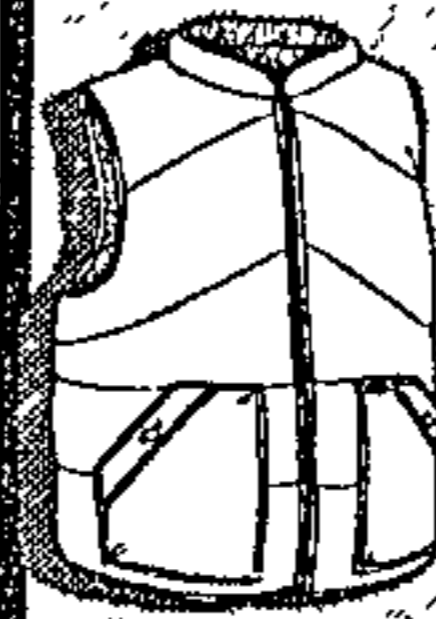


WINTERW

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Bullion takes a plunge

CAT
Tink
24/5/90
-79

THE price of gold fell over \$10 in a single day amid rumours that Middle East traders had unloaded around 15 tons of the precious metal yesterday.

The fall on world markets also placed the metal at its lowest level since October 12 and the Johannesburg Stock Exchange all-gold index, which had risen to 1 691 in earlier trading, fell 62 points.

In London, gold closed at \$363.25 from its opening \$375.50.

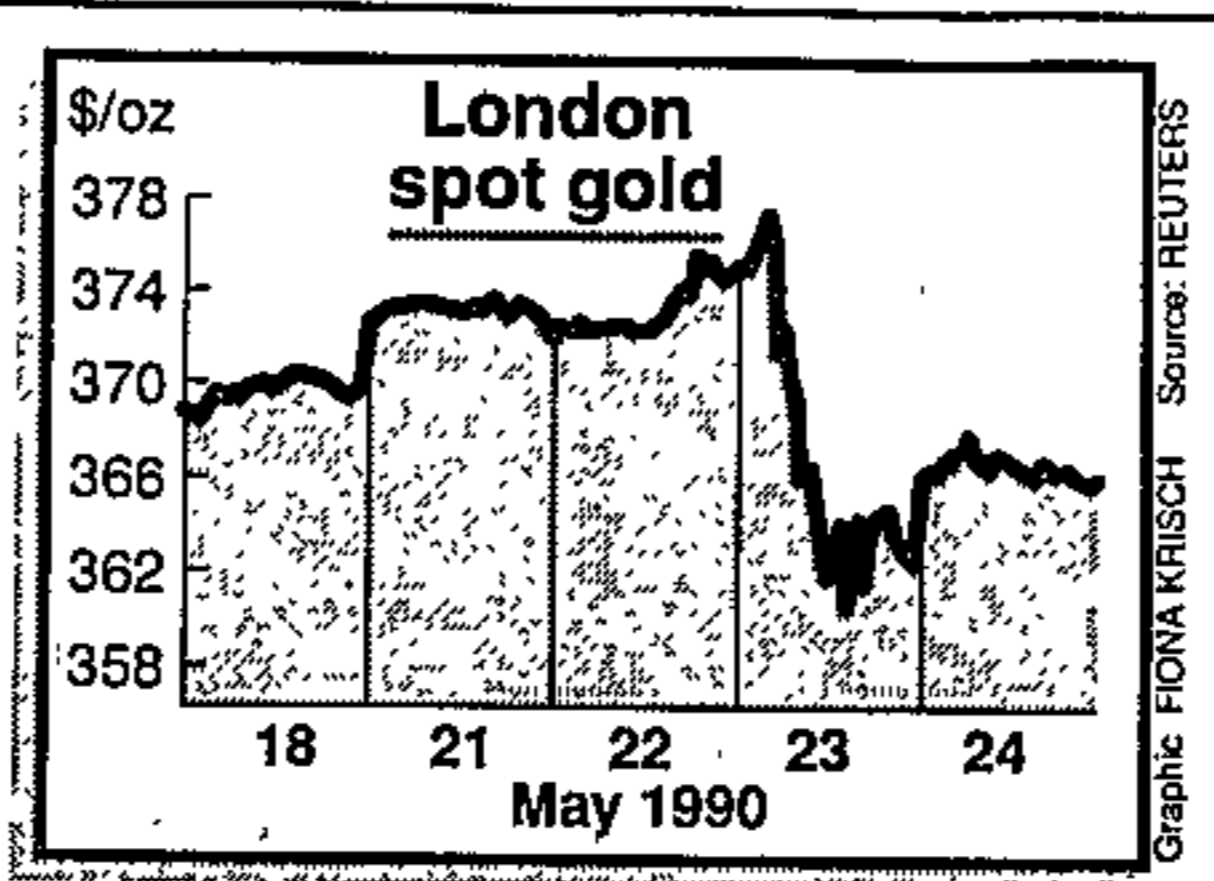
"This is quite a blow to investor sentiment, and we won't see \$400 before the final quarter," said Mr Andrew Smith of UBS Phillips and Drew.

"There are quite a number of weird and wonderful rumours flying around," Mr Smith said, including the notion that the Arabs were switching out of gold and that the Soviet Union was panic selling.

Mr Smith said both these rumours were nonsense.

"Somewhere in the high \$370s gold had very little upside left, and consequently the Middle Eastern investor sold, it could be as simple as that — a sell stop coupled with a weakening oil price which always depresses gold," he said. — Reuter

● Full report — Page 7



Gold price claws back to \$366,50

LIZ ROUSE

GOLD firmed yesterday on overnight Japanese buying and the metal closed at \$366,50 in London after a day of quiet consolidation.

This compares with Wednesday's close of \$363/\$363,50, a day when gold was bludgeoned again by a huge sale of physical gold from the Middle East.

A dealer said gold was steadying a touch but the market would be nervous for the next week at least, after Wednesday's dramatic events when the price plunged \$12 in near panic dealing in bullion markets.

However, yesterday's trading was thin as the Swiss had a public holiday so they could not give the market any liquidity. Only small amounts were moving in London.

There was subdued buying at lower levels as long-term investors sought to capitalise on Wednesday's steep fall. Wednesday

□ To Page 2

Gold price

day's slump presented a good buy opportunity for long-term investors, said one trader.

Gold enjoys strong support from investors taking a longer view when it falls to around \$360, a major chart point.

Some traders said that the precious metal was unlikely to repeat Wednesday's volatility any time soon as many participants fled to the sidelines as the price saw-sawed.

They said gold was likely to enter a sustained period of quiet trading in a \$20 range.

Gold's price, which began Wednesday by rising to \$377, slumped to \$361 at one stage

before recovering in the afternoon to close at \$363,75, down \$11 from Tuesday's close.

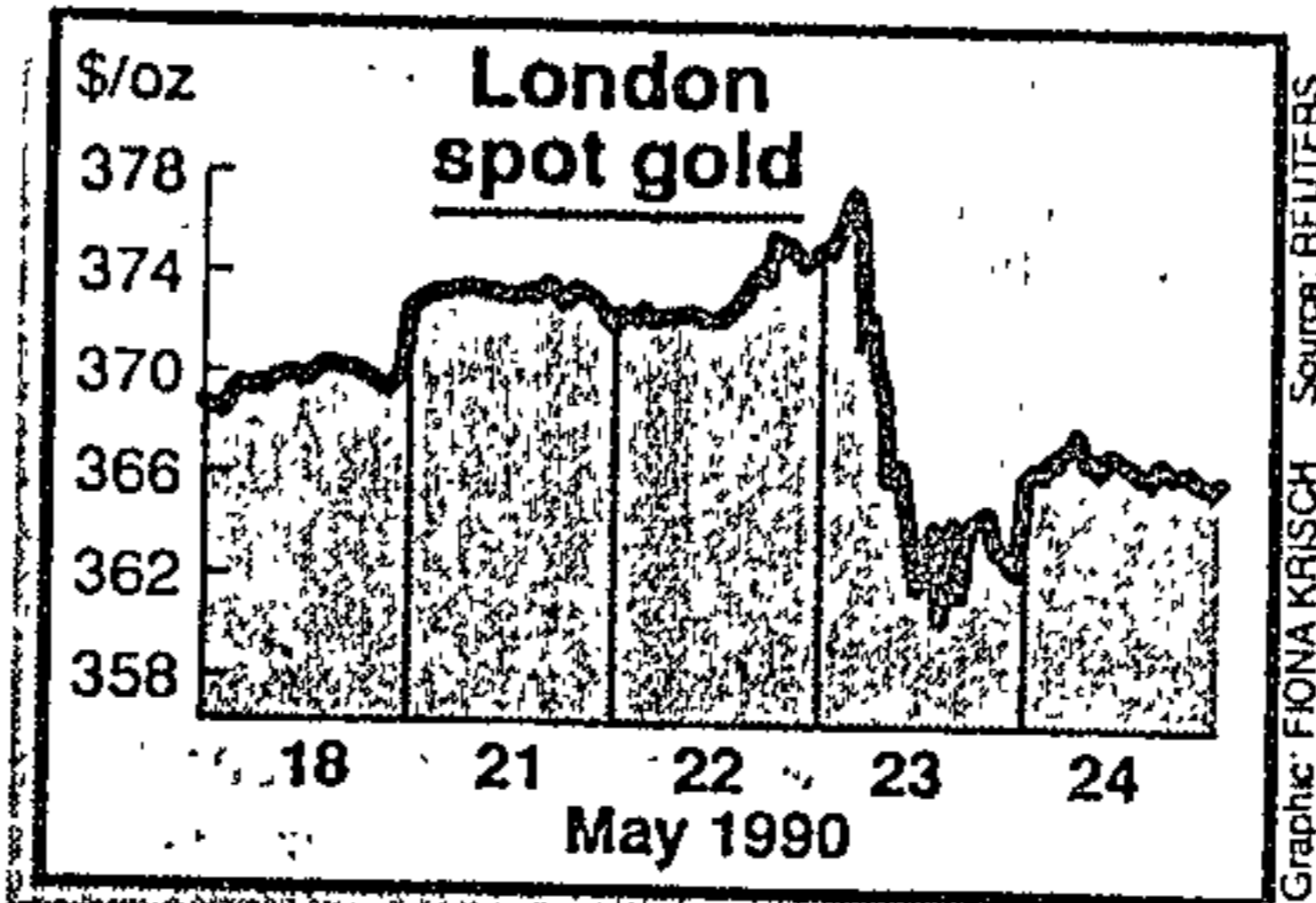
"I have never known the price to fall so far so fast," said Michael Spriggs, precious metals analyst at Warburg Securities.

There was no panic sell-off of gold shares on the JSE on Wednesday and selected buying of golds at their lower levels lifted shares off their lows of the day.

The result was that the JSE all gold index was down only 49 points to 1 629 after touching 1 621, bringing the overall index down only 33 points to 3 181.

JSE gold shares — after yesterday's holiday break — will probably move into line with London and New York prices overnight.

□ From Page 1



Graphic: FIONA KRISCH Source: REUTERS

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Gold price *Blx 257 1/2*

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JSE gold shares — after yesterday's holiday break — will probably move into line with London and New York prices overnight.

The bull's still asleep

There is some light at the end of the gold tunnel. But, reading between the lines of *GOLD 1990*, the Gold Fields group's annual review of the world's gold market, there is little reason to expect any major price increases this year, while the yellow metal's price performance earlier this year underscores the potential for volatility. (21)

Last year, *GOLD 1990* reckons, total private sector supply reached a record 2 477 t (1988: 1 857 t) as mine production continued its 10-year advance to reach 1 653 t (1 551 t). *GOLD 1990*'s researchers base their expectations of better prices on the likelihood that new mine production will start to level out and settle on a plateau for most of this final decade of the century.

In 1980, new mine production was 962 t and grew steadily by 72% to reach 1989's 1 653 t. But weak prices, environmental controls, rising costs and new gold mining taxes in Australia in 1991 are expected to restrain growth this decade. Flat production by mines in the Western market economies is likely to be accompanied by lower production in the USSR. But that will not prevent the increasingly cash-strapped Soviets from drawing on reserves and increasing sales to the West and

FINANCIAL MAIL MAY 25 1990

higher sales by China as it repays maturing foreign debts. (71) (274)

When the gold price cracked sharply from the US\$423/oz peak of mid-February, the strength of physical demand at prices below \$400 was confirmed. That demand has not led to higher prices, nor does *GOLD 1990* necessarily believe it will, but it expects demand from the jewellery manufacturing industry to remain firm (it rose to 1 811,3 t in 1989 from 1988's 1 477,1 t), despite some slackening in consumer spending for central banks to reverse their 1989 position and become net buyers below \$400 and for lower scrap tonnages to be generated.

Still, the review's authors do not expect a bull market to develop — that depends on significant change in the fundamentals of supply and demand, a change which is not yet perceptible.

Nearer to home, the outlook is not altogether cheery. SA's production slipped to 608,3 t last year from 621 t in 1988 and, for the first time since 1911, the combined production of the next three largest producers (the US, Australia and Canada) was greater than SA's. At \$275/oz last year, we were the Western world's most costly major producer — the West's average production cost was \$250 with the US average at \$206, Australia at \$236 and Canada at \$245. And that implies it is less attractive to develop new production resources here than elsewhere.

Jim Jones

Gold gains some losses

CMF TALKS 25/5/90 79

LONDON. — Gold recovered some ground lost in Wednesday's sharp fall on heavy Middle East sales.

It took advantage of a quiet day, with most markets outside London shut for Ascension Day holiday, to consolidate and closed in London at \$366,50 an ounce compared with a previous finish of \$363,25.

But gold was still well below Tuesday's \$374,75 and dealers said the bullion market remained nervous.

In New York, gold closed at \$366/\$366,50 against Wednesday's close of \$363,95.

The dollar closed little changed in quiet European trading yesterday, ending at 1,6735 West German marks compared with a previous close of 1,6710 and at 151,70 yen against 151,05.

The dollar paid little attention to news that the US economy grew at a slower rate in the first quarter of 1990 than originally estimated by the Commerce Department.

US gross national product grew 1,3% in the first quarter of 1990, revised down from the previous estimate of 2,1%.

The dollar has had an easier bias this month because of a growing belief that the US economy is weakening, which could lead to a cut in interest rates.

Dealers said the mark was the focus of attention, under pressure because of the uncertainty surrounding the impact for West Germany of taking on the East German economy.

Dealers expect this pressure to be maintained until early July when German monetary union takes place.

"The dollar would certainly be a lot lower if it wasn't for monetary union."

The pound was barely changed against major currencies but London shares slipped, pulled down by a weaker Wall Street.

A dull London stock market was livened up by active trading in BAT stock which dealers said was due to financier Sir James Goldsmith selling part of his stake after dropping a takeover bid for the conglomerate. — Sapa-Reuter

Sharp drop in gold price . . .

Bank placed in tight spot

CAF 7-11 25/5/90

Own Correspondent

JOHANNESBURG. — The Reserve Bank, already under pressure to reduce interest rates because of the cooling of the economy and rising black unemployment, has been placed in a tight spot by the sharp drop in the gold price, say senior brokers.

John Liackman, senior partner of stockbrokers Max Pollak & Freeman-tle, said: "The monetary system must be under increasing pressure as it has to absorb the effects of the lower gold price, either through a lower currency or defer any possibility of a relaxation in interest rates.

"While interest rates will probably not go higher, the monetary authorities are unlikely to bring them down in the third quarter as markets had expected," he said.

The steady tone of gold shares on the JSE on Friday reflected expectations that gold would go up, and it clawed its way back to the \$367-level. But analysts said share prices' resilience could also indicate investor reluctance to accept that gold has more downside than upside potential.

They were concerned that gold should come down so easily and swiftly after its \$14 mid-week plunge. Such

behaviour would be expected from a gold price of more than \$500, but not at levels where the metal was recommended as a buy.

This gave rise to suggestions the market was not difficult to manipulate and that the price was in a disorderly area, fuelling concern that if gold broke through resistance at \$355/\$350 it could drop to \$310.

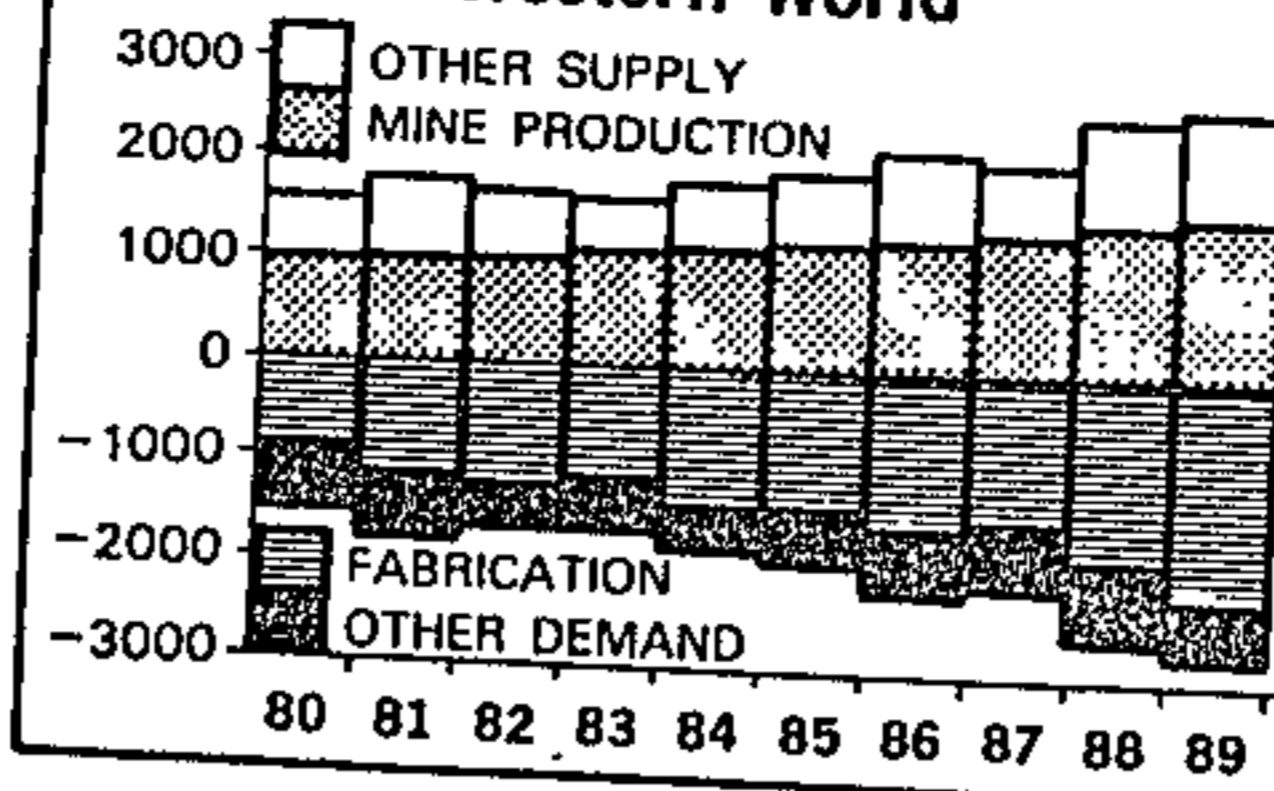
David Meades, of stockbrokers Meades, De Klerk Inc, said gold was technically in a highly sensitive area and at a point where it would be tested more rigorously than at any time in the past 18 months.

"A gold price below \$350 would put the Reserve Bank in a tight spot. Pressure would mount to lower the rand, which could then fall to R3 to the dollar.

"This would have inflationary consequences and make policy-makers' task more daunting. With rising black unemployment, they have to decide how far they are prepared to let the economy decline without creating an overkill situation."

Bullion markets are expected to remain subdued until after today's public holidays in Brussels, London and New York.

Gold Supply and Demand in the Western World



Other supply includes net communist and official-sector sales, scrap, net dishoarding of bars and net disinvestment, including the effect of gold loans, forward sales and options. Other demand includes official sector purchases, bar hoarding and net investment. Source: GFME

IF VOLATILITY in the gold price has fallen in recent years, the rate of change of sentiment must be at an all-time high. *SITimes*

The average gold price in 1989 was \$381, the high \$415 and the low \$355. The \$60 range is 16% of the average price — down from 21% in 1988.

Yet only a month after pronouncing the gold bull dead, the authoritative International Gold Mining May newsletter reports of the bull behind the bear.

The optimism arises from an announcement from Edward Gostev, deputy chairman of the Soviet Bank for Foreign Economic Affairs. Mr Gostev expects the Soviet Union to release gold production and bullion reserve figures within a year.

Soviet gold production is estimated at 300 tons a year. The sudden bare-all will help Russia to obtain foreign

Russia to bare its all on gold

credit — so Mr Gostev hopes. The Soviets are finding it tough to raise medium- and long-term finance because Western lenders do not see meaningful guarantees of loan repayment.

The report said that all Soviet gold-mining associations might have to curtail their operations and the country would lose 50 tons of gold production a year.

The news had little publicity even though it has a potential positive effect on the gold price. One London analyst believes that Russia will sell much less gold this year.

As production falters and the flight from roubles to gold climbs domestically, Russia will need to achieve a large hard-currency gearing from its gold reserves as collateral for gold-backed bonds or other loans.

Russia has sought Western investment and technology for its mining industry with little success.

Calfish

Gold 1990 — heir to Consolidated Gold Fields' Gold Survey and now published by Gold Fields Mineral Services — gives a calfish (semi-bullish) summary of gold's outlook.

It says developments in the communist bloc will continue to influence the market, but should not be allowed to overshadow the significant changes which occurred in the patterns of gold's supply and demand.

Although this year's promising start for gold faltered, the outlook is not necessarily bleak.

Western mine production should rise modestly in 1990, but at a slower rate. "Moreover, the weak gold price, rising costs, environmental controls and the tax on gold mine profits in Australia from 1991 will combine to curb future expansion."

Gold loans and forward sales, while remaining an essential part of the mining industry's financing, are also unlikely to provide the level of accelerated supplies seen in 1988.

It takes two to make a market. In contrast to the International Gold Mining newsletter, Gold 1990 says the communist bloc will continue to be a major source of supply, although mining output may fall.

Bank in tight spot over gold

By Day 28/5/90
MERVYN HARRIS

79
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They were concerned that gold should come down so easily and swiftly after its \$14 mid-week plunge. Such behaviour would be expected from a gold price of

more than \$500, but not at levels where the metal was recommended as a buy.

This gave rise to suggestions the market was not difficult to manipulate and that the price was in a disorderly area, fuelling concern that if gold broke through resistance at \$355/\$350 it could drop to \$310.

David Meades, of stockbrokers Meades, De Klerk Inc, said gold was technically in a highly sensitive area and at a point where it would be tested more rigorously than at any time during the past 18 months.

"A gold price below \$350 would put the Reserve Bank in a tight spot. Pressure would mount to lower the rand, which could then fall to R3 to the dollar.

"This would have inflationary consequences and make policy-makers' task more daunting. With rising black unemployment, they have to decide how far they are prepared to let the economy decline without creating an overkill situation."

Bullion markets are expected to remain subdued until after today's public holidays in Brussels, London and New York.

Futures trading quiet after day of heavy losses

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MERVYN HARRIS

FUTURES markets experienced one of the quietest trading days this year as speculators licked their wounds after last week's gold price tumble and yesterday's closure of major financial markets for public holidays. (79)

Dealers said there were substantial losses last Wednesday — particularly among jobbers on the equity floor — as the June gold futures contract plunged 80 points in line with the drop in the gold price.

They said gold was expected to test \$380 when the metal surged to \$377 and bullish investors piled into futures contracts. Institutions also put in buy orders to dealers on the equity floor, prompting some jobbers to speculate.

Instead the metal reversed direction, and within an hour had shed \$14. Institutions swiftly shelved their orders and jobbers were left holding shares without buyers in sight.

Stewart Penn, of Greenwich Future & Options Brokers, said the activity came after six weeks of flat trading. "Futures markets thrive on volatility."

He said the slow tempo of trading had been reflected in the fact that open interest — the number of outstanding or open futures positions — had shown no increase.

Re 30/5/90 (79)

Ergo plans to be still producing in next century

Finance Staff

Ergo, faced with early closure under present conditions, is investigating a scheme to keep it producing gold until the next century, says the chairman, Mr Clem Sunter.

The scheme would enable Ergo to produce more gold in aggregate over a longer period, though at a lower rate than at present, and it would keep Ergo profitable. Mr Sunter says that at the present gold price and working costs, Ergo will not be profitable much beyond the mid-1990s.

However, when this stage is reached, Ergo's life could probably be extended if the flotation, uranium and acid plants were closed down. This would leave the carbon-in-leach section operating at approximately the

same rate as at present.

The gold output would decline but this would be compensated for by a substantial decrease in working costs.

It would mean that the flotation plant planned for Ergo's Daggafontein Division in the mid 1990s would not be constructed as it would not be viable without Ergo's acid plant.

This would leave the Daggafontein Division with a slightly shorter, but more profitable life, to the turn of the century.

Investigations are continuing and shareholders will be advised as soon as a decision has been taken Sunter says.

Mr Sunter says that Ergo's two smaller divisions, Simmergo and Daggafontein, provided commendable re-

sults but the Ergo Division experienced several operational difficulties.

Total gold production declined slightly to 11 732 kilograms. Uranium oxide production was 17 percent lower at 149 736 kilograms and acid production declined by nine percent to 491 453 tons.

Profit margins

Profit margins continued to narrow as a result of a static rand gold price and a general rise in working costs. Profit available for distribution declined by 27 percent to R48,1 million.

The dividend was reduced from 135c to 105c a share and absorbed R47,8 million. Capital expenditure dropped

R4,1 million to R34,4 million with R7,1 million going to the new Brakpan sands milling plant.

Capital expenditure for the 1990-91 year is forecast at R32,5 million but is dependent on the gold price.

Mr Sunter says that production at the Ergo Division was affected by technical problems, and a major overhaul of the larger of the two acid plants.

To maintain gold production during the acid plant shutdown pyrite was directly leached and this reduced the overall gold recovery.

Operating costs rose 14 percent to R199,8 million. Unit costs at R9,48 per ton treated were 16 percent higher, slightly more than the 15 percent increase in inflation.

The Simmergo Division had a good year and achieved a higher throughput despite a major repair to one of the mills. This, together with improved recoveries, resulted in increased production of both gold and acid.

No underground operations were undertaken during the year and this was largely responsible for operating costs being reduced by four per cent to R44,4 million and unit costs falling 12 per cent to R17,11 per ton treated.

The Daggafontein Division plant, now three years old, operated well throughout the year and improved recovery enabled gold production to increase marginally. Operating cost increases were contained well below the increase in the CPI.