GOLD — 1990

JUNE — DEC.

Golds set to feel pressure

Star 4/6/90

Finance Staff (79)

Gold shares are likely to come under pressure on the Johannesburg Stock Exchange today in the wake of the plunge in the gold price to eight-month lows at the weekend.

The gold price fell to $358,75 in New York on Friday, its lowest since September last year.

In Hong Kong today the metal opened at $360,50, down 30 US cents from Saturday's close.

Dealers blame the drop on fears of heavy selling by the Soviet Union to pay its overdue foreign debts, estimated at R5,2 billion.

The country has arranged many gold swops in recent months to avoid depressing the price.

When gold is swopped, it is held by foreign banks as backing for loans. But if the country does not redeem its gold when repayment of the loans falls due, the banks are likely to sell the metal, suppressing the price.

● The Government is likely to announce a decision on the future of Rand Mines' troubled ERPM mine today. The decision could force the closure of the mine if the authorities decide to end financial assistance to the mine, which currently owes about R300 million.

Hong Kong trade leaves gold down

79

CHARLOTTE MATHEWS

GOLD dropped the equivalent of $3,68/oz in Hong Kong trading on Saturday to close at $361,36 compared with the Friday close there of $365,04. B104 4/6/90.

The spot gold price quoted in New York at close of trade on Friday was $363,45, but on the New York Commodity Exchange an ounce of gold for June delivery fell $5,10 to close at $359,20.

Simpson McKie mining analyst Rodney Yaldwyn said yesterday gold appeared to be on a downward trend.

"There is a huge lack of confidence. Real interest rates worldwide are higher and people have obviously been shocked by the two big size sells from the Middle East in the last two months."

He believed the weak gold price would adversely affect sentiment towards mining shares, although if the shares fell another 5% today there would be buyers for some of the better quality shares at lower levels.

A New York analyst said the main problem was the lack of physical demand for gold and not perceptions of further Soviet gold sales, Reuter reports.

Another factor putting pressure on gold on Friday was the strength of the dollar against several key currencies. The dollar gained against the Deutsche Mark on continuing concern about the possible erosion of the mark on German unification but it lost ground to the Japanese yen and the British pound. One New York trader said spot gold could fall to $356/oz.

● See Page 7

Gold puts pressure on rand

CAPE TIMES 5/6/90 (79)

Financial Staff

GOLD plummeted to a close of $355,75 an ounce in London yesterday, dragging the JSE all-gold index down 90 points — and compounding fears that the rand might be forced down.

Some analysts blamed the fall on fears that Russia would sell huge amounts of gold.

They forecast that a further fall could bring action from the Reserve Bank to force down the value of the rand in order to save 18 marginal gold mines from closure.

But others said the gold price could rise again and that yesterday's fall was due to a strengthening of the dollar.

The New York gold close did little to raise hopes substantially, however, with bullion closing only slightly up at $358.

JOHN CAVILL reports from London that gold was trading cautiously after reaching its lowest level for four years.

American traders cited the public relations success of the Washington summit meeting between US President George Bush and Russian President Mikhail Gorbachev.

● Rand under pressure — Page 10

Latest gold price puts 13 mines on the line

(79) B/Day 5/6/90

BARRY SERGEANT

THIRTEEN out of 41 established SA gold producers are incurring working losses at yesterday's London closing gold price of R948,50/oz.

Including capital expenditure, more than 13 producers are not breaking even.

On such a basis, Anglo American's Freegold in the OFS — the world's largest gold producer — is not producing profits.

March quarterly figures show that Freegold's working costs were R883/oz and, including capex, R1 019/oz.

At a media briefing yesterday on Anglo American's annual results, chairman Julian Ogilvie Thompson said Freegold might curtail capex given that the outlook for gold was "not bullish".

Analysts have predicted that Freegold's capital expenditure is expected to continue at a high level, after a reported R121m in the March quarter.

March quarterly results — the latest available — show that of 41 established SA producers, ERPM was the most costly at R1 320/oz.

An announcement about ERPM's dubious future has been expected for weeks.

Of the 13 mines producing working losses at the current gold price, Rand Mines' Harmony is the largest. Its March working cost was R988/oz. Last year it produced 29 000 kg of gold, rating it SA's seventh-largest producer.

The list of troubled SA producers which analysts say might be set for early closure includes Stilfontein and Libanon.

Also on the list are Western Areas, Grootvlei, Loraine, Venterspost, Bracken and Durban Deep.

Meanwhile, gold-related shares continued their downward slide yesterday in thin, nervous volumes following a continued lack of confidence in the precious metal, dealers said.

Nervous

On the JSE, gold shares closed sharply lower under growing selling pressure from nervous investors as the gold price weakened further.

In London, gold breached its $358/oz support level in morning trade on reports that the Soviet Union had lent gold forward.

Gold was fixed late yesterday at $357,05 from a morning fix of $358,00. It closed at $361,00/50 on Friday.

A London dealer said: "Gold shares are under extreme pressure and all stocks are taking a pounding."

● Comment: Page 10

Gold shares take a knock as metal tests lowest level in four years

BDay 5/6/90

79

MERVYN HARRIS

THE gold market was knocked back sharply on Diagonal Street yesterday and dealers said shares were still looking overpriced after the metal plummeted to test its lowest level for four years.

Nervous investors watched gold break through major technical support levels to end in London at $355,75 from Friday's close of $361,25. The next support level could be as low as $350.

The JSE overall index slipped 1,3% (42 points) to 3 127 on a 6% (93 point) slump in the all gold index to 1 517 but the industrial index rose 18 points to 2 981.

The decline of currency-linked shares was cushioned by an easing in the finrand investment unit from R3,8500 to R3,9100, while the commercial rand weakened to R2,6702 from R2,6578 to the dollar.

Peter Allen, of stockbrokers Edey, Rogers & Co, said: "We are coming into the season when gold mines declare dividends and the market is expecting substantially lower payouts. Looking at future prospects for gold mines, shares seem overpriced even after the falls.

He attributed the firm undertone on the industrial board to improving political sentiment in the wake of President F W de Klerk's successful European trip.

Dealers said gold was depressed by reports that Russia was lending gold forward as collateral for hard currency loans which in turn was being hedged by the lending banks.

But some analysts said Russia was not selling abnormal quantities of gold and may opt to back its currency with the metal or float a gold-backed bond. Either strategy would be bullish.

Another bearish factor for gold yesterday was the firmness of the dollar.

JOHN CAVILL reports from London that US traders cited the public relations success of the Washington summit between President George Bush and President Mikhail Gorbachev of the Soviet Union, plus a remark by Russia's Gosbank chairman Viktor Gerschenko suggesting Soviet gold sales could increase to pay off $2bn owed to Western creditors.

But a weak oil price also helped strengthen the dollar. New York share prices, which were steady, having surged last week, also contributed.

At UBS (Union Bank of Switzerland) Phillips and Drew, analyst Andrew Smith said: "The gold market is really disillusioned. After the Middle East sale of 15 tons of gold on May 23 — which sent the price down from $377 to $362 — people feel lightning can strike twice.

"There is a lot of agreement that $355 may be the bottom but gold could have to go through another shake-out before it looks cheap to buyers."

Ted Arnold, of Merrill Lynch Fenner Pierce, said too much had been read into the Gosbank chairman's statement.

"All that will happen, as it has in the case of SA swaps, is that they will be liquidated as they come to maturity."

● See Page 3

Freegold feels gold price pinch

STAR 6/6/90 By Sven Lünsche (79)

The static gold price and sharply rising costs is putting even the top gold mines under severe pressure.

This shows up clearly in the annual report of Freegold, the world's largest gold mine.

While the mine increased gold production by 3,3 percent to a record 109 851 kg in the year to end-March, a 16,1 percent rise in working costs to R2,95 billion and a marginally high gold price received of R32 580 per kg (R32 316 in the previous year) saw taxed income knocked by 21,1 percent at R347 million.

Chairman Clem Sunter says in his annual review that pre-tax profits were down by 25,1 percent to R762,1 million and that distributable earnings were knocked despite a dramatic R69,1 million fall in tax payment to R64,7 million.

Treatment of a smaller portion of lower grade surface tonnage, however, resulted in an improvement in the average grade from 4,18 grams per ton to 4,22 g/t.

Mr Sunter reveals that the the Erfdeel project in Freegold's South Region shaft equipping and all other work has been suspended although up to date about R921 million has been spent on the project — R69 million of which was last year.

Mr Sunter says that this was due to "economic circumstances, which do not permit further work at this time".

At Freegold's second major planned extension in the Du Preez Leger — Jonkersrust area development has also been delayed "as there has been no change in the authorities' position with regard to the incorporation of this lease within the Freegold area".

Commenting on the authorities position Mr Sunter welcomed the partial lifting of ring fencing, which allows development capex on a new mine to be offset against taxable income from an existing mine.

He added, however: "It is disappointing that government, having accepted that 'ring fencing' is a serious obstacle restricting the development of new gold mines, chose to lift it by only 25 percent on an existing mine's taxable income, with effect from the date on which a new mine commences production."

Investment demand key to gold's future

Star 6/6/90

By Derek Tommey

Investors will have to buy more gold before there can be a bull market in the metal, says Dr Stewart Murray, chief executive of Gold Fields Mineral Services in Johannesburg.

However, if an investor could pay $82 million for a Van Gogh painting, there was hope for increased investment in gold, he said last night.

He was speaking at a presentation "Gold 1990" which is regarded as the most comprehensive survey of the bullion market.

He described the top mining men attending the presentation as "the greatest concentration of expertise on the gold industry on the planet".

Dr Murray said investment demand was the key to gold's long-term price.

Greater investment buying would be needed if the gold price were to rise to above $500.

The evidence was that physical demand did reassert itself strongly at a price under $400.

But for gold to achieve a genuine bull market, there would have to be a significant change in the fundamentals of supply and/or demand.

While output continued to increase there would be no growth in gold purchases by investors. They would first want to see a tightening in the physical gold market.

This could provide the price with renewed impetus, which investors would also require before they increased their holdings.

Investment demand grew when the gold price rose. But it declined and disinvestment ensued when the price fell, he said.

He added that high real interest rates were also militating against increased investment in gold.

Dr Murray said that mine production was bound to increase this year. SA production might decline, but this would be offset by an increse in production in Australia, the US and Canada.

He believed there could be a levelling off in production next year.

Canadian production had been stimulated by subsidies, which had now ended. Australian mines were scrambling to raise production this year ahead of the introduction of gold mining tax on January 1.

Once this tax was in force production should decline. The pressure of the gold price could lead to production cuts elsewhere.

Dr Murray said the drop in the price was the result of increased Soviet sales.

Much Soviet gold had appeared in Europe in the past few months and this had been a major factor in the price decline.

The feeling in the market was that Russia would sell a lot of gold this year, but it did not want to destroy the market.

Central banks could be big sellers, but this was unlikely at the present price.

He believed that gold loans and forward sales would be lower this year and that disinvestment and scrap sales would also drop.

Against this, fabrication demand remained remarkably strong and jewellery fabrication would remain the cornerstone of the market.

There had been a marked increase in jewellery fabrication demand in the Far East, but most of this jewellery would be sold in the West, he said.

Scant encouragement from firmer gold

(79)

MERVYN HARRIS

GOLD found some support at its lower levels yesterday and closed $3,25 firmer in London at $358,50, but dealers said its performance offered scant encouragement to either the bulls or the bears.

Traders said healthy physical demand for the metal was being balanced by producer sales, but the absence of new investor business was keeping a lid on its upside potential.

In New York last night gold rose $1,25 to close at $359,25.

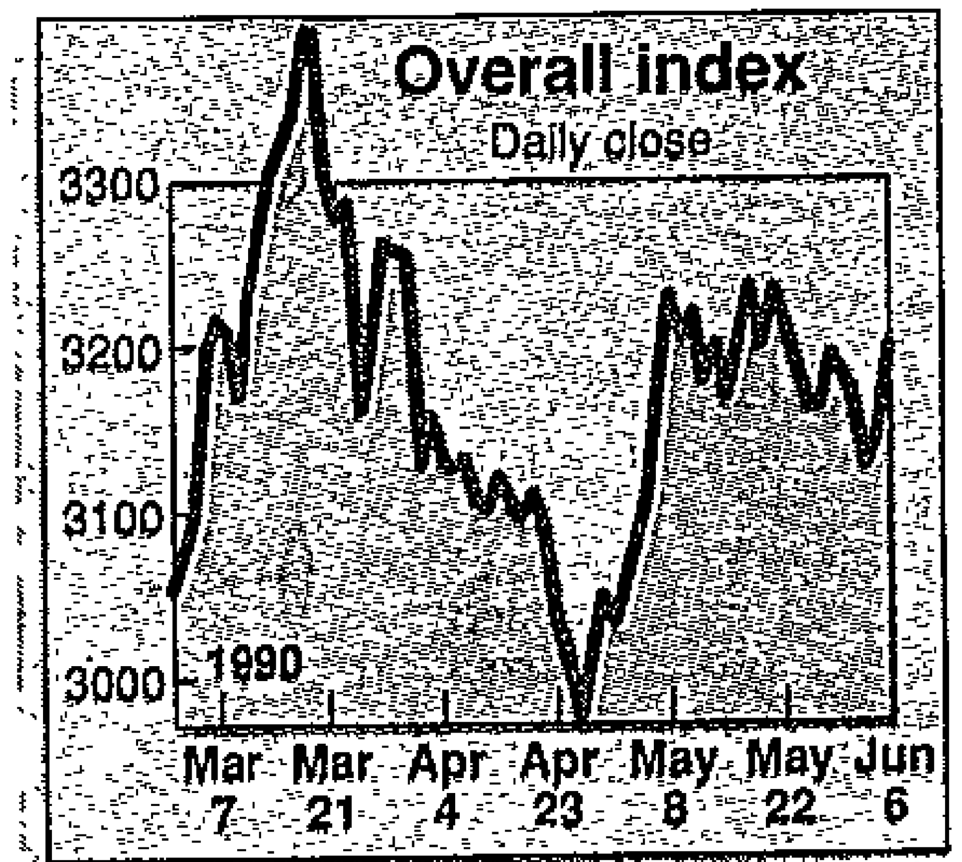
A Zurich dealer said he would not be surprised if trading started to thin down and gold remained around current levels throughout the summer. June and July are usually quiet periods for the metal.

Buoyed by the firmer gold price and perceptions that the market was looking a little oversold after the recent shake-out on the mining boards, share prices ended higher across the board on Diagonal Street yesterday.

The JSE overall index rose 21 points to 3 148 on a 15 point rise in the all gold index to 1 532, while industrials maintained their firm trend and the index firmed 11 points to 2 992.

B/Day 6/6/90

Gold drops after spate of selling orders



Graphic FIONA KRISCH Source JSE

MERVYN HARRIS

A SPATE of selling orders on the New York Futures Exchange saw gold drop $2,50 yesterday to close at $356,75.

In London gold dropped $1,45 off its early highs to close at $357,05.

Dealers said they were unsure where the selling orders originated from but talk was circulating in the market of sales by the Soviet Union, the Middle East or SA.

Some of the selling was absorbed and gold closed above the key support level of $355 after failing to break through resistance at $361. BDay 7/6/90

Some short covering reflecting the easier dollar against the DM and slight Swiss buying had boosted gold in early trading.

Platinum slipped along with gold to end at $488,50 in London.

Gold's slide came after the close of trading on Diagonal Street where a combination of the metal's early strength and a weaker finrand pushed share prices higher across most sectors to lift the JSE overall index 1,6% to 3 200.

The all gold index spurted 2,4% to 1 569 but some dealers feared the worst was still to come as gold shares were looking expensive on a forward yield basis and share prices could weaken in the weeks ahead.

"The market was looking oversold in the short term after sharp recent falls," a dealer said. "A dead cat will always bounce provided it is dropped from a high enough level and the gold market has fallen from such a high precipice that it is bound to show some recovery." 79

Leading industrials maintained their firmer trend as institutions switched to non-gold equities on perceptions that call rates were on a downward slide.

Big institutions have been putting large balances on call and earning an average of 18% a month. The 17-point rise in the JSE industrial index to 3 009 brings its gains to almost 2% so far this week.

What investors want chairman to tell them

All approaches to Sarel von Biljon, to discuss allegations that almost R80 000 paid by investors for Gemgold shares is unaccounted for, were unsuccessful.

Mr von Biljon, who also has close links with venture capital scheme Multi Gold Holdings Ltd and its marketing arm, Capital Growth Investments (CGI) in Craighall Park which featured in Star Line recently, is chairman of Gemgold.

Star Line wished to discuss the grave concerns of some investors about their cash and Mr von Biljon's close association with an insolvent Johannesburg businessman, Andre Hendricks, who was the sole director of Equity Acceptances (Pty) Ltd in Rivonia.

Investors demanded explanations about:

- R75 000 an investor believed was earmarked for equipping Gemgold's diamond-mining operation in Lichtenburg which was funnelled through Equity Acceptances into another Von Biljon venture, Sandton Acceptances.
- R4 000 handed over by a western Transvaal investor which went into Mr Hendricks's Equity Acceptances operation instead of Gemgold's account.
- Why promises of a JSE listing at the beginning of June, a share buy-back guarantee and huge profits had not been met.

When Star Line contacted CGI boss Colin Hartley, he said there was nothing irregular about investors' cash being paid into Equity Acceptances or Sandton Acceptances instead of Gemgold. He was making immediate arrangements to issue share certificates to unhappy investors.

Gold touches 4-year lows

Cit Tr 8/6/90 (79)

Own Correspondent

JOHANNESBURG. — Gold was yesterday bulldozed by technical weakness and Middle Eastern selling to almost four-year lows before recovering slightly to close $2,95 down at $354,10 in London as prices yo-yoed between $352 and $355.

The metal's decline to a low of $350,90 and a London afternoon fix of $352,80, its lowest setting since July 1986, sent financial markets reeling.

Gold and mining financials plunged on the JSE and capital market rates ended sharply higher.

The decline started in New York on Wednesday night and gathered momentum on Asian selling after Australian producer sales took the metal through the $355 support level.

"Things really turned down when Saudi investors started to sell," a Zurich trader at a Swiss bank said.

"Sentiment is overwhelmingly bearish and we are in deep trouble if gold breaks through $350."

Some analysts said gold could drop to around $330 but others thought the metal was due for a correction after its sharp falls.

New York traders said the market was being driven by one sentiment — fear of the prospect of additional sales by the Soviets. Yet the Soviets have not been seen selling in any strength below $360, they added.

A London bullion analyst said Middle East traders were very active on both sides of the market, though they were at first sellers, but he doubted whether this was on behalf of the Soviets.

Analysts believe the Soviet Union is much more likely to swap gold rather than sell from reserves to help pay off Moscow's arrears to Western suppliers.

Middle Eastern selling has rocked the market on several occasions recently.

Market sentiment has also been undermined by talk of disinflationary trends in the US and smaller-than-expected inflationary pressures from German re-unification, reports AP-DJ.

On the JSE, gold and related shares were marked down sharply at the opening but trading remained subdued and there was no heavy selling as shell shocked investors digested the news of gold's tumble.

The JSE all gold index tumbled 5% to 1 492 and the mining house index fell 3,7% to 4 377 to bring the overall index down 1,7% to 3 147. A sharp drop in the finrand investment unit from R3,90 to R3,97 to the dollar cushioned the falls.

Stewart Penn, of Greenwich Futures and Options Brokers, said June gold index futures contracts were trading below spot for most of the day.

"This reflected nervousness in the equity market and indications that prices could go lower."

June gold index futures — ranging between 1 486 and 1 500 — was straddling spot with bids below offers above the spot market.

Andrew Gill reports that the industrial sector has been defying the extreme downward pressure of the weak gold price and its effect on the JSE over the past month.

Dealers said yesterday industrial blue chips had become significantly more attractive as investors were not prepared to risk large sums of money on potentially disastrous gold shares.

They said gold could technically go as low as $310-$320 in the near future and not many people were confident enough to dismiss that.

As a result they were putting money into the scarce blue chips which in turn gave more support to the already consistent industrial sector.

Another factor influencing the move to blue chip industrials was a lower real return on interest rates and a realisation that "the picnic was over".

It had become more a case of protecting your investment than getting excellent returns and thus the outlook was now more long term.

John Cavill reports from London that platinum, which recovered by $5/oz on Wednesday to $491,50, was weakened by gold yesterday and dropped to $483-$484. But dealers said it was holding up reasonably well.

At Ayrton Metals one trader said: "Historically, in weak markets platinum has fallen faster than gold because it is traded in lower volumes. Obviously it is being influence by gold but it is holding its premium at close to $130/oz which is quite reassuring."

● Reuter reports that capital market rates ended sharply higher with the key Escom 11% 2007/2009 surging to 16,09% from Wednesday's 15,88% close and further rises can be expected if the gold price drops below $350.

Volume on Wednesday totalled R750,5m.

Markets reel as gold price plunges

BDay 8/6/90

79

MERVYN HARRIS

GOLD was yesterday bulldozed by technical weakness and Middle Eastern selling to almost four-year lows before recovering slightly to close $2,95 down at $354,10 in London as prices veered between $352 and $355.

The metal's decline to a low of $350,90 and a London afternoon fix of $352,80, its lowest setting since July 1986, sent financial markets reeling. Gold and mining financials plunged on the JSE and capital market rates ended sharply higher.

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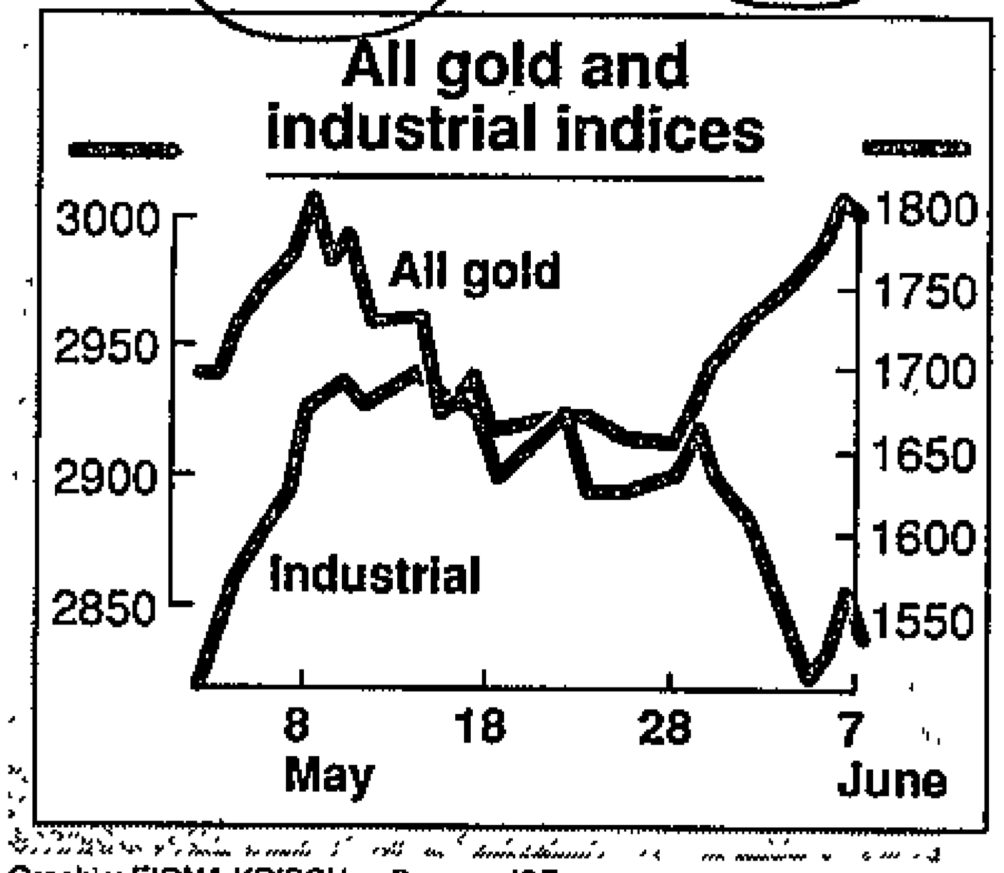

Graphic: FIONA KRISCH Source JSE

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□ To Page 2

Gold price

BDay 8/6/90

79

□ From Page 1

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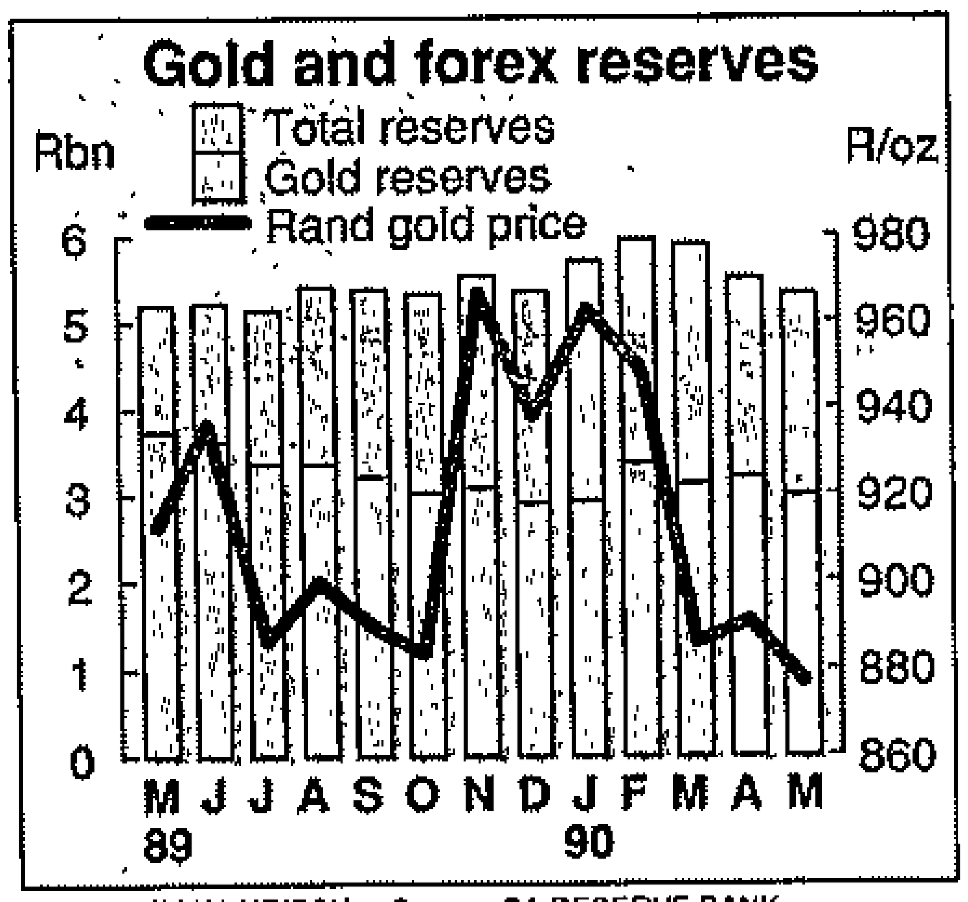


Graphic: FIONA KRISCH Source: SA RESERVE BANK

SA reserves survive repayments

79

NEIL YORKE SMITH

SA's GOLD and foreign exchange (forex) reserves declined by only R149m in May, despite last month's heavy foreign debt repayments.

A Reserve Bank spokesman said the overall drop in reserves was not substantial considering last month's heavy capital outflows which included the repayment overseas of some maturing bearer bonds.

The Bank had apparently made provision for these outflows.

Reserve Bank figures released yesterday showed the total value of gold and forex reserves fell to R5,33bn from R5,48bn in April. B Day 8/6/90

The value of the bank's gold bullion holdings declined by R185m to R3,01bn, resulting largely from the lower rand value of the metal (R875,09 versus R891,23 in Apr as well as to a reduction in physical stock.

The value of foreign currencies held increased by R37m to R2,32bn.

The low gold price, heavy debt repayments and the seasonally low trade surplus made the decline almost inevitable, Trust Bank economist Nick Barnardt said.

SA Chamber of Business economist Keith Lockwood expected further gold sales this month as SA prepared to meet its heaviest foreign debt commitments.

Gold slump omen of hard times ahead but few mines will close

79

W Mail 8/6-14/6/90

A continuing low gold price will have serious implications for the South African economy, but wide scale mine closures are not necessarily on the cards. REG RUMNEY reports

THE gold price dropped dramatically in the last week, and as the *Weekly Mail* went to press it was hovering around $360. The fall in the gold price traditionally cuts business confidence in South Africa to the quick. But what will be the actual effects of a low gold price over a long period?

For one thing, gold is not as important to the country as it once was.

As a tax source, its importance has dwindled. Government expects only R1,3-billion in revenue from the mining industry this fiscal year, or less than two percent of estimated revenue of some R70-billion.

But gold still drives the South African economy. It still contributes between a third and a fourth of South Africa's foreign exchange earnings. According to the Chamber of Mines, raw mineral exports accounted at R30-billion for about half the country's foreign exchange earnings in 1989. Gold accounted for some 66 percent of raw mineral exports.

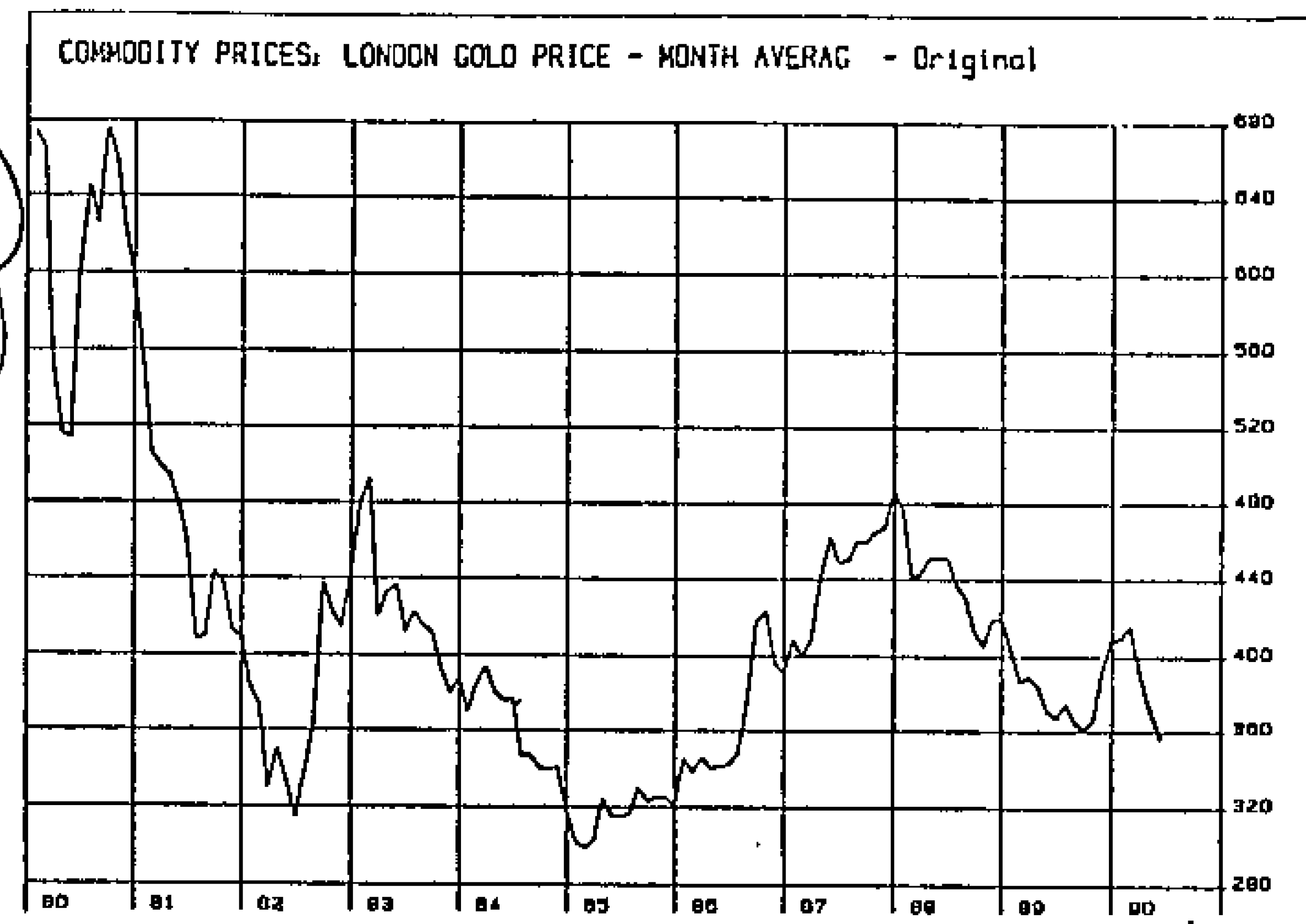
According to the chamber, gold contributed 5,9 percent to South Africa's gross domestic product last year. In the past decade, gold's share of South Africa's total export earnings from goods and services averaged about 36 percent. Last year this figure was 32 percent.

The long-established rule of thumb is that a $10 drop in the average annual gold price translates into a loss of under $200-million a year to South Africa.

Expectations at the end of last year were that gold would average around $420 this year. Now the average gold price for the year is hovering around $393.

Also, the lower the gold price the more pressure on the rand in foreign exchange markets, and hence the more pressure on local inflation from higher priced imported goods.

What will be the effect on interest rates? So far the Reserve Bank seems to be sticking to its guns on keeping interest rates "real" (a good few points above the official inflation rate). Will the bank take pity on long-suffering debtors and allow interest rates to fall?



The graph shows the monthly average gold price over 10 years

In fact, gold's low price adds to pressures on the government to maintain high interest rates, because of the necessity of restraining imports as export revenues decline.

Nedcor chief economist Ted Osborn says gold's constraint means that the government is less likely to be tempted to come back to parliament to ask for an increase in government spending, should the economy slide into deep recession.

The dramatic fall in the gold price has other effects. The short bull market, and the continuing bear market, took many by surprise.

Osborn says that the brevity of gold's surge has called its speculative value into question.

"The longer the gold price stays low the less confidence there is in gold, and the less likelihood of any investor interest."

Osborn pointed out that the price of gold depends on the marginal interest of speculators. "If speculators lose confidence, gold must drop."

Gold's continuing weakness is also putting the future of several gold mines in doubt, most immediately and most urgently East Rand Proprietary Mines.

ERPM's request to the government for an assistance package was not acceded to, and instead a judicial commission of inquiry has been appointed to consider its future.

Giant mining house Gencor is still considering closing four gold mines later this year if the gold price remains depressed and inflation stays high, according to Gary Maude, the head of General Mining's gold division. A decision might be made as early as next month.

He said that Gencor would seriously consider closing mines that made a loss for three consecutive months.

JD Anderson analyst Bruce Williamson pointed out that the low gold price was beginning now not only to affect high-cost mines, but the gold mining industry generally. However, the independent mines were likely to be hardest hit because they had no "big daddy" to bail them out.

Davis, Borkum analyst David Giese said that though the low gold price affected 20 percent of South Africa's gold production, a continuing weak price did not mean a rash of mine closures or that 20 percent of gold mine production would be lost.

At most 5 percent of production would be lost. Only about 12 mines would be affected, and only a handful of them would be forced to close.

Mines would first start scaling down production and closing down loss-making mines .

ERPM is the most extreme case of a high-cost mine. To stay afloat it would need a gold price of above R1 000 an ounce, according to a representative. The current gold price is about R956 an ounce.

Market manipulated . . .

Russians not selling gold — economist

Citi-Times 9/6/98

By AUDREY D'ANGELO
Business Editor

THERE is no likelihood of the Russians selling large amounts of gold, and the market is undoubtedly being manipulated, says Standard Bank economist Nico Czypionka.

Both he and Trust Bank chief economist Nick Barnardt said yesterday that they expect the gold price to move up again later this year.

But Barnardt says in his weekly market review that current low oil prices will force the Russians to sell gold to obtain foreign exchange for imports.

This view is shared by Old Mutual chief economist David Mohr, who pointed out that Gorbachev was under heavy pressure to provide more consumer goods and Russia's need for foreign exchange would therefore be higher than in the past.

Because of this, he expected Russia to be "a continuous seller of gold".

Rumours that the Russians were likely to sell huge quantities of gold have been put forward as a reason for the steep drop in the price of the yellow metal, which hit its lowest level for four years at $350,90 an ounce on Thursday before recovering partially to R354.

It was fixed at $353,50 an ounce in London yesterday afternoon.

Permanent Trust chairman Jimmy Baigrie, in New York on business, said in a telephone interview that the markets there had been affected yesterday by a report that the Russians would pay in dollars for US motor technology and would have to sell huge amounts of gold to do so.

But Czypionka, who has just returned from Europe, said: "The Russians will have no need to sell gold to acquire hard currency.

"One of the things I learnt is that they are no longer selling oil to their former satellite countries for soft currencies, as they used to do. They no longer feel they have any responsibilities to these countries and are insisting on payment in hard currency.

"I heard that this will cost the former satellites $5bn, which will put them in great difficulties. But I don't think the Russians will sell large amounts of gold. I have never heard of them doing so.

"People start these stories for their own purposes. I think the market is being manipulated.

"I think gold is just on a weak stretch, but it will turn."

Czypionka said that even if gold remained weak interest rates might start to come down soon.

"The Reserve Bank has never said it would keep interest rates high artificially. If credit demand falls and liquidity rises, I think the Reserve Bank will allow interest rates to drop if they are willing to drop."

Discussing current European attitudes towards SA, Czypionka said anti-apartheid activities seemed to have peaked. There was now a noticeable change in attitude towards SA.

This already meant improving access to overseas finance.

But it would not help the SA economy in the short term. "We are in for a tough time. The economy has already started to tilt sharply downwards, and the gold price just makes it deeper."

● Reuter quotes analysts as saying that there is no evidence that Russia has actually sold large amounts of gold.

Gold prices hold amid uncertainty

Business Day Reporter (79)

GOLD prices have remained steady since plummeting on Thursday, but analysts are uncertain about the future trend in the metal's price. B\Day 11\6\90

Gold in Hong Kong rose $0,97 on Saturday closing at $357,03 compared to Friday's close of $356,06 per troy ounce. It moved up 39c in Hong Kong on Friday.

In New York gold rose $1,25 to $355,00/$355,50 an ounce on Friday in an uncertain market while, in thin trading in London, the metal edged up slightly to close at $354,50/$354,90 an ounce, up from Thursday's $353,80/$354,40.

In Zurich gold ended at $353,50/$354,00 an ounce, 25c below its opening.

Middle Eastern selling entered the gold market last week, causing confusion and a decline in prices below key technical levels, analysts said.

Sapa-AP reports some analysts believe the metal might have hit bottom on Thursday, when the price in London reached a four-year low of $351,50.

"I think if the market was going to break $350 it would have happened this week,"

☐ To Page 2

Gold

B\Day 11\6\90 (79)

☐ From Page 1

PaineWebber senior metals analyst Bernard Savaiko said on Friday.

"It was the perfect climate for the market to collapse, and it didn't."

However, while the gold price has held steady, other analysts predict further falls due to possible further Soviet and Middle East selling amid a marked lack of investor interest in gold.

Dealers said the metal would have to break above $360 to inspire a rally.

"The market is kind of stunned and seems to lack clear direction," said Bank of America vice president and precious metals specialist in San Francisco Jon Nadler.

"The only apparent goal now is to hold the $350 level, which is more a pyschological than a technical level."

SA 'clinching rollovers and gold swaps'

NEIL YORKE SMITH

SA IS still battling to win new foreign loans, but is successfully negotiating major debt rollovers and gold swap arrangements, according to senior Reserve Bank sources. B Day 11/6/90

"We are enjoying an improved overseas negotiating climate, but it will take time before any institution openly breaks ranks and provides new loan capital to SA," a bank spokesman said. He could not confirm that negotiations for a R2bn IMF loan were nearing completion.

SA was constantly trying to negotiate new loans, but it was unlikely anything would be achieved in the near future.

"We would obviously prefer new loans, but swaps and rollovers help as they respectively generate foreign capital or prevent extra capital outflows from SA.

"Also, gold swap activity and forward sales reflect our view of the gold price."

A gold swap is similar to a forward sale, and results in the generation of foreign capital without the actual sale of bullion. SA swaps gold for foreign currency and, when the swap expires — usually after three to six months — repurchases gold or negotiates a rollover.

Gold supply exceeded demand in '89 — bank

BASLE — The international gold market in 1989 was marked by a dramatic surge in supplies that far outstripped buoyant demand, causing the price of the metal to slide throughout the first nine months of the year, the Bank for International Settlements (BIS) said in its annual report released yesterday.

Total gold supplies in 1989 jumped 25% to 2 190 tons (metric) compared to 1 720 tons in 1988, the report said. That marked the highest level of supplies since the early 1960s, the report added.

Although the most important factor in the increase in supply was a "sharp turnaround in official transactions", there was also a rise in Western mine output and increased sales by the Soviet Union, China and some eastern European countries, the BIS said.

Even though the output of SA mines slipped to 608 tons from 621 tons in the previous year, overall Western mine output rose to 1 653 tons from 1 551 tons.

The largest output increases were posted in the US, Canada and Australia.

The report also noted that developments in eastern Europe and the Soviet Union, where political and economic reforms were launched, had a dramatic influence on gold sales from those countries.

In addition, the report said, Soviet sales of gold in Western markets increased because of the pressing need for foreign exchange and because call options written by Soviet exporters were reported to have been exercised.

Smaller gold sales also came onto the market from China and eastern Europe with total non-Western supply reaching 3300 tons.

An additional development in the gold market in 1989 was the trend toward lower official gold holdings, which declined by about 165 tons, the BIS said. The largest drop was posted by Belgium, which reduced its official gold holdings by 107 tons. Mexico, meanwhile, cut its gold holdings in half, or by more than 47 tons, while Canada reduced its holdings by 32 tons. Austria transferred 15 tons of its holdings to the national mint, while Colombia reduced its holdings by 15 tons and the Philippines its holdings by 12 tons.

The only marked increase in official gold holdings in 1989 was posted by Spain, which added 52 tons, to bring its share of gold in the country's official reserves to a level closer to the EC average.

Elsewhere, gold loans, which boosted gold supplies dramatically in 1988, showed a notable decline in importance in 1989, the BIS said. Large repayments of earlier loans caused the gold supply coming onto the market through such loans to drop to fewer than 50 tons compared with 150 tons in 1988, the report said. — AP-DJ.

● See Page 17

According to Mr Kunert "someone probably tried to steal it as I parked it with the hand-

lapsed on impact, saving her from tain serious injury.

Sharp slide in gold

Cape Times 14/6/90 (79)

Own Correspondent

JOHANNESBURG. — Gold closed in Europe yesterday at its lowest level since July 1986 after being dragged down by a sharp fall in silver prices below the psychologically important $5-level.

The metal slumped nearly $6 to close in London at $350,75 after earlier touching critical support levels of $350. The downtrend came on speculative selling in New York.

"It wasn't a case of the Russians or Arabs doing anything this time," a trader said.

"If the $350 level is breached, then gold could drop at least a further $4 to $5."

Sapa reports that the gold mining industry has announced the retrenchment of more than 1 100 miners and thousands more jobs are on the line.

Gold shares on the Johannesburg Stock Exchange dropped in sympathy with the lower bullion price, taking the index down nearly 3%.

Brokers said shares could weaken further today as the full extent of the fall in the gold price had not yet been felt by the time the market closed yesterday afternoon.

● Gold hits 4-year lows — Page 9

Gold hits 4-year lows

Cape Times 14/6/90

79

Business Editor

THE gold price edged up to a close of $350,75 an ounce in London yesterday after an afternoon fix at $350,50 — its lowest level for nearly four years. It closed in New York at $351,25 against Tuesday's close of $355,25.

Investors all over the world watched as it neared the critical support level of $350 after the silver price fell below $5 an ounce, dragging gold down with it.

The all-gold index on the Johannesburg Stock Exchange dropped 43 points to reach 1 464 shortly before the close. The overall index came down 34 points. But the industrial index held firm, easing only six points.

Reuter reports that on the New York Commodity Exchange the August contract had fallen by $5,20 an ounce to $353,90 in mid-morning trading.

Dealers said yesterday's fall in the gold price was triggered by heavy selling of silver in New York.

A lot will depend on how markets react to US producer price index (PPI) figures due out today.

A rise could revive fears of rising US inflation and send investors back to gold.

Sapa reports that JSE gold shares closed at their day's lows yesterday in thin and jittery trading as the vulnerable bullion slid back to $353.

Heavyweight Vaal Reefs ended R14 lower at R282 and Driefontein R1,50 to R40, while Loraine fell a very sharp R1,50 to R7,40 under added pressure from news that the mine plans to retrench 600 workers and cut milled tonnage by 10% over the next four months, dealers said.

Other leading minings followed the trend but industrials were quietly steady.

Diamonds had De Beers off 75c to R98,50, while platinum share Impala lost R1,50 to R78,50 and Anglos in mining financials R2,50 to R120, dealers said.

BDay 14/6/90 (79)

Over-priced gold shares must come crashing down — analyst

GOLD mining shares are wildly over-priced and must eventually come crashing down. That was the message delivered by head of the mining team at James Capel financial services group Rob Weinberg at the recent Boston Gold Show.

The sight of gold shares being driven up to sillier and sillier multiples of their profit margins "reminds us of Donald Duck running at immense speed off the edge of a cliff.

"He continues to run until he realises he is supported by nothing more than fresh air," said Weinberg. "Then he plummets."

If you are tempted by mining shares, base metal producers and diversified mining groups offer much better value for money, he suggested.

He said the market capitalisation of all the major North American gold companies was about $22bn. If gold averaged $400 this year, those companies would produce net profits of nearly $700m. "It will take the investor 32 years to get his money back in the form of company earnings.

"I am not talking about dividends, with which we can amortise our investments, for those are slim indeed. In cash flow terms it would take 17 years to get your money back, but I suspect that only a handful of today's gold miners will be in business that long."

In contrast, said Weinberg, Alcoa, Inco, and Phelps Dodge, the market leaders in aluminium, nickel and copper respectively, had a combined market capitalisation of $10,7bn. Yet, with a market capitalisation of only half of all the North American gold producers, they would earn this year $1,4bn — double all the gold miners' earnings.

Earnings from the three base metals groups would repay an investor's money in just over seven years. "This year they should also pay a total of $390m in dividends, which is more than half of what all gold mines put together will earn."

Weinberg suggested that, in order to justify the current Newmont Gold share price, the price of gold would have to average more than $535 in real terms for the next 20 years.

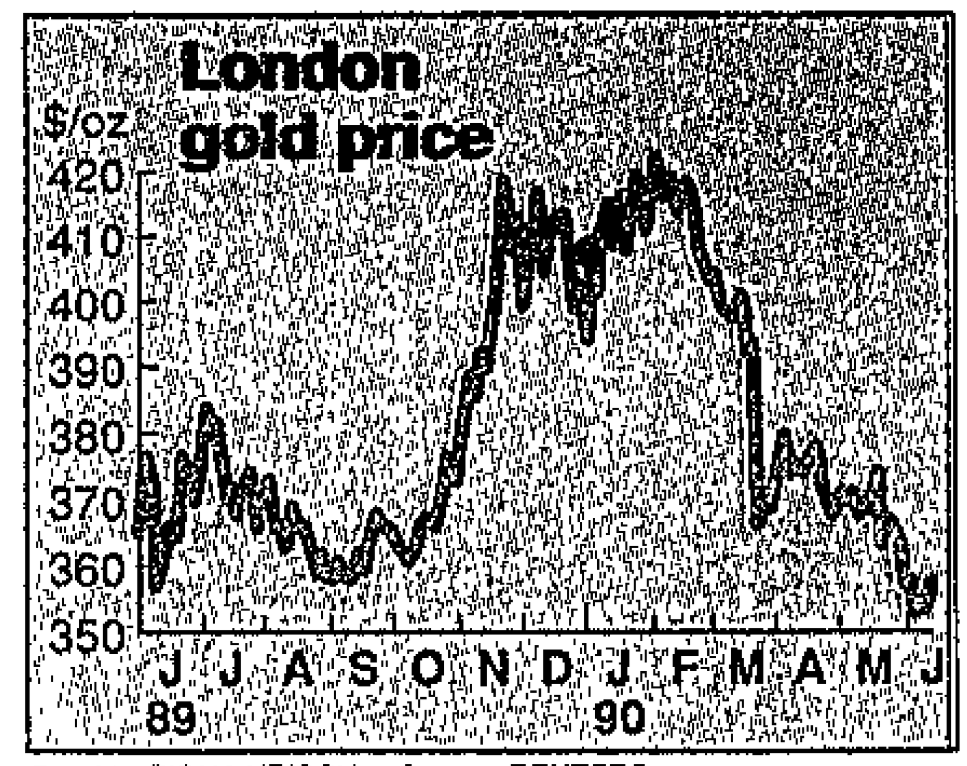
Alternatively, assuming a real gold price of $400 and using a discount rate of 6% "the value of Newmont Gold is $21 a share or over 50% below the current price". In comparison, the copper price, currently above $1 a pound, would have to average only 63c for Phelps Dodge to achieve a real rate of return of 6%. "And if we assume a copper price of 90c a pound, an internal rate of return of 6% would imply a share price of $96. This is a 55% increase on the current Phelps Dodge price."

Weinberg said this "weirdly irrational" phenomenon was not restricted to North America but occured also for Australian and South African shares.

Why was there this enormous gulf between the perceived value fo gold and base metal sectors? It was the "weight of money" — or too much cash chasing too few gold mining shares — that was responsible, he suggested.

Weinberg said few gold shares would yield more than invested.

Then came his warning: "Donald Duck is bound to fall". — Financial Times.



Graphic FIONA KRISCH Source REUTERS

BDay 14/6/90

Gold price skims above $350 level

MERVYN HARRIS (79)

GOLD closed in Europe yesterday at its lowest level since July 1986 after being dragged down by a sharp fall in silver prices to below the psychologically important $5 level.

The metal slumped nearly $6 to close in London at $350,75 after earlier touching critical support levels of $350.

The downtrend came on speculative selling in New York where it closed at $351,25 or $4 dollars lower than Tuesday's close of $355,25.

"It wasn't a case of the Russians or Arabs doing anything this time", a trader said. "If the $350 level is breached, then gold could drop at least a further $4."

Sentiment is very bearish and most dealers see gold gradually drifting downwards, interspersed by regular short covering rallies. Silver closed at $4,96 with a knock-on effect on platinum which ended at $480,50, off $7 from the previous close.

A round of key US economic data to be released, such as producer price figures today and trade data on Friday, could determine the short-term direction of gold.

US retail sales figures, down 0,7% in May, were the third consecutive monthly decline, which last happened in 1981.

The gold price decline pushed share prices lower across the board on a jittery Diagonal Street, but further weakness in the finrand investment unit provided some support for prices.

In nervous trading, the JSE overall index gave up 34 points to 3 115 on a 43 point slide in the all gold index to 1 464, while the industrial index eased six points to 2 986.

Some analysts expect a continuation of the divergence of the industrial and gold markets with industrials tending to move sideways and golds extending the weaker trend.

● See Pages 3 and 9

and retailers will have to raise a quarterly basis as in Europe. tion piece of equipment. inflation.

Central banks in bid to stabilise gold price

Star 15/6/90

79

By Neil Behrmann

LONDON — Central banks came to the rescue of the stricken gold market soon after the price had plunged to a four-year low of $340. As a result prices rebounded to around $346 in New York.

The gold price slumped initially when the National Commercial Bank of Jeddah placed an order to sell 15 tons of the metal, London and Swiss dealers said.

The disposal followed two large sales in March and May, which played a major part in driving the price down from $389 on March 26 to present levels.

Moreover, the Saudi Arabian bank has been creating consternation in the market on a daily basis by actively selling and buying back gold, said London dealers.

Estimates of its net sales over the two-and-a-half-month period range from 100 to 200 tons, worth $1,8 billion.

Now that central banks have entered the market, it is likely to become more sanguine about Middle Eastern sales.

To be sure, volume was much lower than on previous days when the Saudi Arabian bank dumped large amounts of gold.

Moreover, the price decline of $5 yesterday compares with a $29 drop on March 26 when Middle Eastern sales initally scared the wits out of dealers.

"Dealers became more cheerful when large buy orders pointed to central bank activity," said a London bullion manager.

Dealers were not prepared to disclose the names of the banks, but the Bank of England is known to enter the market from time to time to prevent marked fluctuations.

Moreover, central banks are becoming more active in the market.

They sold 185 tons last year after purchases of 240 tons in 1988, estimates the Bank For International Settlements (BIS).

Last year Belgium, Mexico and Canada reduced their monetary gold holdings, while Spain bought.

A sharp decline in gold prices doesn't suit the books of central banks, even though they publicly assert that they are not prepared to support the gold market.

Non-communist central banks owned 935 million ounces worth $375 billion at the end of last year, says the BIS.

The value of the gold accounted for a third of the central banks' total monetary assets, worth $1 142 billion. But since the end of last year the market value of the central banks' gold has fallen by $52 billion.

Major central banks also intervened possibly because they appreciated that the depression in the price would place considerable pressure on the Soviet Union and South Africa, the biggest producers in the world, says Edwin Arnold, metals analyst at Merrill Lynch Pierce Fenner and Smith.

The two nations can't afford a major price drop, he says.

Firstly, many high-cost South African mines might be forced into premature closure.

Secondly, both nations have deposited gold from their monetary reserves as collateral for loans.

Since the gold was swopped for credit at higher prices, the slump in the market has reduced the value of the collateral and could discourage creditors from rolling over credits.

South African monetary reserves, for example, are down to a meagre 110 tons from 373 tons in 1980, according to International Monetary Fund statistics.

Moreover, the Soviet Union, with an estimated 2 000 tons of monetary gold, has and is depositing about 200 to 300 tons of gold collateral with Western banks, says Mr Arnold.

Illustrating its problems, the Soviet Union has said it will mint 145 000 commemorative gold coins for global distribution.

Tide should turn soon, analysts predict

JSE jitters as gold stays in doldrums

SK 15/6/90 79

By Michael Chester

Tension was high on the Johannesburg Stock Exchange today as world gold prices stayed trapped below the key $350 an ounce level — its lowest in four years.

Bullion was trading between $345,50 and $346 at the opening of the London market — no more than 50c better than at the close last night.

Investors and dealers remained jittery after the panic selling sent gold shares crashing yesterday.

Rumours abounded that Arab oil sheik syndicates had caused the retreat by selling large chunks of the huge gold stockpiles they had amassed in the oil crisis.

But analysts were quoted by Reuter as saying the market may be nearing the end of a long downward trend.

Said Ted Arnold of Merrill Lynch in London: "I think the tide is turning. It may fall another $10, but we are getting very close to the bottom."

The floor level was probably around $340 to $330 an ounce, said Jeff Christian of CPM Group, a Toronto-based investment company.

The JSE all-gold index tumbled to 1370 points — down 6,5 percent in 24 hours and a much worse 20 percent down on its February 2 level.

Johann Liebenberg, senior general manager at the SA Chamber of Mines, said the South African mining industry was now placed in a "critical situation".

Earnings plunge

Economists said the plunge had stripped more than R4 billion from the annual rate of South Africa's income from gold exports compared with less than four months ago.

Econometrix research unit director Dr Azar Jammine estimates that every drop of $10 an ounce in the bullion price hacked about R550 million a year from earnings from overseas sales. The massive scale of losses was estimated from a descent of more than $80 from $425,50 in February.

However, Dr Jammine said he was optimistic that the dramatic decline would be short-lived, particularly in view of the promise of an increase in gold demand among investors in the United States as a result of lower interest rates.

The retreat in the price — coupled with soaring working costs on SA mines — means that thousands of mine jobs have come under threat.

Chamber of Mines president Kennedy Maxwell has listed 15 gold mines that come under the threat of running at a loss when the bullion

Cullinans gather for The View

Parktown goes Scottish . . . Twenty members of the Cullinan family gathered to witness the unveiling of a National Monuments Council plaque at The View yesterday. In the foreground is piper Rhett Kelly, a matric pupil at Pretoria Boys' High School. The View, Parktown's only remaining pre Anglo-Boer War house, houses the headquarters of the Transvaal Scottish Regiment. Sir Thomas Cullinan built the home in 1897, long before the Cullinan Diamond was discovered at his Premier mine.

© Picture by John Hogg.

S African family rescued

Rebels kill

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Chamber of Mines president Kennedy Maxwell has listed 15 gold mines that come under the threat of running at a loss when the bullion price falls below $390 an ounce.

Similar crisis

The list grows to 18 when three additional mines add the cost of expenditure on normal modernisation and expansion programmes.

Mr Liebenberg said while the mining industry was in a critical situation, it had faced and survived similar crises on several occasions — for example, in 1976 when the price fell from $196 to as low as $104.

"The Chamber took the view then that people would never be able to buy gold again at such a low prices, and this proved to be the case," he said. "We could be in a similar situation now because my guess is that the price is now at or near the bottom of such a trough.

"The critical issue is how long it will remain at these depressed levels. While the price drop has been precipitated by selling in the Middle East, with a notable lack of investor interest, the market remains underpinned by strong fabrication demand.

"There is no doubt that at the $340 to $350 level, gold is undervalued," he said.

● See Pages 9 and 10.

Gold index expected to rebound

STAR 15/6/90 79

By Derek Tommey

Gold shares took a beating on the JSE yesterday, with the gold index dropping 94 points, or 6,8 percent, to 1370.

Despite the setback, brokers last night were forecasting a sharp rebound in the gold index today.

Encouraging their optimism were signs of US buying in late trading of blue chips and gold shares.

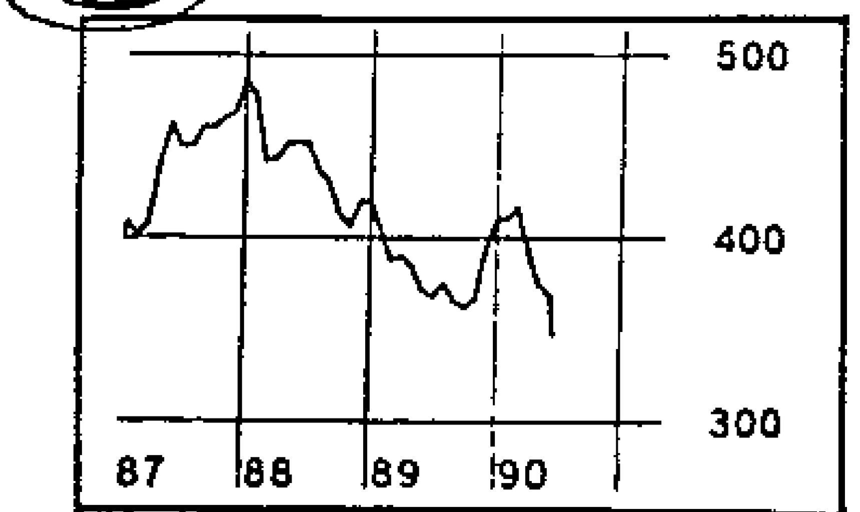
John Clemmow of George Huysamer said the index could recover up to 60 points.

One reason was that all option contracts close this afternoon.

The profits of many who had taken out options on the gold index could depend on where the index goes to today.

The result is that many speculators will be pushing up gold share prices to increase their option profits.

Mr Clemmow said the continued firmness of the rand had made him more bullish about the outlook for gold.



London gold price $/oz

By maintaining the exchange rate at R2,66 to the dollar, the Reserve Bank was sending a signal to the world that this time SA would cut production if the price fell further.

This could reassure investors that they would not run the risk of getting their fingers burnt if they bought gold at the present price.

It told them that SA would rather shut down gold mines than continue selling large quantities of gold, no matter how low the price went, as happened in 1988.

This should help stabilise the market and give investors the confidence to buy gold at these prices.

Mr Clemmow felt that there could increased demand for gold shares, especially from overseas.

Good gold shares were giving attractive returns to foreign investors, he said.

At the current financial rand rate, a British investor could buy Kinross on a 12 percent prospective dividend yield and Harties on a prospective 10,6 percent dividend yield.

British investors couldn't get these returns anywhere else, he said.

Among the smaller counters, a share like Knights could give almost a 20 percent return at its present price.

He also believed local institutions could become buyers of gold shares at their present prices.

Other brokers also forecast a jump in gold share prices — and the index — yesterday.

Their reason, in addition to the option contracts, was that there probably had been a fair amount of short-selling of shares during the week.

Speculators would not like to remain uncovered over the weekend as the gold price could recover, possibly on short-covering as well.

Consequently, it was likely that they would start covering their positions today.

This would give gold shares a boost.

Johann Liebenberg, a top official at the Chamber of Mines, said last night that at a price of $340 to $350, gold was cheap; in his own words, "undervalued".

As investors realised this, demand for gold and the price could improve.

Demand by the jewellery trade remained strong, said Mr Liebenberg — which also puts a floor under the market.

So it seems that after a torrid week, if brokers are correct, that investors might find today's gold share market more to their liking.

Bank 'won't allow rand to slump'

CM Trib 15/6/90 19

Own Correspondent

JOHANNESBURG. — The Reserve Bank will not alter monetary policy in the wake of yesterday's sharp fall in the gold price, Reserve Bank senior deputy governer Jan Lombard said yesterday.

He said SA would have to "weather this particular storm" because the Bank had no intention of allowing the rand to depreciate in order to realise a higher rand gold price. Depreciation would have inflationary implications, he said.

Foreign exchange dealers said the Reserve Bank sold dollars on the market yesterday morning. The rand was slightly stronger against the dollar at 2,6648 (2,6608).

Capital market rates were sharply up, the Eskom 168 reaching an eight-month high of 16,41% before falling back to 16,32%.

The Reserve Bank had the facilities to manage its mixed portfolio of gold and foreign exchange and the Bank had been buying as well as selling gold yesterday, Lombard said.

Reacting to economists who predicted that the lower gold price would create a liquidity crisis by devaluing SA's foreign exchange reserves, he said the Bank had taken precautions in its marketing strategies.

Trust Banks' Nic Barnardt said the Bank seemed determined to stabilise the rand.

He said if it didn't help ailing mines through currency depreciation other measures would have to be taken because the country could not afford the resulting major unemployment in such sensitive political times.

Nedbank's Edward Osborn said the Bank may have ~~to allow~~ for depreciation of t rand.

selling on JSE

(79)

CAPE TIMES 15/6/90

Gold Index falls 94 points

tion costs, including capex, for the March quarter show 332 tons of gold produced by 22 mines, out of last year's total production of 624 tons, cost more to produce than R915/oz.

The calculations are based on production and capex figures supplied in stockbrokers Ed Hern's Quarterly Gold Review.

The most alarming entry on the list of SA gold producers running at a loss is Anglo American's Freegold, the world's biggest mining complex, employing 110 000 workers, 23% of gold producers' employment.

Freegold, which produced 18% of SA's gold in calendar 1989, reflected working costs and capex of R1 019/ounce in the March quarter. It is losing about R100 on each ounce of gold it produces at yesterday's rand price.

Chamber of Mines spokesman Johan Liebenberg said yesterday the further fall in the gold price placed the gold mining industry in a critical situation.

Figures released by the chamber yesterday disclosed that 54 381 jobs were lost on member gold mines between 1986 and March 1990. In the first three months of this year the total was 25 388.

Analysts said yesterday the 22 marginal mines were not necessarily all in danger.

Brokers Kaplan and Steward used Anglovaal's Loraine (R1 031/oz), which this week cut its labour force by 6% and reduced tonnage throughput by 10%, to illustrate the point.

On the JSE bearish sentiment spilled over to industrials for the first time since the start of the recent gold price decline and the index fell 1,4% or 44 points to 2 942.

JSE dealers said buying support emerged at the London fixing.

Analysts in Zurich said market psychology was so bad that customers were refusing to buy.

● Reuters reports that silver probed levels not seen for more than 12 years. It fell US13c to $4,83 while platinum closed at a 1,5 month low of $473,50.

Gold index expected to rebound

Star 15/6/90 (79)

By Derek Tommey

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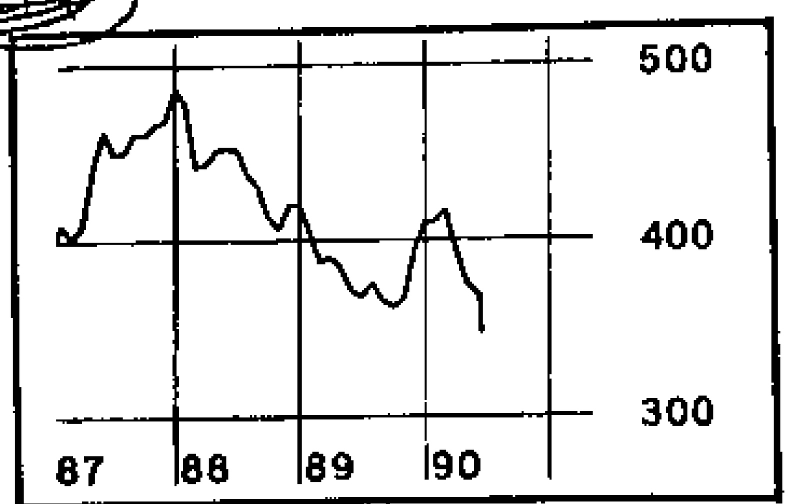

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The gold price slumped initially when the National Commercial Bank of Jeddah placed an order to sell 15 tons of the metal, London and Swiss dealers said.

The disposal followed two large sales in March and May, which played a major part in driving the price down from $389 on March 26 to present levels.

Moreover, the Saudi Arabian bank has been creating consternation in the market on a daily basis by actively selling and buying back gold, said London dealers.

Estimates of its net sales over the two-and-a-half-month period range from 100 to 200 tons, worth $1,8 billion.

Now that central banks have entered the market, it is likely to become more sanguine about Middle Eastern sales.

To be sure, volume was much lower than on previous days when the Saudi Arabian bank dumped large amounts of gold.

Moreover, the price decline of $5 yesterday compares with a $29 drop on March 26 when Middle Eastern sales initally scared the wits out of dealers.

"Dealers became more cheerful when large buy orders pointed to central bank activity," said a London bullion manager.

Dealers were not prepared to disclose the names of the banks, but the Bank of England is known to enter the market from time to time to prevent marked fluctuations.

Moreover, central banks are becoming more active in the market.

They sold 185 tons last year after purchases of 240 tons in 1988, estimates the Bank For International Settlements (BIS).

Last year Belgium, Mexico and Canada reduced their monetary gold holdings, while Spain bought.

A sharp decline in gold prices doesn't suit the books of central banks, even though they publicly assert that they are not prepared to support the gold market.

Non-communist central banks owned 935 million ounces worth $375 billion at the end of last year, says the BIS.

The value of the gold accounted for a third of the central banks' total monetary assets, worth $1 142 billion. But since the end of last year the market value of the central banks' gold has fallen by $52 billion.

Major central banks also intervened possibly because they appreciated that the depression in the price would place considerable pressure on the Soviet Union and South Africa, the biggest producers in the world, says Edwin Arnold, metals analyst at Merrill Lynch Pierce Fenner and Smith.

The two nations can't afford a major price drop, he says.

Firstly, many high-cost South African mines might be forced into premature closure.

Secondly, both nations have deposited gold from their monetary reserves as collateral for loans.

Since the gold was swopped for credit at higher prices, the slump in the market has reduced the value of the collateral and could discourage creditors from rolling over credits.

South African monetary reserves, for example, are down to a meagre 110 tons from 373 tons in 1980, according to International Monetary Fund statistics.

Moreover, the Soviet Union, with an estimated 2 000 tons of monetary gold, has and is depositing about 200 to 300 tons of gold collateral with Western banks, says Mr Arnold.

Illustrating its problems, the Soviet Union has said it will mint 145 000 commemorative gold coins for global distribution.

Gold fall 'bloodbath'

Cape Times 15/6/90

Own Correspondent

JOHANNESBURG. — Gold plunged through the crucial $350 level yesterday, causing a "bloodbath" on the Stock Exchange yesterday as panic sellers offloaded shares.

The fall has also led to at least 22 South African mines now operating at a loss, among them Anglo American's Freegold, the world's biggest mining complex, employing 110 000 workers.

Late yesterday the met recovered from a four-year low of $339,50 to close in London at $346,25. In New York last night it closed down $5 at $346,25.

Talk on bullion markets of heavy sales from the Middle East caused gold's drop in hectic trading. The sales, however, were not confirmed.

A leading stockbroker said said: "There was a lot of bloodletting which was reflected in JSE market capitalisation declining by R16 billion yesterday."

Full report — Page 8

FM 15/6/90 (79)

GOLD SHARES FM 15/6/90

Who wants them?

With stock markets around the world reaching for new highs, investor interest in gold is slipping progressively to lower levels. As gold's price fails to perform perceptions that the metal is not a good store of value feed on themselves. (79)

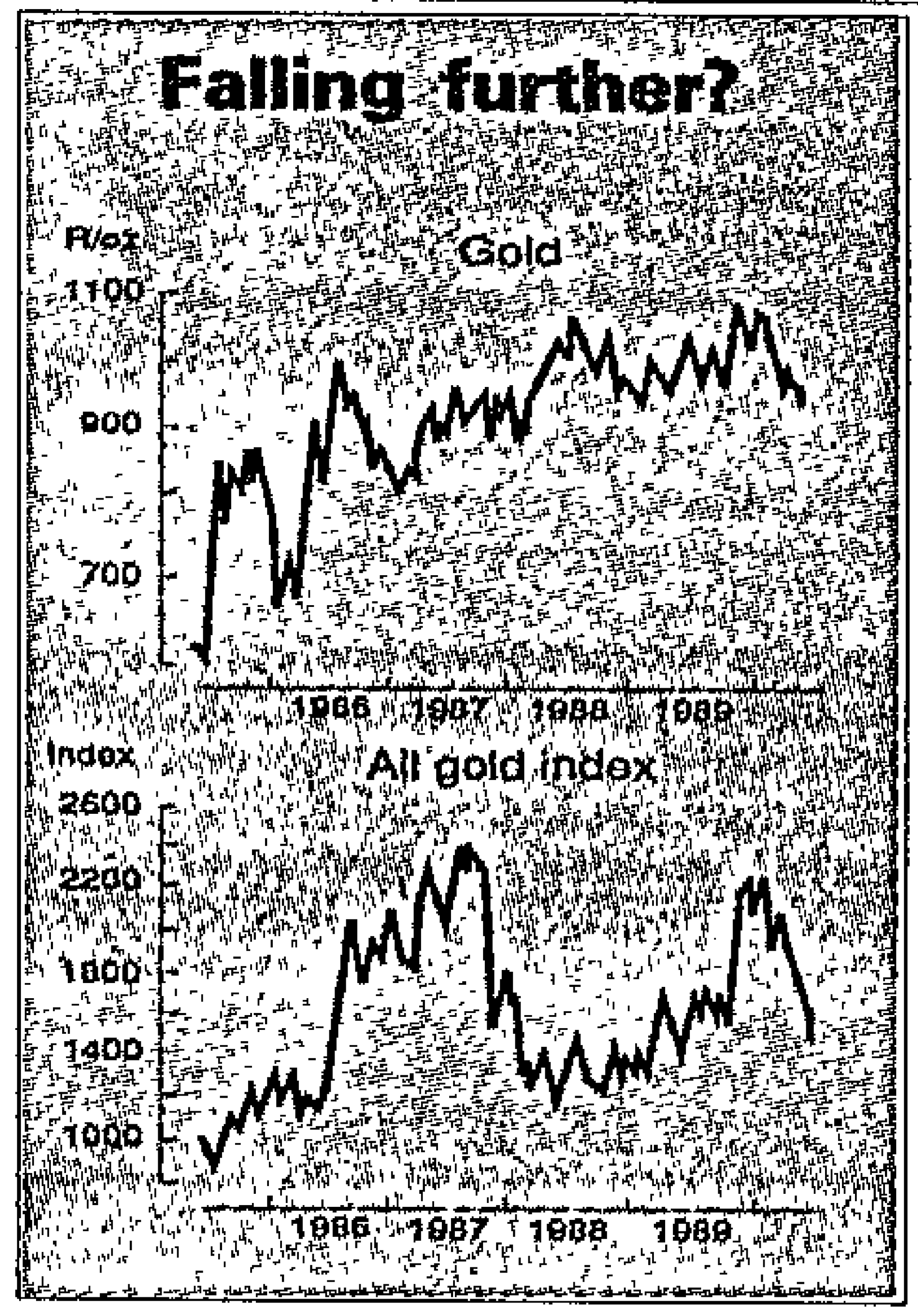
With the options of cash and stocks proving far more attractive in terms of their yields, gold is hardly featuring and its price remains under pressure. Added to this, the Soviet Union is flogging the metal on world markets at almost any price in order to generate much-needed foreign exchange.

Technical analysts are also taking a bearish view of the market. Malcolm Basford of stockbroker J D Anderson feels that gold will be weak for a few months and could test the US$320/oz support level even though last year's $350 support is holding.

Davis Borkum Hare's Dana Wakefield agrees by saying: "The current support level for gold is $350 and the long-term would be tested at $320-$315 where the 1982 monthly average low fell and where gold traded for several months following its base formation in 1985. The long-term downtrend would be broken if the price rose through the $390-$395 resistance by late this year."

The fall in the gold price to lows not seen since September is causing investors almost to abandon the shares. The JSE All Gold index is plummeting, on rather thin volumes both locally and abroad. To date this quarter, gold has averaged R985/oz, compared to the R1 035 average in the March quarter. The rand gold price has fallen to levels not seen since the first quarter of 1988, though some respite could come from a weakening of the rand.

Graham Boyd of Simpson, McKie says: "Though we have had a better-than-expected year so far, (Finance Minister) Chris Stals wants to build foreign reserves up further and is unlikely to support the rand, despite any short-term negative effect on inflation. Provided that the Reserve Bank maintains positive real rates of interest, one



need not be unduly alarmed by the short-term negative inflationary consequences of a depreciation of the exchange rate."

Boyd believes the rand could fall to R2,80 or R2,90 to the dollar by year-end. At today's dollar price that would give a rand price of R1 000 to R1 035, little different from last year's average of R1 000.

If one considers the rate of cost increases on the mines has been at least 15%, it is easy to appreciate the extent to which operating margins are being eroded. Yet the JSE All Gold index, despite having come down for most of the year, remains about 16% above the level of two years ago, when the rand gold price was last in this region. Unless the rand price recovers from the current level around R950, the All Gold index should fall by at least 25% to maintain relative values.

Much has been written about the fact that at least 13 mines now are not breaking even and that some closures are in the offing. Genmin's Gary Maude estimates that gold supplies need to be reduced by at least 50 t in order to shake the price out of its lethargy, while Stewart Murray, of Gold Fields Mineral Services, feels the reduction required is closer to 100 t.

However, all it would probably take is for one or two of the mines to close before the price rebounds on the reduction in supply. Historically, it has taken only the threat of supply disruptions to cause significant price rises. Many producers now making losses must be hanging in, waiting for someone else to go out of business so that they may once again become profitable.

Maude reckons unrest on the mines could lead to a loss of 30 t of gold this year which, in turn, would go some way to alleviating oversupply. In addition, mines such as Marievale and Bracken, though operating at very low levels, are near the end of their lives and will close shortly, regardless of the gold price.

"There is possibly an annualised 50 t of SA gold in jeopardy at the moment as a result of the low gold price," says Davis Borkum Hare's Dave Giese. "Of that, probably half will be lost through closures and cutbacks over the next three months."

Genmin has said often that if one of its mines suffers three consecutive loss-making quarters, serious consideration would be given to its closure. Of course, each mine's situation will be taken into account and, presumably, everything possible would be done to avoid closure if only to side-step lengthy and costly reopening procedures.

"It is almost inevitable that there will be a forced reduction in total output," says Maude. "Many of the mines have already been using their retained earnings to stay in production this far and there is a limit to which borrowings can be raised."

Most mines will pull through. Sticking to top-quality gold shares and waiting for a rationalisation in the marginal mines and subsequent price recovery or holding bullion could still be the best strategy for an investor wanting to be in gold. *Gillian Findlay*

REMGRO FM 15/6/90

Changing profit mix

Latest results from Rembrandt Group underline the growing importance of investment income in the profit sources and cash flow.

As is usual when Remgro publishes its preliminary year-end figures, there is minimal disclosure and virtually no explanatory comment. However, the income statement does show that pre-tax net income — affected substantially by the major tobacco and liquor subsidiaries — rose by 16,4% to R770,4m.

In contrast, the share of net income retained by associated companies was 38,8% higher at R317,6m. This presumably is influenced partly by the larger stake taken last year in Gold Fields of SA (GFSA), when the mining house reshaped its control structure in the wake of the Hanson Plc takeover of Consolidated Gold Fields.

In addition, some groups in which Remgro has significant holdings have posted solid results. Among these, 29%-held Gencor lifted interim earnings by nearly a third, 10%-held Dorbyl was up 12% (benefiting its holding company Metkor, held 50% by Remgro), 30%-held Volkskas was up 26% and 10%-held SBIC also raised earnings by 26%.

Among the listed subsidiaries, there was a turnaround in Medi-Clinic, which tripled EPS and paid a dividend, and the timber and food arm, Huntcor, saw earnings rise by about 22% as acquisitions, particularly in the food sector, took effect.

But, in perhaps most of the listed investments — barring those in the financial sector — latest profit announcements have given clear indications of a downturn in trading conditions during recent months.

Though it is generally assumed that the

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ie battle lines

ing relationship." De Villiers, who holds 0,76% of Allied's equity, opposed Shill's re-election to the board — "His own company results are not very good."

He says he put two "very positive alternatives to Sage" and believes they represent "possible solutions." Shill says he is "unaware of these alternatives."

Though he expected opposition at the meeting, he refrained from lobbying for proxies "because we would have been striking the first blow. We were philosophical about losing votes on Tuesday but remain confident we will be able to resolve the situation — within two months."

After De Villiers' defeat on Tuesday, the board's weighting shifted in favour of Shill. So De Villiers' job could be on the line.

Ethel Hazelhurst & Detmar Schwichtenberg

THE RAND FM 15/6/90

Keeping cool

79

There are usually two reasons why the rand depreciates when the gold price falls. The first is because, as export revenues shrink, there are fewer dollars to be converted into rands — which tips the demand-supply situation. The second is because authorities have often helped the unit to fall to protect marginal gold mines.

By holding up the rand price of the metal a depreciating currency cushions the industry from falling dollar revenues.

If gold continues to fall, the rand will eventually have to follow. It will be a few months before this happens but, meanwhile, the Reserve Bank is not anticipating nor precipitating a depreciation in the rand.

Since gold started its brief but heady climb from US$355,75 in September to $423 in February, before plunging to a low of $350 in London last week, the Bank has intervened "on both sides of the rate," says First National Bank's Rob Wade, to moderate its influence on the rand and eliminate short-term fluctuations.

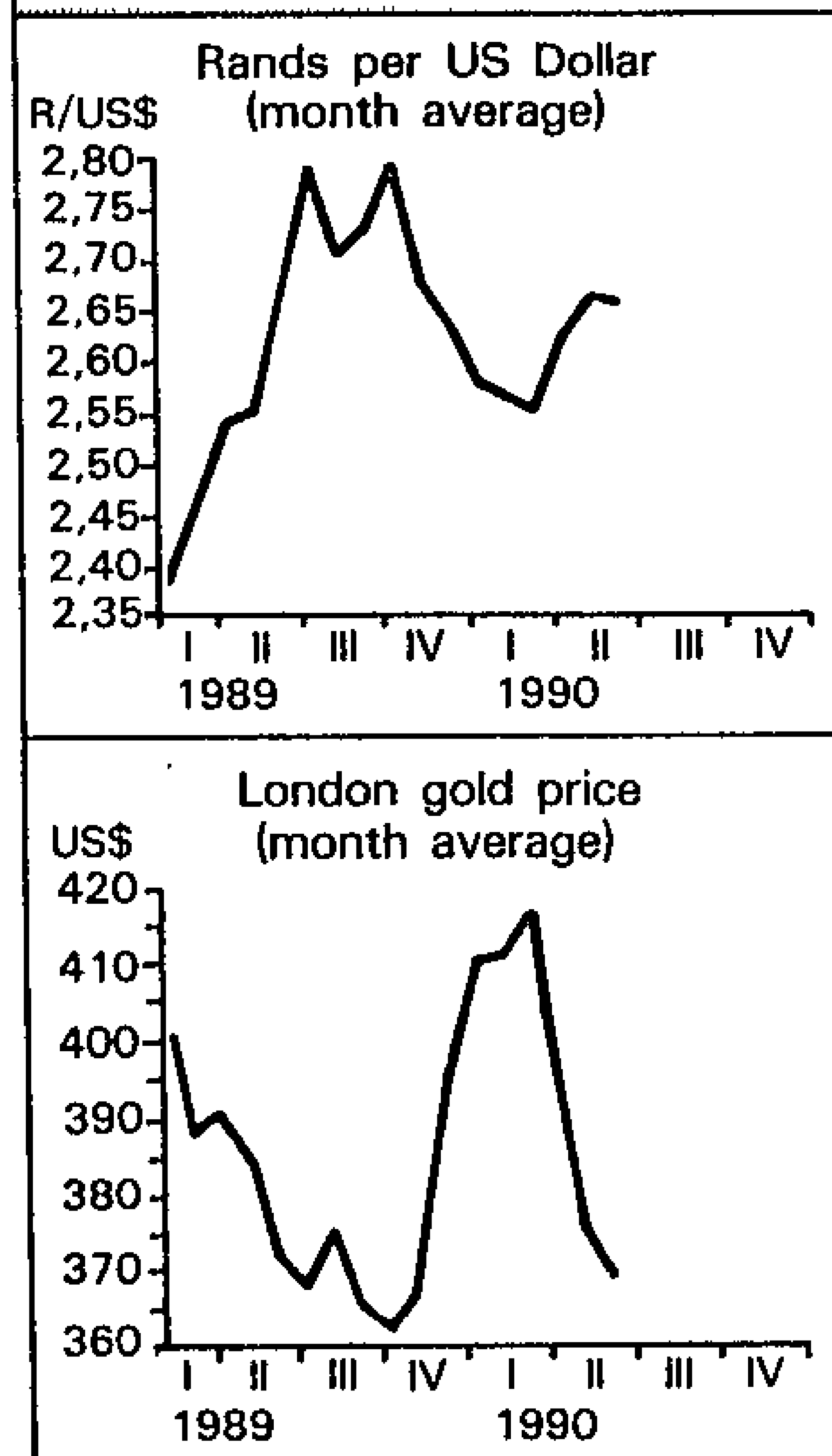
So the rand/dollar exchange rate has deteriorated by only about 13c since the peak in the gold price. And, says Wade, it has even appreciated slightly against the D-mark.

This has kept down the contribution to inflation of imported prices (see "Monthly jump"). Though the comparatively higher exchange rate cannot and should not be maintained if fundamentals are against it, SA has at least not had to experience the adverse consequences prematurely.

Wade says: "The drop in export proceeds of the gold mines has not filtered through yet, though it will in the next few months." If the Bank had attempted to nudge the exchange rate down it would have had to sell rands, putting liquidity into the market and relieving interest rate pressures.

FM 15/6/90 79

Currency cushion



Source. Standard Bank

That the authorities have not, is a testimony to Governor Chris Stals's determination to keep down inflationary pressures despite pressure from various quarters to let interest and exchange rates fall — as his predecessor Gerhard de Kock did after the debt standstill. But SA no longer needs to make a growth-orientated BoP adjustment, which dictated De Kock's policy.

Old Mutual economist Rian le Roux says: "The authorities now realise that 15 years of intermittently negative real rates of interest have made the business cycle more volatile. Stable but high real rates should help create more certainty for business."

To attract investment, despite the political upheaval, SA must show it has inflation under control. Higher interest rates rather than a lower exchange rate is an appropriate price in the circumstances. If the consequent recessionary impact on sections of the community needs relief, it should come in direct and identifiable subsidies, rather than distortions of interest and exchange rates. ■

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Economy not in recession, says Barend

B/Day 5/6/90

MIKE ROBERTSON

CAPE TOWN — Despite the collapse in the gold price, the SA economy was still on course for a soft landing and a current account surplus of between R5bn-R6bn could still be expected this year, Finance Minister Barend du Plessis said yesterday.

Speaking in the debate on the second reading of the Budget, Du Plessis said the most recent data suggested that economic activities were continuing to level off. The contention that the economy had already entered a recession was an exaggeration of the cooling down process.

Even allowing for the lower gold price, there was no need to tighten government's monetary and fiscal policy stance. Nor, he added, was there any justification for relaxing that stance.

In the first quarter of this year, the gross domestic product (GDP) fell by 1,5% as against the preceeding quarter at a seasonally adjusted rate.

There was a significant fall in real value added in the primary sector. In the first quarter mining output was down by 12% at a seasonally adjusted annual rate.

Real output in the secondary sector fell marginally, while the tertiary sector posted an annualised increase of more than 2%.

Real gross domestic expenditure fell by 2,5% in the first quarter as opposed to 7% in the last two quarters of 1989.

Du Plessis said real gross domestic fixed investment had contracted further in the first quarter and further reductions were estimated to have taken place in real inventories. (79) (64)

Gross domestic saving in the first quarter was at the same level (22%) as in the first half of 1989, he said.

So far, Du Plessis said, the balance of trade had been encouraging with a cumulative trade surplus of R5bn being recorded in the first quarter.

"The recent lower gold price will adversely affect our gold export earnings, but we should nonetheless still be able to post a current account surplus of between R5bn and R6bn for 1990," Du Plessis said.

Middle East behind gold drop?

B Day 15/6/90

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JOHN CAVILL

LONDON — Another wave of selling before the London morning fixing yesterday drove gold down to a four-year low of $339 before it bounced up to close at $345,85 as short sellers took profits on the $15 drop in 48 hours.

Once again blame was levelled at the National Commercial Bank of Jeddah — reported by the Financial Times to have offloaded 100 tons of gold during the past 10 weeks. There were also rumours that SA had resumed normal supplies to the market after holding back sales last week.

Slumping silver, which crashed to $4,80 during a two-day fall of 25c through the "support" level of $5, also undermined gold. Platinum was also a casualty, slipping $16 to $472,50.

David Ridley at brokers Williams de Broe said: "Nobody knows for certain, but there was Middle East-influenced selling first thing in the morning before the fixing, which got the price down to $339 briefly.

"The story was that the National Commercial Bank of Saudi Arabia, which had been buying last week, started to sell again."

He said the situation was similar to that in 1986 when oil prices were weak and inflationary expectations were low. "We had Saudi selling then, and four months later gold was $438."

N M Rothschild director Robert Guy said: "The mood is just plain bearish. For fund managers who didn't buy gold before it got to $400 it is a black hole. And the worse the price gets the more pressure it puts on producers to hedge through forward sales, so it is a bit self-feeding."

At James Capel, Robert Weinberg said: "There seems to be a pattern developing about the selling. Whenever gold looks fragile someone comes in and whacks it when the market is at its most illiquid, that is after the Far East closes and before America opens. One also has to ask why the sales have been done so noisily. I've heard one suggestion that the purpose of hitting the price is to buy in at lower levels.

"Our technical analysis, however, points to gold and SA gold shares coming into an oversold position, which historically generates a rally. We could see one."

SA golds 'not wildly over-priced'

MERVYN HARRIS

SA GOLD shares might be looking expensive on a forward dividend yield basis but are not "wildly over-priced" or in the same category as US golds whose rating has been described as "weirdly irrational".

This is the view of local analysts who were reacting to a report yesterday by Rob Weinberg, head of the mining team at James Capel financial services group, who described US gold shares in these terms.

Weinberg said at the recent Boston Gold Show that the market capitalisation of all the major North American gold companies was about $22bn.

The total market capitalisation of SA gold shares on the JSE on Wednesday was R50bn which, converted through the current finrand rate, amounted to $12,4bn.

After yesterday's market decline, the market capitalisation of gold shares on the JSE would be about R46,5bn and under $12bn, respectively. This represents a decline from the R64,5bn at the end of March.

However, latest estimates show that of the 65 000 tons of global gold reserves still to be mined, SA has about 40 000 tons and the US and Canada about 8 500 tons.

Analysts moreover point out that the risk factor of US gold shares is totally different to SA gold shares. The much higher PEs of US gold shares reflect the lower risks. B\Day 15\6\90

Compared with the deep level mines in SA, gold is extracted from shallow mines in North America where working costs are lower and not prone to the high inflation occurring on SA mines. (179)

There is also no discount on US gold shares for political risks.

Price dips to $339,50 in London

Bloodbath on JSE as gold takes plunge

79

B|Day 15|6|90

MERVYN HARRIS, RIAAN SMIT, BARRY SERGEANT and ACHMED KARIEM

GOLD's plunge through the crucial $350 level caused a "bloodbath" on Diagonal Street yesterday as panic sellers offloaded shares before the metal recovered from a four-year low of $339,50 to close in London at $346,25.

In New York last night the metal closed down $5 at $346,25, the same level as it reached in London earlier.

Led by a 6,4% tumble in the JSE all gold index to 1 370 and even sharper declines in market leaders Anglos and De Beers, the overall index tumbled 3,8%, or 120 points, to 2 995.

Talk on bullion markets of heavy sales from the Middle East caused gold's drop in hectic trading, but this remained unconfirmed throughout the day. Gold was fixed in London yesterday morning at $346,75, its lowest setting since July 15 1986, after a 30-minute fixing session.

David Meades, of stockbrokers Meades, De Klerk Inc, said: "There was a lot of bloodletting which was reflected in JSE market capitalisation declining by R16bn yesterday."

More than 50% of SA gold is being produced at a loss at yesterday's gold price of about R915/oz.

Calculations based on rand/oz production costs, including capex, for the March quarter show 332 tons of gold produced by 22 mines, out of last year's total production of 624 tons, cost more than R915/oz to produce.

The calculations are based on production and capex figures supplied in stockbrokers Ed Hern's Quarterly Gold Review.

The most alarming entry on the list of SA gold producers running at a loss is Anglo American's Freegold, the world's biggest mining complex, employing 110 000 workers, which is 23% of gold producers' employment.

Freegold, which produced 18% of SA's gold in calendar 1989, reflected working costs and capex of R1 019/ounce in the March quarter. It is losing about R100 on each ounce of gold it produces at yesterday's rand price.

Other entries include Anglo's Western Deep Levels (costs: R934/ounce) and Gold Fields of SA's Kloof. These two ultra-deep level mines traditionally spend high levels of capital expenditure.

Chamber of Mines spokesman Johan Liebenberg said yesterday the further fall in the gold price placed the gold mining industry in a critical situation.

"However, the industry has faced and survived similar crises on several occasions this century, for example, in 1976 when the price fell from about $196 an ounce to $104."

Figures released by the chamber yesterday disclosed that 54 381 jobs were lost on member gold mines between 1986 and March 1990. In the first three months of this year the total was 25 388.

Analysts said yesterday the 22 marginal mines were not necessarily all in danger of closing, because costs could be further reduced by cutting capex and labour cost, and by mining high-grade reserves.

Brokers Kaplan and Steward used Anglovaal's Loraine (R1 031/oz), which this week cut its labour force by 6% and re-

☐ To Page 2

Gold

B|Day 15|6|90

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☐ From Page 1

duced tonnage throughput by 10%, to illustrate the point

It said Loraine had proven ore reserve of 5,21 million tons at an average grade of 9,3g/t over a reef width of 106cm. The mine's present yield of 5g/t could go up to 6,5g/t because the reduced tonnage should allow for more careful mining and a reduction in waste being treated.

Goldfields of SA director of precious metals companies Mike Tagg said yesterday the mining house was taking a "long, hard look" at unprofitable gold mines. He singled out Libanon, Doornfontein and Venterspost.

On the JSE, bearish sentiment spilled over to industrials for the first time since the start of the recent gold price decline and the index fell 1,4% or 44 points to 2 942.

JSE dealers said buying support emerged at the London fixing and Merrill Lynch analyst Ted Arnold said it was possible that SA and the Soviet Union had been buying at the morning fix to support prices, but this could not be confirmed.

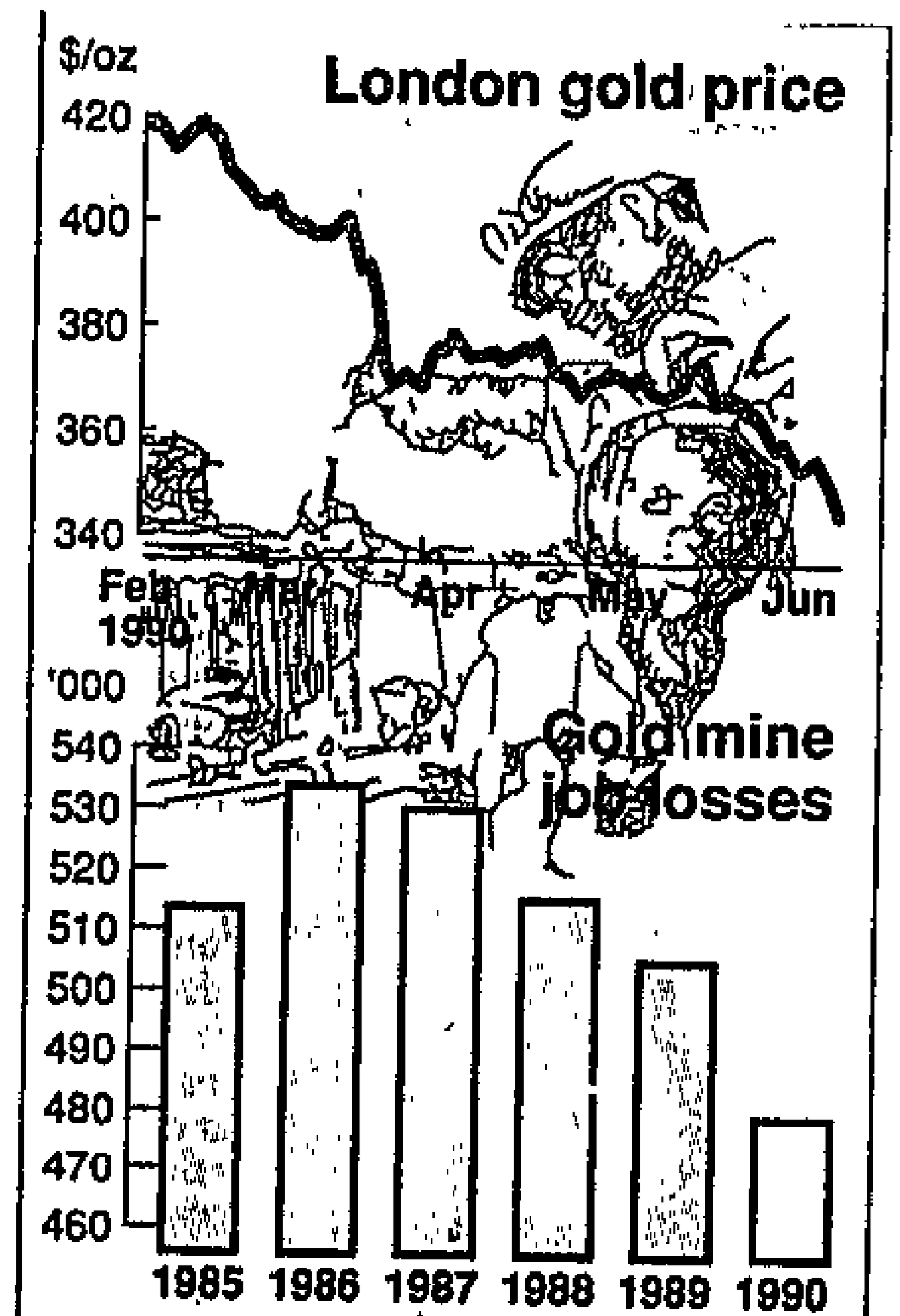
Analysts in Zurich said market psychology was so bad that customers were refusing to buy. They said the negative momentum was tremendous but physical sales dried up before New York futures opened to help steady the market.

"It looks bad, bad, bad," a bullion trader said amid fears the cash-strapped Soviet Union would abandon its traditional caution about depressing spot prices through gold sales.

In February this year, gold was at a 14 month high of $424,50. Buffeted in March and April by heavy selling from Middle East interests, which severely dented investor confidence, the metal has since lost some $80.

Reuters reports that silver probed levels not seen for more than 12 years on oversupply factors and in the wake of the falling gold price. It fell US13c to $4,83 while platinum closed at a 15 month low of $473,50.

● See Pages 8 and 10



Graphic: FIONA KRISCH

Bank maintains course after fall

(79)

ANDREW GILL

THE Reserve Bank would not alter monetary policy in the wake of yesterday's sharp fall in the gold price, Reserve Bank senior deputy governor Jan Lombard said yesterday. B|Day 15|6|90

He said SA would have to "weather this particular storm" because allowing the rand to depreciate in order to realise a higher rand gold price would have inflationary implications.

Foreign exchange dealers said the Reserve Bank sold dollars on the market yesterday morning. The rand was slightly stronger against the dollar at 2,6648 (2,6608).

Capital market rates were sharply up, the Eskom 168 reaching an eight-month high of 16,41% before falling back to 16,32%.

Lombaard said irresponsible selling of gold portfolios by Middle Eastern parties had caused gold's plunge yesterday but this particular crisis was temporary.

The Reserve Bank had the facilities to manage its mixed portfolio of gold and foreign exchange and the Bank had been buying and selling gold yesterday, he said.

Reacting to economists who predicted

☐ To Page 2

Bank

B|Day 15|6|90 (79)

☐ From Page 1

that the lower gold price would create a liquidity crisis by devaluing SA's foreign exchange reserves, he said the Bank had taken precautions in its marketing strategies.

"Even if the gold price remained at its present levels we would not be in a tight spot with regard to servicing foreign debt because our surplus projection was based on a conservative gold price", he said.

TrustBanks's Nic Barnardt said the Bank seemed determined to stabilise the rand "come hell or high water"

He said if it did not help ailing mines through currency depreciation, other measures would have to be taken because the country could not afford the resulting major unemployment in such sensitive political times

Nedbank's Edward Osborn said the Bank was responsible for the short term stability of the economy and if the gold price remained at its present levels it would have to allow for depreciation of the rand

F/M 15/6/90 (79)

RESERVES F/M 15/6/90

Out of sight

(79)

Monthly figures of gross gold and foreign assets held by the Reserve Bank show only part of the reserve picture. The Bank's foreign obligations are hidden in the statement of liabilities. No monthly breakdown into foreign and domestic liabilities is provided, so net figures are not known until publication of the Bank's *Quarterly Bulletin.*

Its statistics usually differ substantially from the monthly figures, partly because they include not only the Bank's net reserves but also those of the private monetary sector. However, according to a Bank spokesman, by far the bulk of the total relates to the Bank's own position.

Figures for first-quarter 1990 will be available later this month. Those for the second quarter will be published in September. So the significance of a sudden leap in the item *other deposits*, which includes working deposits of other central banks, from R81m in April to R355m in May, will not be known until then. Whatever its source, it was offset slightly by a R60m decline in *other liabilities* — which includes foreign loans to the Bank.

The composition of these categories fluctuates. The March *Bulletin* shows *other deposits* of:

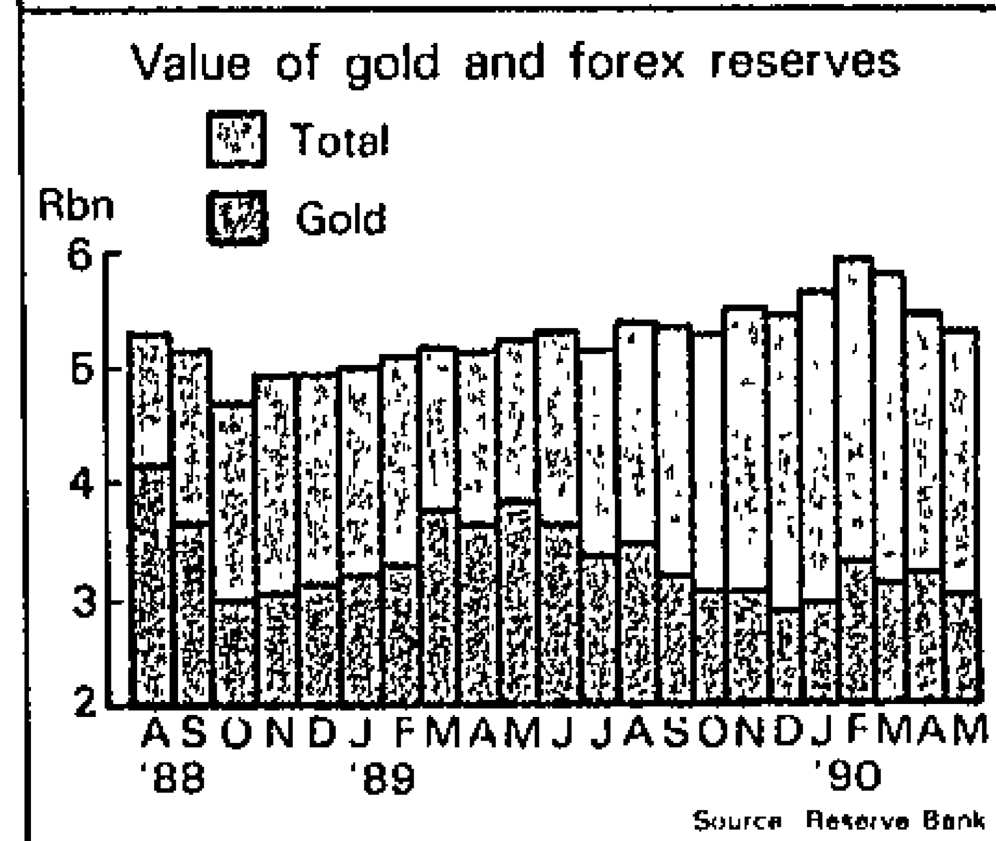
- ☐ R56m foreign liabilities and R23m local at the end of 1989;
- ☐ R66m and R96m end-1988;
- ☐ R50m and R13m end-1987.

Other liabilities consist of a variety of items, including the Treasury's account for SDR transactions and the capital and reserve accounts. But no breakdown into foreign and domestic liabilities is published and the relative size is not disclosed.

So monthly figures in the Bank's statement of assets and liabilities are only an indication of the direction of flows. May's

(79)

Gold down



F/M 15/6/90

R148,3m drop in gross reserves may not reflect the full extent of the deterioration.

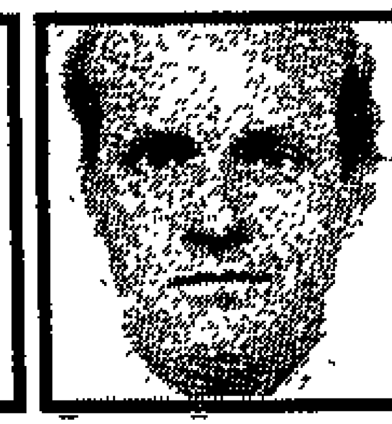
☐ Total gold and foreign assets were R5,3bn (US$2bn) at end-May. Gold was valued at R3bn ($1,1bn) and assets stood at R2,3bn ($869m). Gold holdings fell R185,4m while foreign assets rose a slender R37m.

In dollars, gold fell $100m, forex rose $10m and total assets declined by $100m. The price at which gold was valued fell to R875,09 in May from R891,23 in April, and holdings fell from 3,58m oz to 3,44m. ■

Gold junkies in search of a fix

Money Matters

MAGNUS HEYSTEK



SOMEONE once said South Africans were a bunch of gold junkies waiting for the next fix. And you don't even have to own gold shares for this to be the case.

Because, despite our efforts to move away from our dependency on gold, our fortunes are tied up closely with it.

Everyone must be watching the daily price fix with a great deal of consternation.

While gold production has been falling steadily in recent years, dollars earned from gold sales still contribute the lion's share of our foreign exchange earnings — currently about 30 percent.

There is no doubt that the drop in the price, from a high of $420 in February this year to lows of about $351, is hurting very badly.

It has also turned what was to be a soft landing for the economy into a much harder one — perhaps even a crash landing.

Even with the benefit of a strong gold price in the first quarter of this year, economic growth was negative.

There's scant hope now that the economy will show any growth at all this year.

This is depressing when one takes into consideration that the population is growing at a rate guestimated at two to three percent. It might even be higher. This means we all will get poorer this year.

For a while lucky individuals might escape the rot by having larger-than-average salary increases, but ultimately we will all suffer from a steady erosion in living standards.

A stagnant economy cannot create jobs. This means that more people are unemployed or half-employed.

Also, a stagnant and shrinking economy reduces the ability of the government of the day to raise taxes, a vital instrument in any redistribution of wealth.

Without taxes, spending on necessary infrastructure starts declining, and ultimately stops.

With gold at its current depressing level, much against the forecast trend, interest rates will remain higher than would normally have been the case.

It might even, as Mike De Blanche, MD of United, said earlier this year, lead to another rise in mortgage rates.

This would set in motion a chain of events leading to more bankruptcies, even higher unemployment, sequestrations and liquidations.

It would also seriously hurt the residential property market, already starting to show signs of strain in some categories.

In the Eighties a falling gold price was normally counterbalanced by an equal weakening of the rand exchange rate.

This time round, it seems the same does not apply.

In fact, the steadiness of the rand in the face of the sharply dropping gold price has astonished many commentators.

It has also severely hurt the price of gold shares, which found themselves without the lifeline thrown out to them every time the gold price fell in the past.

As my colleague Derek Tommey said earlier this week, gold shares have lost about R50 billion in just under three months.

Investors in interest-bearing instruments such as fixed deposits and participation mortgage bonds, however, are benefiting from the changed scenario.

Governor of the Reserve Bank Dr Chris Stals is adamant that REAL interest rates are here to stay.

He will only consider a drop in prime ovedraft rates if the inflation rate declines to below 13,5 percent.

This resolve is going to be tested severely in the next couple of months as bad news piles up and he finds himself under increasing political pressure.

Dr Stals is right, however. As a country we cannot devalue ourselves out of trouble, or just to protect one segment of the economy, albeit an important one.

Look what happened to Zambia. When the copper price started falling in the Eighties, Zambia devalued its currency in line with the drop in the copper price.

This was a short-sighted policy, as it turned out for the country is now bankrupt.

Hopefully, we will not end up in the same boat.

All quiet on the gold front

β 10 ... 18/6/90 79

LIZ ROUSE

THE gold price fall was stemmed in the Far East on Friday on European short-covering and physical buying, although Australia remained a seller.

Dealers said the market was quiet on lack of news. The Hong Kong price moved in a range of $344 to $347 most of the day. Gold ended at $346,50/$347 against New York's close of $346,00/50 on Thursday and its $344,95/$345,35 opening in Hong Kong.

The Hong Kong market was closed on Saturday, and will be closed today because of local holidays.

Although the sharp fall in the gold price — down $15 in 48 hours to $339 just before the London fixing on Thursday — was attributed to dumping by the National Commercial Bank of Jeddah, economic fundamentals for a stronger gold price are dim.

International real interest rates are high and major stock exchanges appear to be steady.

In addition, US consumer prices are moderating after a first-quarter surge and the nation's trade balance continues to show steady improvement, reports AP-DJ.

May consumer prices rose 0,2%, slightly below the consensus estimate of a 0,3% gain, and the May consumer price index (CPI), excluding food and energy costs, was up 0,3%, in line with forecasts, the US Labour Department said on Friday.

The May rise in the CPI followed a gain of 0,2% in April. Because of a first quarter surge in prices, CPI now has risen at a 5,8% annualised rate so far in 1990.

Meanwhile US trade fortunes are getting better, which will support economic growth. The US merchandise trade deficit narrowed to $6,94bn in April from $8,36bn in March, the Commerce Department reported.

The narrowing in the April gap — reflecting a sizeable decline in imports that outweighed a reduction in exports — was sharper than the consensus estimate.

ATLANTIS BUYERS' CO-OPERATIVE

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Cautious reaction to firmer gold price

B/Day 19/6/90

MERVYN HARRIS

DIAGONAL Street reacted with caution to the slight firming in the gold price which rose $1,75 yesterday to close at $349,50 in London amid hopes that the metal was consolidating at current levels.

(79)

The slightly firmer undertone on the JSE was seen as a technical correction after last week's heavy sell-off and the market remained shrouded in uncertainty.

The higher gold price encouraged overseas nibbling of golds which are offering good returns through the finrand. But the investment unit's strength — up to R3,9350 from R3,9800 to the dollar in a thin market — kept a lid on local share prices and the JSE overall index rose 27 points to 3 005 as the all gold index gained 28 points to 1 374.

London traders said if gold struggled back above $350, another major sell-off would be required to send it down to support levels seen at $342-$343.

Silver tracked gold in quiet trading to end US3c up at $4,85.

Analysts differ on outlook for gold

CAPE TIMES 20/6/90

19

By AUDREY D'ANGELO
Business Editor

FEARS that the Russians will act against their own interests by selling large amounts of gold on the open market — bringing the price down — are groundless, mining analyst Lloyd Pengilli of Martin & Co told members of the Cape Town financial community at a meeting in a city hotel yesterday.

But Joss Gerson, chief economist at Mathison & Hollidge, warned that the pressure of debts might give the Russians no choice but to sell and that further sales could be expected from Arabs with large holdings.

He also pointed out that the outlook was not promising for the Tokyo Stock Exchange, and that last time it fell Japanese investors sold gold in preference to their overseas share holdings.

Pengilli and Gerson were among analysts and economists taking part in a debate, organised by DSR Brokers, on whether the JSE all-gold index would return to 2 000 by the end of this year.

It was held soon after the index had slipped to a preliminary close of 1 357 yesterday. And the meeting voted, by 47 to 15, that it would fail to reach 2 000 again this year.

Arguing that it would move up soon, Pengilli said that although the Russians were often blamed for falls in the gold price they usually sold, in the same way as SA, through an arrangement with the central banks rather than on the open market.

He had been told last week that the Russians were, in fact, supporting the gold price by buying.

Pengilli said he thought the over-supply of gold as the result of opening new mines had peaked this year and there might be a dramatic shortfall in supply.

Physical demand from fabricators had developed with gold at its present low levels. And US investors were buying SA gold shares again as a result of the State President's policies.

It was true that confidence had been harmed by the recent sale of 12 tons of gold from the Middle East.

But the top 10 managed gold funds out of 128 throughout the world had 80% of foreign holdings of SA gold shares. "That means the others are underweight."

They would be in a hurry to buy when the gold price moved up again.

Admitting that a higher bullion price was needed to stimulate investor demand, Pengilli said it was possible that fabrication demand would push it up to $400 an ounce before the year-end. And a stronger bullion price would mean a rapid rise in the gold share market.

Supporting him, technical analyst Tony Henfrey said that when the market was at the bottom was the time to be bullish. He considered that the market was "massively oversold".

It had reached a major cycle turning point and the gold price now had "nowhere to go but up".

The dollar was under pressure and he was bearish about it. He expected gold to rise as the dollar fell, reaching peaks in August, November and again in February.

Admitting "gold shares may be over-valued from the fundamental point of view," Henfrey said he expected their price "to run very much faster than gold (bullion) when the turn comes".

He considered the gold index "cheap compared with the rest of the market."

Opposing them, Gerson said his firm's gold analyst expected the bullion price to rise to $360 an ounce in the next three to five weeks and then crash to $330 and remain troubled for the rest of this year. It would recover next year.

Although the SA political situation was more hopeful than ever before it was also more dangerous, with the centre threatened by extremists.

Foreign investors took time to summon the courage to invest in SA and were quick to take their money away again.

He said the Russians might have no choice but to sell large amounts of gold on the market. Their political circumstances, too, had changed. "They are in debt up to their ears and have their backs to the wall."

Gerson pointed out that oil prices were low and large amounts of gold were in the hands of Arabs who might have to sell.

Gerson, and Cathy Potts, economist at AFC Investments, said the gold index would rise above 2 000 — but not by the end of this year.

Threats of mine strikes boost gold

CT Times 21/6/90 (19)

Business Editor

THREATS of a strike by SA mining workers gave a boost to falling gold and platinum prices on world markets last night.

The uptick in gold came in late trading as the threat of strikes which would affect supplies roused investor interest. Trading was active in London and New York.

Gold closed in London at $350 an ounce, up from Tuesday's close of $347,75. It closed in New York at $349,80/$350,30.

The change came too late to affect the JSE. Lower gold prices for most of the day caused the all-gold index to slip 35 points to a preliminary close of 1 322.

A London dealer said, "we will wait and see what New York does tonight. It may have all died down tomorrow."

Platinum edged up from its lows in line with gold to close at an unchanged $475/$476 an ounce.

Silver finished at $4,81/$4,83 an ounce, down $0,2 from Tuesday's close.

● Reuter reports that platinum futures were higher at midday in New York as trade buying, sparked by rumours that there were going to be mine strikes in SA, reversed the morning's trend that logged prices in the negative column.

Traders attributed the bulk of the selling to trade houses. They also cited a softer dollar, which moved only narrowly in quiet trading.

Most-active July jumped $5,30 to $481,50 an ounce, from a daily low of $473 an ounce. October climbed $7,30 to $489,00 an ounce.

One analyst connected the market's upswing with psychological factors regarding the arrival of Nelson Mandela in New York. Mandela will remain in the US throughout the month.

Gold rallies on strike threats

MERVYN HARRIS (79)

GOLD staged a late rally in London yesterday to close $2,25 higher at $350 on news that SA trade unions were threatening a national strike in the dispute over labour legislation. BDay 21/6/90

Bullion dealers said the news prompted investor interest and trading was active in London and New York where the metal touched an early high of $351,25. It ended at $350,05, up $1,55 on Tuesday's close.

Reuter reports that London dealers said an SA production stoppage would negate some of the market's bearish sentiment.

The activity came after gold had weakened to a London afternoon fix of $346,90 amid increasing bearish sentiment which saw widespread selling of SA mining shares from London.

The selling pulled prices of SA shares down in dollar terms but as the finrand investment unit held largely steady with a slightly softer bias, there was little protection for local investors and prices declined in rand terms.

The JSE all gold index drifted lower throughout the session to close 35 lower at 1 322 to bring the overall index down 37 points to 2 956. The weak undertone was reflected in market leader De Beers easing 1,6% to R92 with sellers offering the shares at that price but no buyers emerging.

Industrials also continued to backtrack but the decline in the index was limited to eight points at 2 921 as heavily weighted Richemont moved into higher territory on a 25c gain to a fresh peak of R25,30 on expectations of good results.

FM 22/6/90 (79)

EMPLOYMENT AND THE GOLD PRICE

Juggling with margins

Shivers in mining will dictate a tougher line with unions

The Chamber of Mines says it will not use gold price fluctuations as a bargaining chip in wage talks with the National Union of Mineworkers. In the event, however, this year's negotiations deadlocked and were referred to a conciliation board before bullion's dramatic dip technically plunged at least 20 of the chamber's 33 gold mines below break-even cost.

That said, though, the spectre of mine or shaft closures, and with them huge lay-offs should gold stay below US$350, casts a pall over the industry and seems likely to check any appetite for a strike this year. The NUM has moderated its wage demand to 20% against the chamber's 13%-15% opening offer. Settlement somewhere between seems probable.

As part of the crucial need to contain costs the industry grappled with the productivity problem long before the shine came off gold. The fall in the metal's price will concentrate efforts.

On the labour front, Gencor, for instance, is examining options to lay-offs and Anglo American, which recently took a view on curtailing operations at Freegold and Vaal Reefs involving a cut of 7 800 jobs, is committed to negotiating the matter with unions.

Labour costs represent over 25% of total expenditure and more than 45% of working costs. "They, therefore, must be controlled and the unions must realise that wage increases must be rewarded by productivity gains," chamber CE Tom Main says.

Labour is but one factor in mining's cost spiral. Addressing the Association of Mine Managers in March, chamber president Kennedy Maxwell illustrated the unhappy outlook generally in the gold mining industry.

Based on 15,3% cost inflation to July 1 1990, a projected average gold price of R33 403/kg (about $395/oz) and *excluding* capital expenditure, his graph shows that 15 of the chamber's 33 member gold mines "will have production costs in excess of the estimated average price of gold."

Add capex and 18 move into this marginal category.

With the metal's fall to below $350 (hitting a low R921/oz) "there must be at least 20 mines that are now marginal," says a chamber spokesman. This implies about 200 000 miners "have reason to feel insecure."

Though it is premature to say all those jobs are in jeopardy, they are certainly not secure.

Even if not all automatically lose their jobs, should the worst happen, "if the price stays as it is, the situation becomes critical." Closing loss-making mines is not something chamber members have contemplated before on the strength of a temporary or cyclical fall in price. In short, the situation is "potentially calamitous."

That may be overstating matters. However, concern is understandable because gold mining remains the bulwark of the economy. Over the past five years chamber gold producers have generated revenues of more than $37bn, profits approaching $16bn, dividends of $15bn and invested $5,3bn in capital development.

Five years ago we were the cheapest of the world's major gold producers; today we are the most expensive. At current prices, however, not just SA but world production is under threat, according to Anglo's Bobby Godsell.

Yet shutting a gold mine is not a decision taken lightly, as the stumbling saga at ERPM demonstrates. The report of the Melamet Commission, investigating continued State support of the old Boksburg mine, ought to be interesting for any policy outlines it proposes on marginal mines.

One argument holds that if the 15 mines first identified as marginal were to close, it would mean the loss of 50 t of gold a year (SA last year produced 606 t), which is not insignificant in terms of achieving a positive BoP. And what happens when and if the price rebounds? It's not easy to re-open a mine. State aid to loss-making mines in the past was money well spent in view of the gold bonanzas of 1973 and 1980.

Further, the argument runs on, it needs to be borne in mind that the 15 marginals account for 100 000 jobs (of the industry total of 486 000), not counting half as many again in related employment. Though strict economics would dictate that they should be closed after long unprofitability, there is now a socio-political consideration.

Main told a Perth gold conference in March that, while SA's share of free world gold production has fallen from 70% in 1970 to less than 40% (606 t) last year, it continues to be the biggest producer and the Witwatersrand Basin remains by far the biggest potential source of new gold.

Exploration estimates show that nearly 17 000 t of gold (out of 40 000 t that still remain underground) have been identified for exploitation, which means gold mining will continue well into the next century, according to Main.

"But the industry does have some structural problems relating to costs, grades and increasing mining depths that have to be immediately addressed if it is to unlock its full future potential," he warns.

Main explains that over 90% of SA's gold comes from mines established in the "new" gold fields; and while it is the older mines (like ERPM) that have experienced the most difficulties in recent years, "the entire industry has been plagued by double-digit inflation since 1971 and confronted by the inevitability of declining average grades as the industry ages" **(see graph)**.

This necessitates the mining and milling of more ore for a given quantity of gold but, while the cost of this has been more or less in line with inflation since 1979, Main points out that "the cost of producing a kg of gold outpaced both the CPI and milling costs because of the effect of declining grades."

Many mines, especially the older ones, he adds, "are now unable to increase grades as working costs increase, or as the rand gold price falls, because they no longer have the flexibility to alter grades as they had in the past."

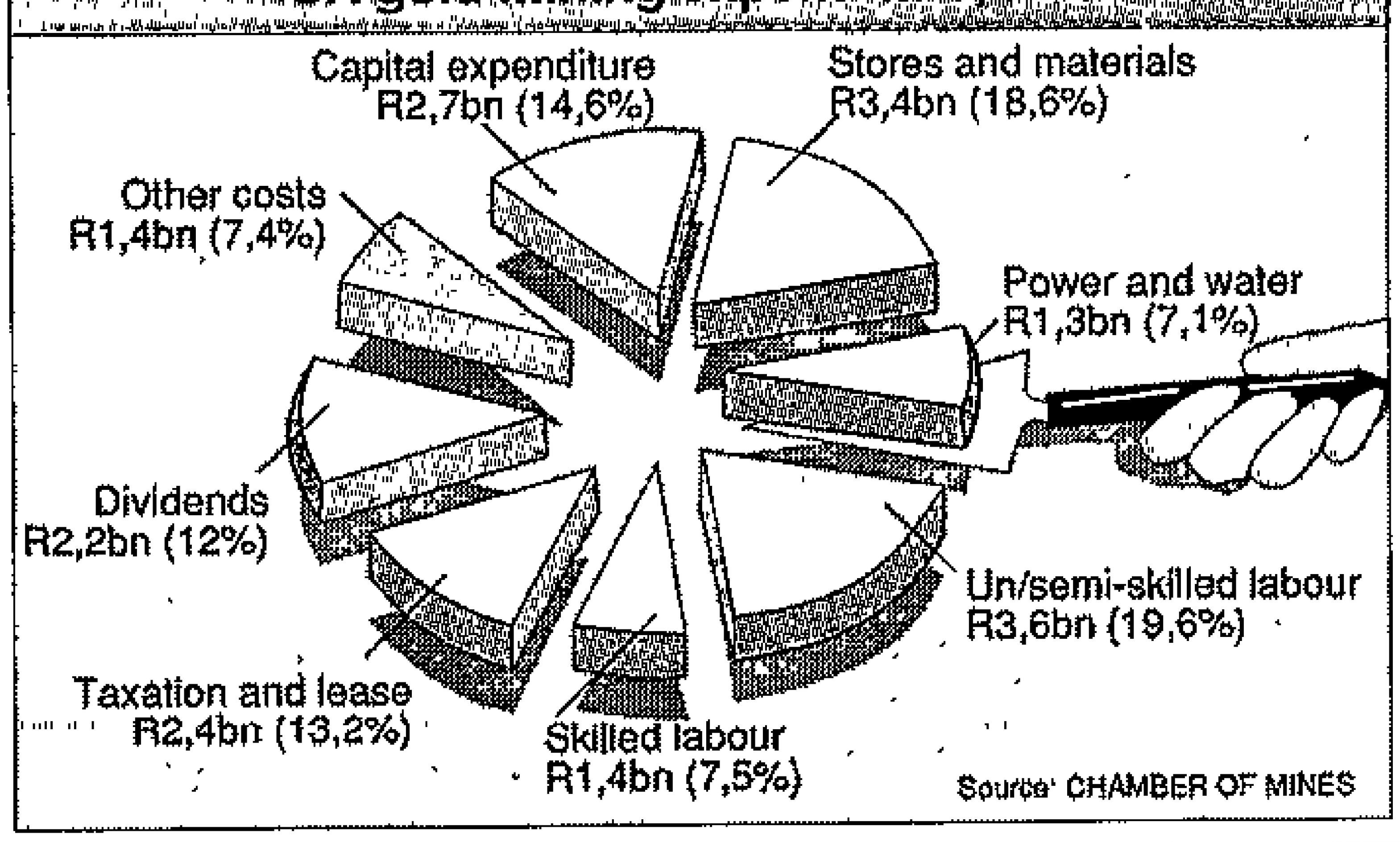
These fundamental problems of declining grades and rapidly increasing costs were obscured in the early Eighties by a firm dollar price on the one hand, and a declining rand on the other. In real terms, though, profits have been in decline, worsened by a weak dollar price in the past two years, he observes.

Not much can be done about the dollar price of gold but SA's high inflation rate is self-inflicted (though it is being addressed by the authorities) and far outstrips that of competitors like the US and Australia.

It also leads to strong union pressure for big wage increases.

Eating the pie

SA gold mining expenditure, 1989



Then there is the ironical problem of the recent strength of the rand, which has kept down the rand price for gold. Together these problems present a formidable challenge to the industry, which Main says will require a re-assessment of its operational role and development of special skills to face competition.

It would be unrealistic to expect a falling rand to come to the rescue of the mines, as in the past.

The key is improved productivity, which, however defined, basically comes down to producing more gold with a constant amount of effort. It is especially difficult to measure productivity in gold mining because of grade and depth variations, which make changes in output unrelated to input. Thus a marginal mine could well be efficiently run, while a high-grade, high-profit mine could be inefficiently run.

Main says better productivity can be achieved in two ways: technological advances and improved management. Both hold implications for labour unions. Chamber and mining house researchers are developing a range of new technologies that will have far-reaching effects on productivity, he adds.

They include trackless mining, backfill and selective mining to tackle the problem of poor grades. Reaching the 4 000 m now being plumbed relies on modern techniques rather than traditional, labour-intensive hand-drilling and blasting methods.

This is going to mean a gradual shift (not without union opposition) towards a much more skilled work force and structural change in the composition of the mine labour force.

The NUM had yet to put out its statement on the matter of marginal mines as the *FM* went to press. In the past, however, it has argued for measures like using profitable mines to subsidise loss-makers and negotiating the issue of lay-offs with a view to finding other jobs.

"For the unionised part of our economy," observes Godsell, "unless we're able to make a joint issue of competitiveness, this economy is not going to grow. It requires new attitudes from both sides — labour and management — to deal with challenges of survival of the economy."

The Witwatersrand Basin remains, in Main's words, "the premier repository of exploitable gold deposits in the world and new mining ventures will take place in years to come."

Government's adoption last year of the proposals of the Marais Technical Committee on Mining Taxation has encouraged mining men, as the new formula will phase out surcharges and amount to a flat rate of 50% for the mines — a saving of about R40m a year for the industry.

Similarly, the loosening (though not the scrapping) of ring-fencing, which prevents capex for a new mine being written off against an existing one, helps while the industry has to rely on domestic capital for expansion.

Barring nationalisation, assuming the gold price will claw its way back, and with the apparent return of foreign investment in SA, gold mining's sun may not be setting after all.

It just looked that way. ■

(79)

READERS' PORTFOLIOS

FM 22/6/90

Gold shares are looking shaky but last year they were among the best performers. Portfolios of 10 shares, made up entirely of gold and exploration stocks, produced excellent capital appreciation for the winner and runner-up of the *FM*'s 1989 readers' portfolio competition.

Both deployed similar strategies and there was little to choose between the results. A case of champagne goes to the winner, Clive Nates, who achieved an overall appreciation of 83,9%. It was only marginally better than the 83,4% produced by the runner-up portfolio submitted by Hank van der Wal, who receives a year's subscription to the *FM*.

In both cases, highly-geared golds dominated the portfolios. Top performers in Nates's selection comprised Modder S, with an increase of 112%, Sub Nigel (100%), Beatrix (152%), Kinross (88%), Lindum (111%) and E T Cons (84%); other stocks in the portfolio were Southgo, Joel, Libanon and PGA — all of which performed well.

In the runner-up portfolio was Loraine, Joel, Unisel, W R Cons, Villages, South Roodepoort, Southgo, Waverley, Modder B and Wit Nigel.

Gold stocks were largely out of favour when the selections were chosen at the beginning of 1989 but — as has often happened — it was contrary thinking that worked best. Nates, an investment manager at Liberty Asset Management, says: "Golds were down and out at the time, and I was looking for something that might come from nowhere. I would not have chosen golds at the beginning of this year but if I were selecting another portfolio now I would consider golds again."

Results of the readers' competition are based on the total capital growth of the portfolio over the calendar year with no changes. This differs from the brokers' competition, which is contested by six stockbroking firms who have the option of changing their portfolios at mid-year. Halfway positions in the brokers' 1990 competition will be published soon.

Nates

Machines may save marginal gold mines

W Mail 22/6/90

South African mines must find a high-tech answer or go out of business. But mechanisation will result in the loss of jobs.

79

By **ROBERT LAING**

MINING houses need a technological breakthrough to save economically precarious gold mines.

The gold price has plummeted because other countries have developed ways of profitably mining large low grade deposits. South African mines must follow suit or close down, a Goldfields representative says

Goldfields have taken over development of the "impact-ripper" from the Chamber of Mines Research Organisation (Comro).

The Daily Mail recently reported that Comro was being forced to abandon research projects, said to be vital to the long-term health of South Africa's gold mining industry, after their budget was axed by 42%.

If the machine can be perfected, it will eliminate the present slow cyclical system of drilling, blasting, clearing and supporting. The impact-ripper would break rock without using explosives and then fling it onto an automatic conveyor.

This would be the ideal system in deep mines where rock has already been fractured by stress. But it is still experimental and far from being an immediate solution, the representative says.

An alternative technology has been implemented by Johannesburg Consolidated Investments (JCI). JCI has committed all three of its gold mines to "trackless" mining methods.

In trackless mining low-profile, rubber-tyred vehicles replace track mounted locomotives and hoppers in the stopes. They also replace hand held drills at the stope face.

This does away with the arduous and dangerous process of having to clear rock by hand. Load haul dump (LHD) machines do it quickly instead.

"Trackless mining involves converting from highly labour intensive methods to highly mechanised methods that use minimal labour.

"This may seem paradoxical in a country with high unemployment, but the uncertainty of market prices, a fluctuating exchange rate, escalating working costs, lower grades and business' right to profitability prompted JCI to proceed with it," says a JCI representative.

Trackless mining puts unionists in a dilemma. It may be safer but its introduction will mean fewer jobs.

However, National Union of Mineworkers' economist Martin Nicol believes there is no need to fear widespread mechanisation soon.

"The cost of converting conventional mines to trackless mines make it prohibitive," says Nicol.

"Possibly new mines and new areas of existing mines will be made trackless, but only if their geological conditions are right — and very little future development is being proposed by the industry now anyway.

"I don't believe we will see workers being replaced by machinery in the next five years."

Somewhat provocatively he adds: "Mining houses would rather have miners killed than see half-a-million rands worth of equipment destroyed in a rock fall."

The JCI man argues that each fatality costs a mine R120 000, making the enhanced safety of trackless mines a major selling point — miners work in the vehicles' armoured cabins instead of at the rock-face and fewer people are put at risk.

"The introduction of trackless mining at Randfontein resulted in a 65% productivity increase for a 5% labour increase.

"For the mine's output to have risen from 385 000 tons to 625 000 tons by traditional methods, housing would have had to be built for an extra 10 000 people. Mine hostels cost R20-26 000 a person.

"The capital comparison of mechanising to housing made trackless mining cheaper, without even considering the cost of training new people," the JCI representative says.

Randfontein managed to maintain 80% productivity with 20% of its work force during the 1987 strikes.

"Trackless mining is ideal for JCI's mines because they are flat and have wide reefs, but it is not a cure-all for the whole industry," University of Cape Town economist David Frost says.

He maintains that narrow reef-mines would have to dilute their rock's grade by widening the stopes to give trackless vehicles access.

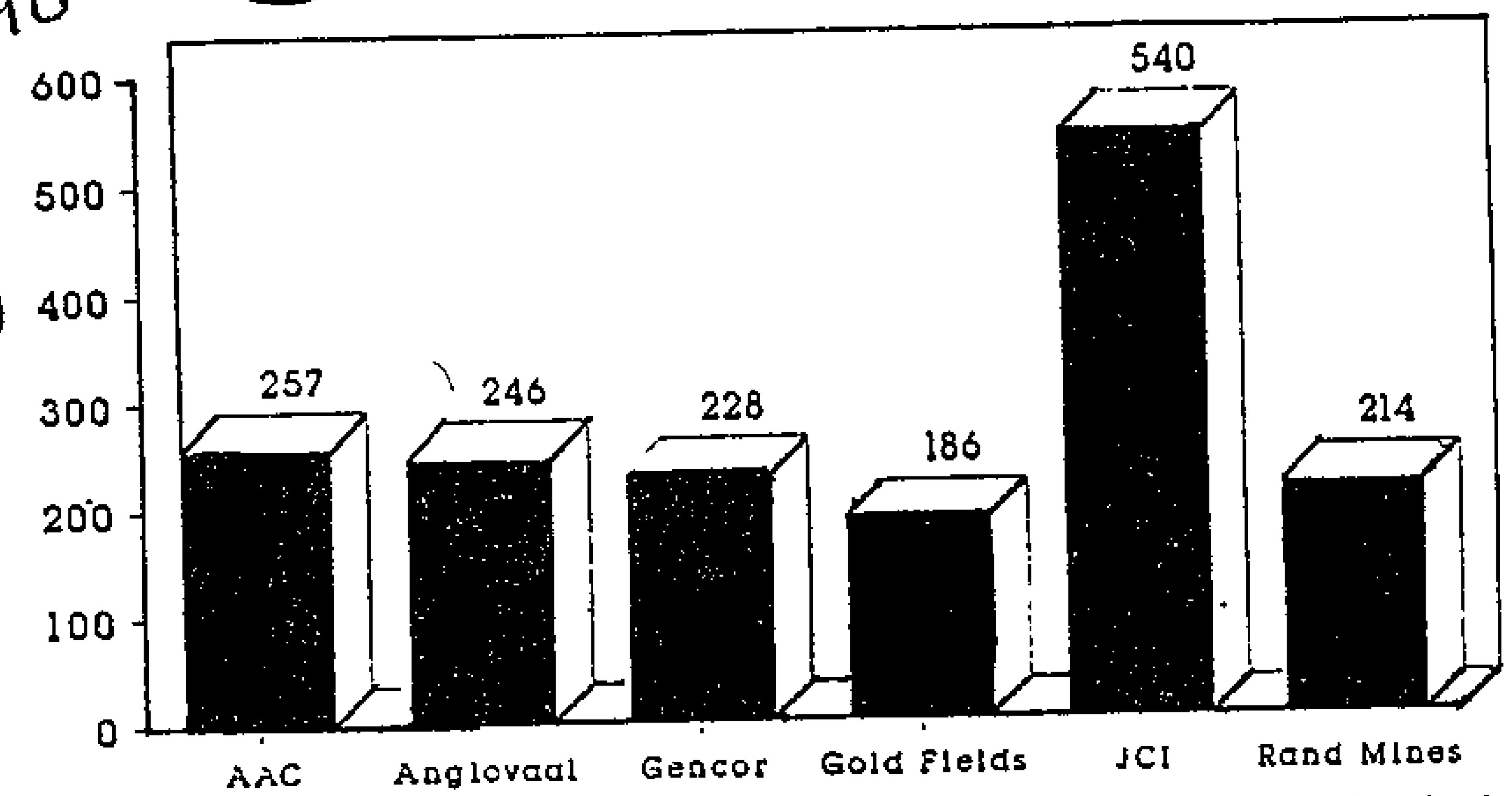
The cost increases of processing diluted rock go all the way on to the mill, cancelling any savings made by trackless clearing and hauling.

Maintaining and repairing trackless vehicles is a huge problem, Frost says. Trackless mining was developed by Scandinavian base-metal mines, which are shallow enough to have ramps on which vehicles can be driven to the surface for servicing.

South African gold mines are uniquely deep and vehicles have to be assembled underground. Training artisans to nurture the machinery and diagnose faults under extremely harsh conditions is expensive.

JCI have encouraged local companies to manufacture trackless equipment and need other mining houses to join them for demand to rise and costs to drop.

Unless Anglo perfects narrow-reef trackless mining there is little chance of the industry accepting it, Frost says.



The benefits of mechanising — JCI gets more gold per man than its rivals

Du Plessis pins hopes on jewellery industry

Sow 25/6/90

By Jabulani Sikhakhane

The Minister of Finance, Barend du Plessis, has urged the jewellery industry to use the R37 million government assistance, gained through scrapping the 20 percent ad valorem duty on jewellery, to help produce more wealth, earn more foreign exchange and create job opportunities.

Mr du Plessis says the industry could do this by investing more in human and capital resources and increasing the beneficiation of minerals.

Speaking at the official opening of Jewellex '90 trade exhibition at the weekend, Mr du Plessis said there was a need to restructure the economy as part of the total strategy to produce more wealth.

Massive investments in human and capital resources would be one way to generate more wealth and create more jobs.

Free enterprise

The free enterprise system had produced the goods on a scale which singled out South Africa from the rest of Africa. But the distribution of that wealth had been and was still skewed.

There was, therefore, all the more reason for more investment to be made in human resources to enable people to participate in the economy.

"The economic restructuring must be such that the rest of society — which has been a small receiver of wealth — is able to increase its share.

"People must be trained to help them cope with the new challenges."

The jewellery industry had a great role to play in this restructuring.

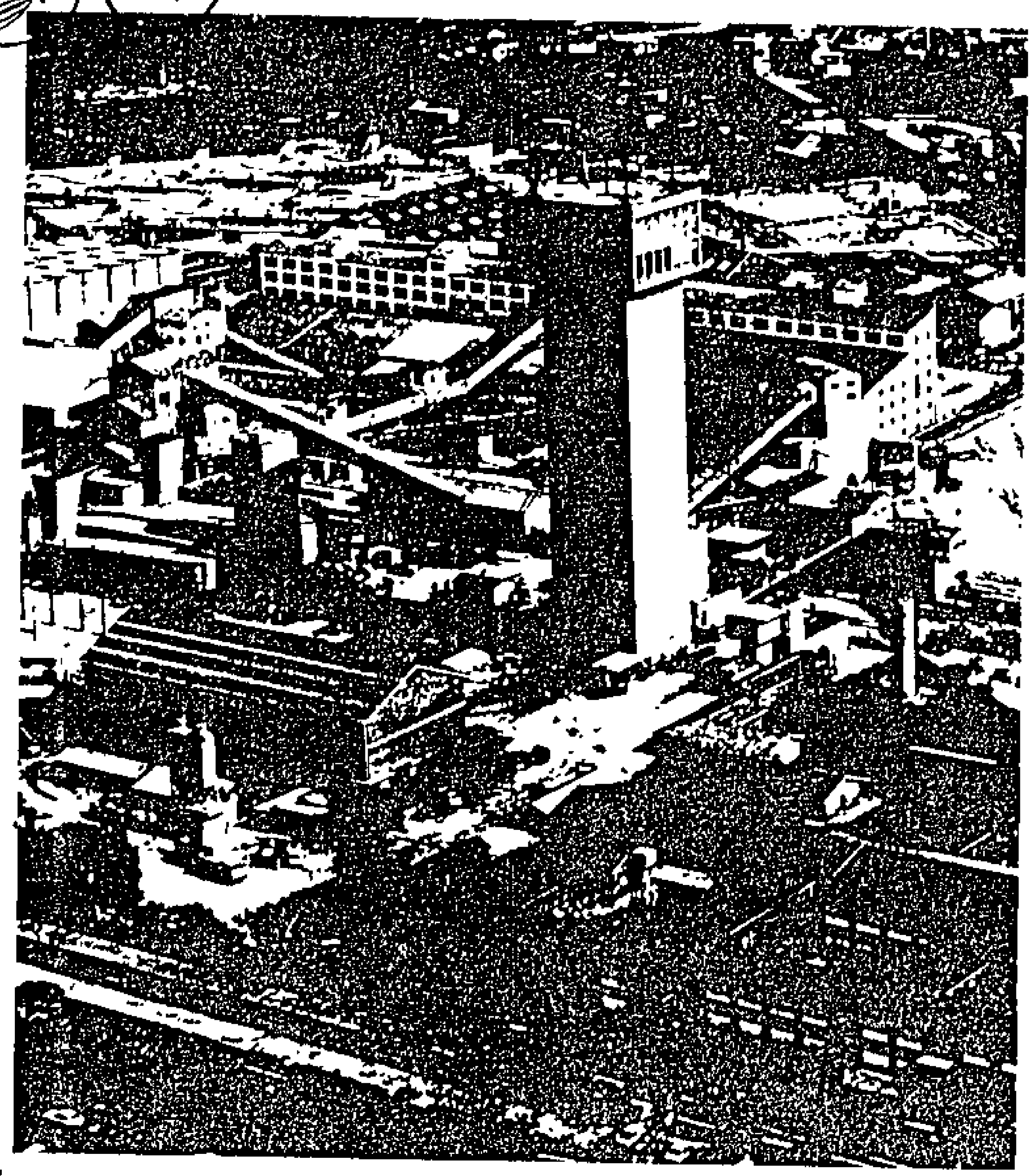
"We in the Government, and more particularly the Treasury, have interest in the jewellery industry.

"We took up your challenge and we will be watching with a great deal of interest."

World's gold mines fe

Star 25/6/90 (79)

By MICHAEL CHESTER



South African gold mines are not alone in feeling the traumatic impact of the recent slide in bullion prices. The repercussions have hit operations worlwide.

The gradual erosion of the gold price — from about $500 an ounce at the start of 1988 to below $350 — has caused producers to slow down new mine developments all round the world.

New surveys by the authoratitive Mining Journal, published in London, say the trend until now has been most marked in Australia and North America, which were at the forefront of overseas efforts to jump on the bandwagon of the gold boom triggered in the 1980s.

The overseas frenzy to open new mines, or else take old ones out of mothballs, can be measured by the way they dug into South Africa's dominance in world markets.

As the competitors multiplied, South Africa's share of total Western production has dropped from about 70 percent in 1980 to less than 40 percent.

But the collapse of the gold price has hit overseas producers too.

Even ahead of the latest plunge to below $350, producers in Australia had already scaled down the number of new mines coming into operation from 41 in 1988 to 19 last year, and only seven.

In North America, 22 new mines had been expected to start up this year, against 42 in 1989 and 52 the previous year, reducing new gold production in 1990 to 2,8 million ounces from 3,2 million ounces last year.

Western world new gold output in 1989 totalled 5,85 million ounces, butlooks set this year to 4,76 million.

The global total of new gold mines being commissioned — 114 in 1988 and another 82 last year — had by a couple of months ago already been chopped back to 41 as a 1990 target.

And even this seems likely to be culled more.

The Mining Journal points out that information about closures or reductions in output is hard to come by.

But its global database had recorded that even in 1988, before the worst of the gold price decline, cutbacks and closures in North America caused the combined production of the United States and Canada to shrink by 280 000 ounces.

In cutbacks elsewhere, production by Australia and New Zealand dropped by 250 000 ounces, by 448 000 ounces in Asia, and by about 48 000 ounces in South America.

In South Africa, cutbacks now threaten to haul down gold production — on giddy peaks higher than 1 000 tons a year around 1970 — from about 610 tons in 1989 last year to perhaps 580 tons.

Until now, South African mines have enjoyed the benefits of a shrinking rand exchange rate.

This acted as a buffer against falling gold prices when it came to count export income in rand terms.

What has increased the intensity of the current dilemma is that South African gold mines have been unable to find similar shelter from the sky-high inflation rate and steep increases in wages and production costs.

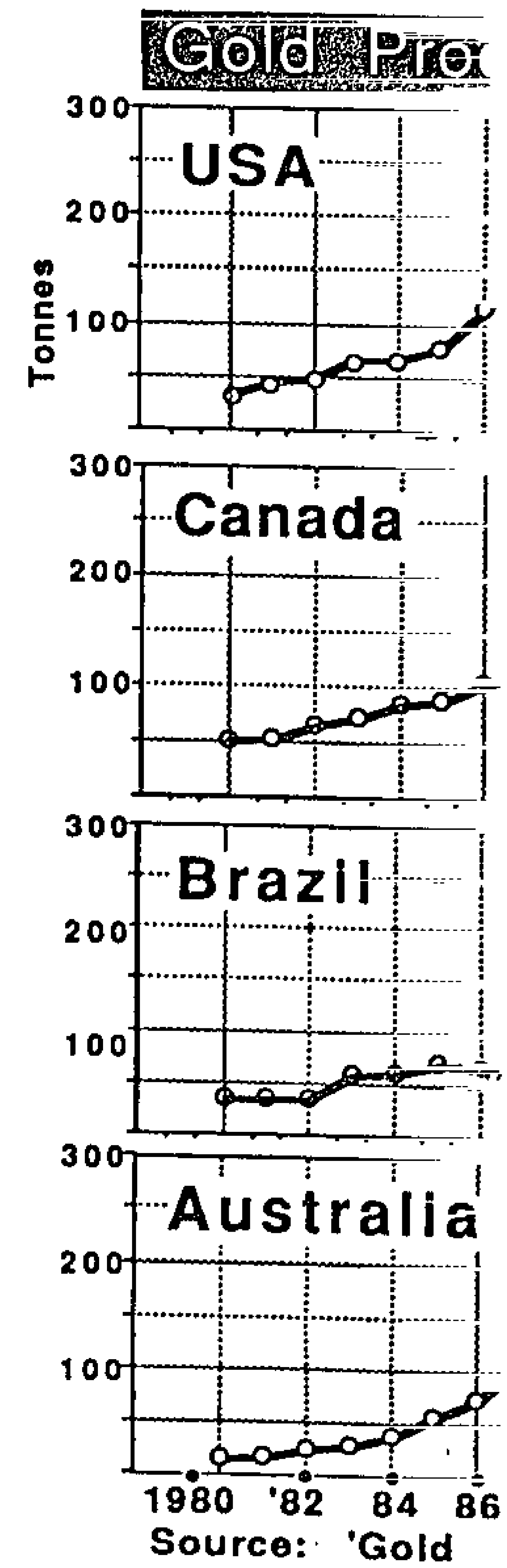
Long sick list

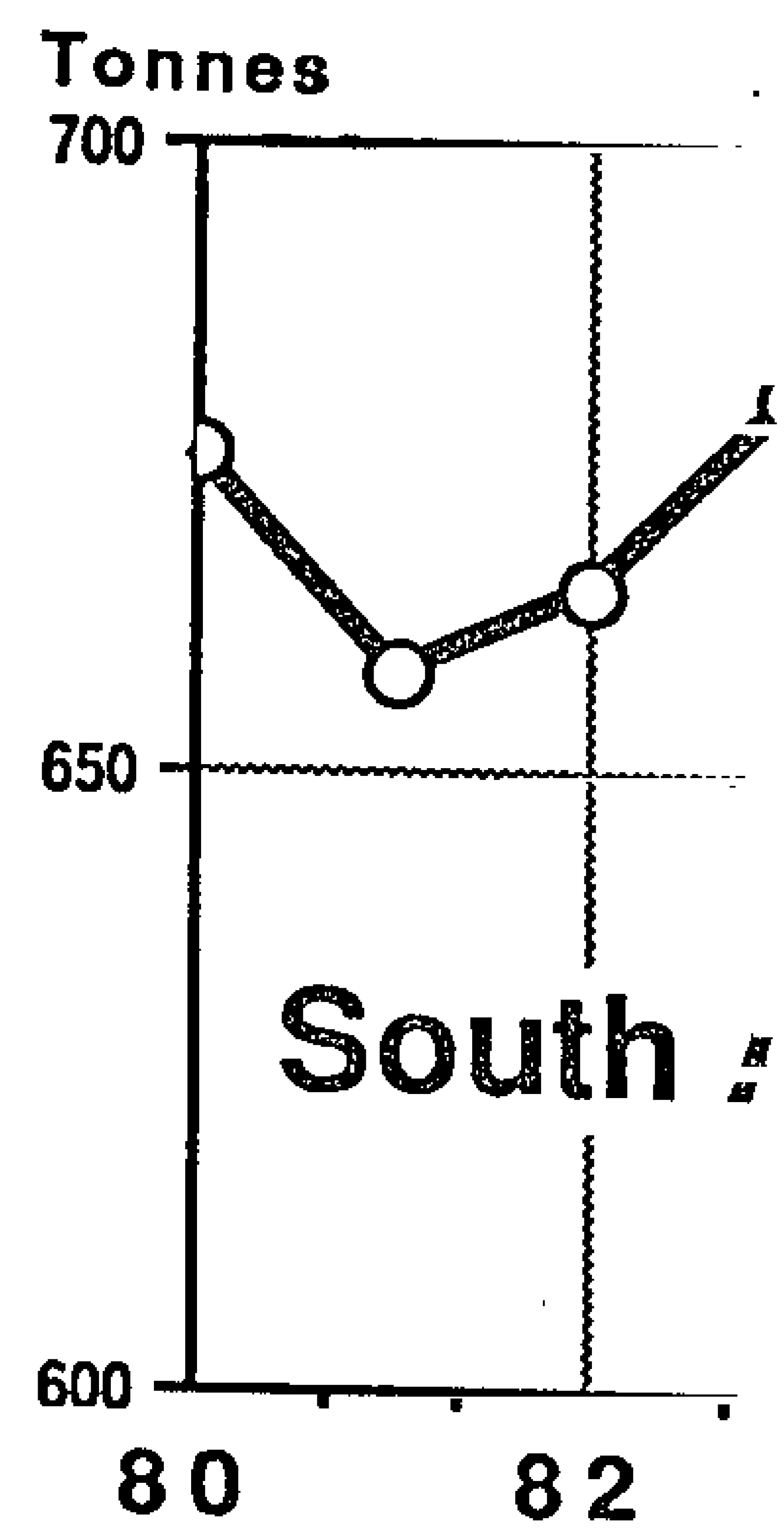
Once upon a time, South African gold mine working costs were among the cheapest in the world.

Not so anymore.

Now they are among the most expensive — even higher than the average for all Western producers.

With a growing list of mines joining the sick list of operations running at a loss with the gold price at its current levels, the conundrum is not only how to increase global demand, but perhaps more important, how to trim the soaring cost of production.





Tomorrow's meeting between FW and Cosatu may avert labour crisis

Star 25/6/90 (1100) (2011) (173) (166)

STAFF REPORTERS

President de Klerk is due to ...

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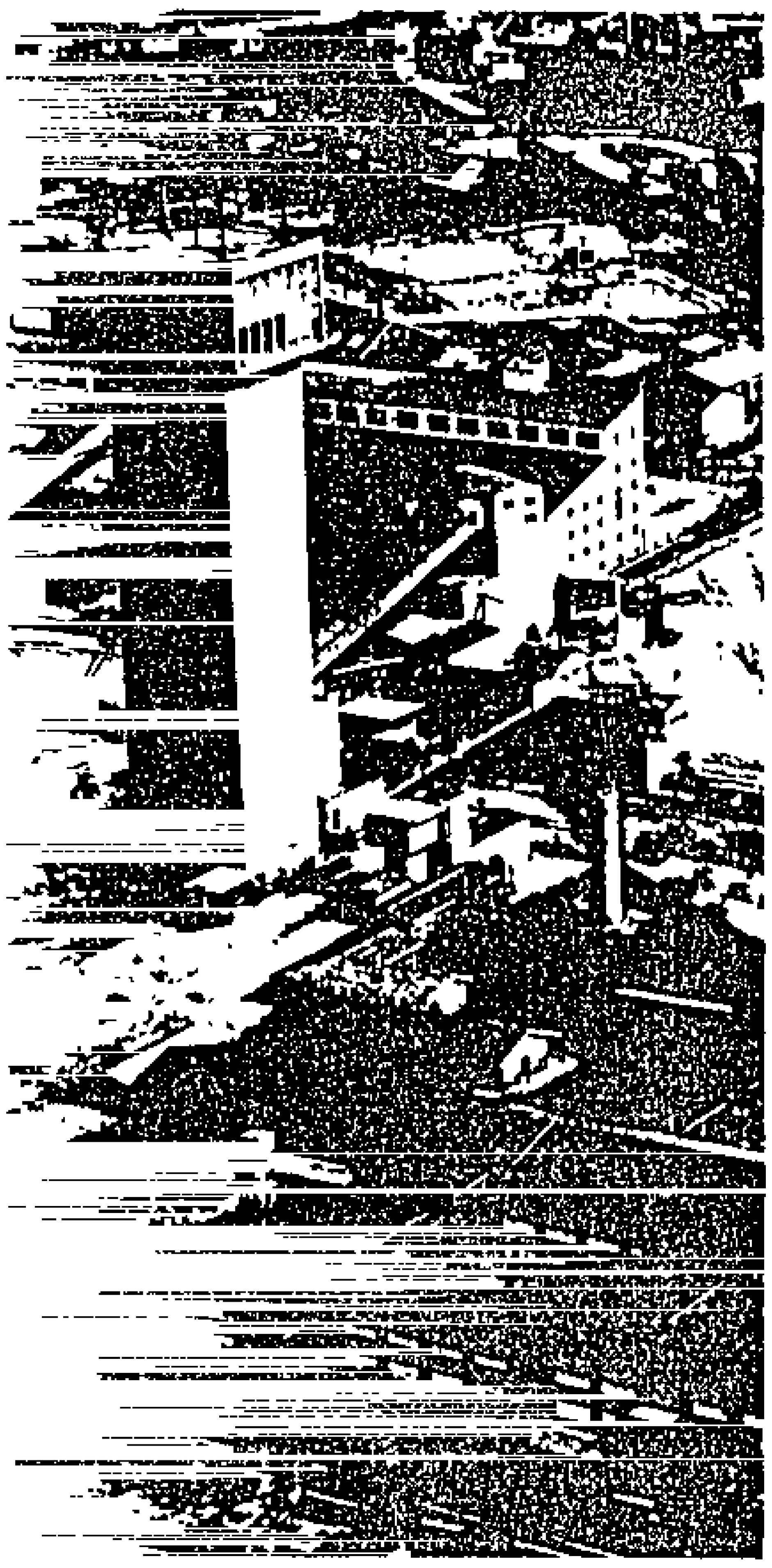

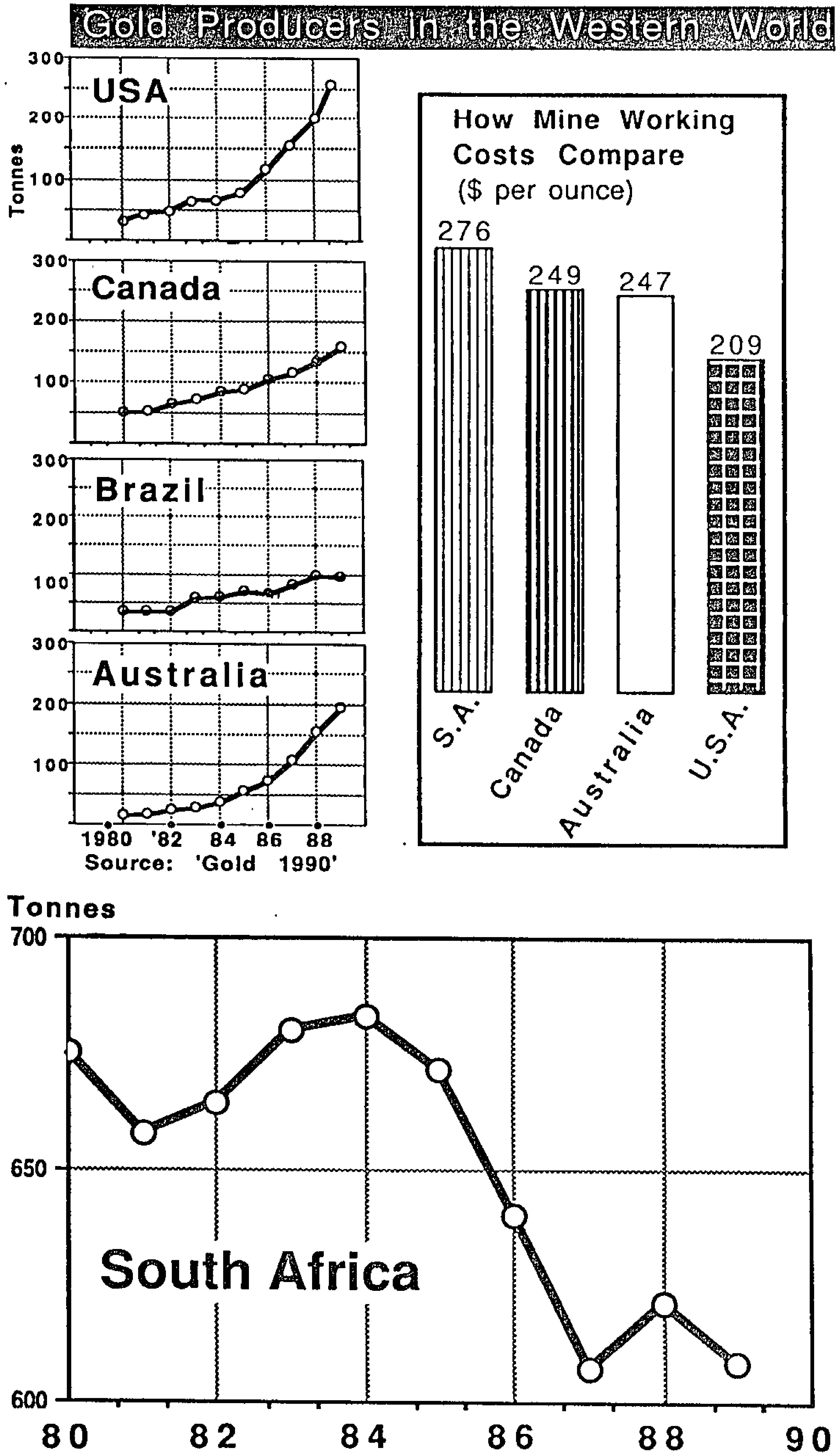

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Star. 25/6/90 (79)

Prospects for gold fade as trusty props buckle

Brought low by poor prospects and a little skulduggery by central banks, the price of gold has hit a four-year low. Only a shock can lift it to the surface.

What the gold market needs now is a good war. The price of one of the world's most alluring if least useful susbstances is becalmed at around $350 an ounce. On June 14 it fell to $340 — its lowest since 1986.

Over the past few months all the once-trusty props for the gold price have buckled. A rise in world inflation seemed possible, but falling oil prices and high interest rates diverted money to the foreign exchanges.

Rising costs and the falling grade of gold from South Africa's mines can be weighed against record outputs from cheap, open-cast mines in America and Australia.

Even the turmoils in global politics have been the peaceful sort that entrance gold bears not bugs.

Then, on March 26, a gang of Saudi investors suddenly felt the urge to dump on the market between 50 and 100 tons of gold (worth between $625 million and $1,25 billion).

They succeeded in wiping $33 — or nine percent — off the gold price in three trading days. On May 23 the Saudis sold another 15 tons.

Equally secretive

Belgium's central bank managed to dispose of 127 tons — about 10 percent of its reserves — in six weeks last year without the market getting wind of it. Admittedly, that was because most of it went directly to other, equally secretive, central banks.

Still, the speed with which the Saudi sale became known suggests it was meant to be a public affair. Traders reckon that the Saudis were selling gold they did not own (perhaps Russia's), hoping to buy it back later at prices depressed by their actions.

Little surprise that trading is now desultory. Volume has almost certainly fallen since February, when traders talked themselves into a gold boomlet.

Nothing — except perhaps war or a third Saudi assault -- can push it much lower its present level around $350. So what hope is there of an improvement?

The market is praying for a squeeze in supply over the next six months or so. It hopes it will come from the two biggest producers, South Africa on the one side and Russia on the other.

South Africa produced 37 percent of the non-communist world's 1 653 tons of gold mined last year — though the combined output of America, Australia and Canada exceeded it for the first time. Barely half of South Africa's mines are profitable because the gold price has fallen so low.

Mike Brown of Frankel, Kruger, Vinderine, reckons that it will cost the country R3,5 billion a year in capital investment to keep its mines open for the next four years. So, the gold bugs hope, mines will close.

Failing that, they hope for a miners' strike. Add market gossip that the Soviet Union, the world's second-biggest producer, will disclose surprisingly small reserves when it makes its first official announcement on the matter later this year and gold bugs can just about convince themselves that supply could be squeezed.

As yet, few others are convinced that the price will rise by much. The oil price continues to fall, encouraging Middle Eastern gold sales as oil producers try to make up for falling oil revenues. (That is one rather too-neat explanation for the earlier Saudi dumping.)

Moreover, re-opening a mine that has been shut down costs an inordinate amount of money, so it pays to keep it running at a loss for longer than might be expected. Besides, South African producers have most of their costs in rand.

The rand price of gold would be expected to rise if the rand falls against the dollar — the likely consequence of any damage to the South African economy because of lost production. In this way, South African production is to some extent self-stabilising.

Massive amounts

Far from squeezing supply, the Soviet Union threatens to release massive amounts of gold on to the market. Since the country depends heavily upon selling gold to get foreign exchange, it does its best to bolster the price.

One technique is to swop its gold rather than sell it outright. The idea is that Russia lends its gold today for hard currencies, planning to buy it back later when its foreign-exchange reserves are stronger.

How likely is it that the Soviet Union's economy will be stronger in the near future than today? The chances are that Russia will not be able to buy back its gold and the swop will quietly have become a sale. As the Russian economy worsens the need for foreign exchange increases. Expect gold to take the strain.

There is one more (often forgotten) reason wy it is foolish to give too much weight to the projected supply figurs produced by mining companies: Central banks. Between them they hold about one-third of the 100 000-or-so tons of gold ever mined.

According to Andrew Smith at stockbrokers UBS Phillip & Drew, up to 800 tons of central-bank gold — equivalent to half the world's supply — could be sloshing around the market through leases or swops.

Gold 90, the parish magazine of the gold industry, reported that central banks switched from being net buyers of 285 tons in 1988 to net sellers of 225 tons last year.

Even if the swing in a typical year is not so extreme, it dwarfs any far more predictable effect that supply from the mining industry might have. Central-bank transactions are having an increasing influence on prices.

So where does that leave the price? Trying to read the minds of the central bankers who can send huge amounts of gold into the market with a single telephone call is a hard task.

Some central banks, notably Portugal's, can do odd things that central banks should probably shun, such as lending gold to Drexel Burnham Lambert, the troubled American investment bank that has since gone into liquidation. Others conservatively sit on their reserves.

Most of today's central bankers, however, have a less reverential view of gold than their predecessors did. They want to put their stockpiles to work. Most do not sell, but choose to lend and swop and play with options.

In the absence of an unexpected small war, the volatility in the gold price will be dictated by grey-suited men in the parlours of the world's central banks. — **The Economist.**

40% of world's foreign reserves held in gold

Gold vital as risk hedge — Stals

GM-7'9 S 26/6/90

(79)

ARI JACOBSON

ALTHOUGH the relative share of gold as an international reserve asset had declined over the years it still accounted for 40% of total worldwide foreign reserves said SA Reserve Bank governor Chris Stals at the Financial Times World Gold Conference in Venice yesterday.

He emphasised the need to hold gold as insurance against risk.

"The present international monetary system with its great reliance on private market sources" had created liquidity of a "disputable quality", he said.

"Governments' need a buffer to cushion their economies against the unforseeable, which may be of political, military or economic origin — with gold as the war chest."

Stals stressed that the risk-hedge factor of gold had increased in recent years arising from a vulnerable international financial system evolving around the floating exchange regime, the globalisation of international capital markets and the explosion of speculation in derivative markets.

"Prudent central bankers require an asset, like gold, which represents no liability of a country or international institution, and whose value is determined by its scarcity and the scattered demand of private individuals across the world."

Stals said at present the worlds' monetary authorities held 1,1bn ounces of gold in reserve, the same volume as that held in 1968 — when the two-tier gold system was introduced — "and in spite of the IMF and US Treasury's sales of gold between 1976 and 1980 amounting to 40m ounces".

Over the same period, said the governor, SA reduced its gold holdings from 35,5m ounces to 3,6m.

"Other central banks, therefore, increased their official holdings over the period by the same amount."

Stals said at this point, central authorities have no serious intention of disposing or adding to their gold reserves but on balance they turned net sellers to the tune of 634 tons in 1989.

The governor said a portion of gold reserves has been used by governments through varied gold-swap transactions to generate liquidity or reap earnings on an otherwise unproductive asset.

Turning to the stable economic setting, of low inflation and high real returns, throughout the '80s, Stals said this had motivated central banks to diversify their foreign exchange holdings into a multiple currency system.

For example he said the US dollar had shrunk in importance between 1973 and 1989 — with its share in global foreign exchanges falling from 76% to under 60%.

Stals also said the Reserve Bank was "perhaps more pro-active nowadays" in response changing conditions in the gold market. Asked if the Bank considered buying gold or holding back sales to assist the price, he said: "Overall we are net seller. We can affect the market by changing supply but we need foreign exchange so there is not much scope.

"We certainly do change our policy on swaps, forward sales and options and we are perhaps more pro-active. There is also no reason why we should not be a buyer at certain times," said Stals.

"The need for gold as a risk hedge has increased in recent years and not declined," said Stals, noting that changes in bullion reserves had mainly reflected switches from "old world" economies — such as Europe — to the new, as in Taiwan and others.

Later, however, Stals did concede that if it happens, European monetary union might change attitudes in the long term.

"I get the uncomfortable feeling that people may believe less gold will be needed to support the system."

Lamberto Dini, director general of the Bank of Italy, said however it was "much too early" to think of the role of gold in a single currency Europe.

Even though it might appear less necessary, a pan-European currency "will still be exposed to third-country currencies and the reasons for holding gold will continue," said Dini even though he opposes any return to a form of gold standard.

Cape Times 26/6/90

Brazil reveals role in gold market

79

Own Correspondent

VENICE. — Brazil has dealt in 137,5 tons of gold since February — more than three times its output — adding pressure to the price.

This was revealed here yesterday by Emilio Garofalo Filho, director of international reserves operations at the Banco Centrale do Brasil.

The news suprised scores of market analysts and traders among delegates at the World Gold Conference who had blamed heavy selling by the Saudi Arabians for bullion's sharp drop.

Brazil's emergence as a big player in the market derived from the central bank's plan to halt gold smuggling and meet demand for dollars on the black market.

Since February it has been buying and selling gold for local investors for dollars. Its own reserves have not changed. When it buys in gold from Brazilians this is sold immediately on the world market, said Filho. When it sells gold to them it purchases the metal under a new "arbitrage" scheme.

Filho admitted, however, that so far the bulk of business has been one-way with the bank being a net seller of more than 100 tons of investors' gold.

With SA Reserve Bank goverenor Chris Stals sitting beside him, Filho said: "I am sorry if we have interfered with international gold prices but you will have to get used to the idea that Brazil will be generating purchase and sales operations of about 50 tons a month through the arbitrage programme."

Filho revealed that "arbitrage" business totalled 15 tons in February, 21 tons in March, 18 tons in April, 52 tons in May and 31 tons in the first 20 days of June.

Two factors were behind this:

- In the last two years hyper-inflation and fears of a "communist government" gaining power in Brazil's first free elections had seen investors buy up 200 to 300 tons of gold.

- Then in March the new government of President Collor put a massive squeeze on the money supply — as part of its dis-inflation strategy — by freezing savings and deposits.

"Companies needed the money," said Filho. "Because of this Brazil is basically exporting gold."

He said the day after the Collor freeze, the price of gold slumped from 1 000 cruzeiros a gram to 400 cruzeiros as holders rushed to sell. But the Brazilian market — where turnover on the spot options and futures market has soared from 112 tons in 1986 to 2 662 tons last year — was recovering. Gold was back to 900 cruzeiros a gram.

Filho said: "After the balance of the stocks bought in the last two years is sold, we are going to have a normal market. People are still worried about inflation and should move back into gold."

Brazilian gold production, he said, was set to expand by nearly 50% to 148 tons during the '90s. But the pattern of output would change. Mining companies presently account for only 23 tons, with the remaining 77 tons coming from one million "garimpeiros" (small freelance miners).

Of the main mining companies Morro Velho, controlled by Anglo-De Beers, is the biggest with nine tons, while Gencor's Sao Bento produces 3,4 tons.

By the year 2000 said Filho, the mining companies would be producing 80 tons, or 54% of the total.

Firms feeling gold pinch 'should blame themselves'

B\Day 26/6/90

79

VENICE — Many SA and Australian gold producers suffering squeezed profits had only themselves to blame for speculating on a continued rise in the price, Robert Guy, director of the leading London bullion bank N M Rothschild, said yesterday.

JOHN CAVILL

Guy, speaking at the World Gold Conference sponsored by the Financial Times of London and La Stampa in Rome, reviewed what he said was "a critical time . . . but not yet a time of crisis" for the industry and market.

Commenting on the problems of the gold producers, Guy said: "To some extent there are companies with only themselves to blame."

Even though the facilities were available, "many companies have been significantly under-hedged in recent months". The rising price in the last quarter of 1989 and early this year encouraged them to speculate that the price would continue to rise and they did not take cover.

"When the price fell, some companies, particularly in SA and Australia, believed that eventually they would be bailed out by depreciation of their own currency. It didn't happen".

He also strongly criticised the methods of the recent big sellers in the Middle East and the insensitivity of central banks in trying to mobilise their holdings of gold.

He said the gold market had been badly hit by the "very aggressive manner" of sellers in the Middle East.

"It is not easy to judge whether this activity bears the mark of the amateur or of the extremely sophisticated. Wittingly or unwittingly, the market place itself has been abused," he said.

"In the longer term the Middle East gold market has damaged itself. Its credibility is on the line."

Central banks also faced a problem because the drop in gold was affecting the value of their reserves. But he called for greater co-operation between banks.

"The real decline in the value of gold reserves should be a matter of concern to the central banking community."

Central banks that were active in the market — to earn interest on their bullion reserves — should recognise "there is a limit to the amount of gold which can be mobilised by the way of swaps".

"Currently central banks are pumping more gold into the market precisely when there is less demand for gold liquidity," he said.

"Reserve management policy should be most sensitive to market conditions. There is a danger otherwise that, albeit unwittingly, they will contribute to the decline in the very value of their own reserves."

Gold set to weather bad years

EDWARD WEST (79)

REAL world economic growth was likely to lead to strong world demand for primary products and, with a lower growth rate in world production, an escalating dollar price for gold.

This was the view of Andrew Forbes & Co mining analyst Ian Preston, who said in a statement yesterday gold could weather lean years and emerge stronger as had happened in other branches of the mining industry.

Preston said every rule that fixed the gold price in recent times had been broken and brokers had to admit that no person could predict the price of gold.

At $370/oz of gold, only 412 tons of SA's gold production was profitable. A remaining 168 tons of gold production was either unprofitable or marginally profitable, Preston said. B Day 26/6/90

Gold production in the decade was not likely to grow at the same rate as in the previous 10 years.

As world stability prevailed, especially with the relaxation of exchange controls and more common economic policies, competing investments could negatively influence gold bar hoarding, said Preston.

Preston expected the gold price to rise from a base of $350-$400 at a rate maybe 1% or 2% faster than US inflation.

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B/Day 26/6/90.

'Bank more pro-active in gold market'

Stals rules out devaluation to assist mines

JOHN CAVILL

VENICE — SA Reserve Bank Governor Chris Stals yesterday ruled out devaluation of the rand to help gold mines threatened by the low bullion price.

"It is our duty to protect the value of the currency. It would be to the total disadvantage of the economy if we were to manipulate the exchange rate to protect one sector — even one as important as gold which produces 40% of our foreign exchange earnings," he said.

● STALS

Stals was answering questions at the World Gold Conference, attended by 350 delegates — including central bankers from Italy, Brazil, Zimbabwe, Portugal and Britain, traders, analysts and investment bankers.

He said SA's balance of payments position did not warrant further depreciation of the rand. "Imports are falling and capital outflows are slackening," he said.

Later he told Business Day: "Before this fall in the gold price we were running an annual balance of payments surplus of R6,5bn. Now, at the lower price, it is R5,5bn. We can live with that.

"So far this year the rand has fallen by 4% which is about equal to the differential between our rate of inflation and that of our main trading partners.

"We will only depreciate further if we have a balance of payments problem. We have to consider the macro-economy."

Stals also said the Reserve Bank was "perhaps more pro-active nowadays" in response to changing conditions in the gold market. Asked if the Bank considered buying gold or holding back sales to assist the price, he said: "Overall we are a net seller. We can affect the market by changing supply but we need foreign exchange so there is not much scope.

"We certainly do change our policy on swaps, forward sales and options and we are perhaps more pro-active. There is also no reason why we should not be a buyer at

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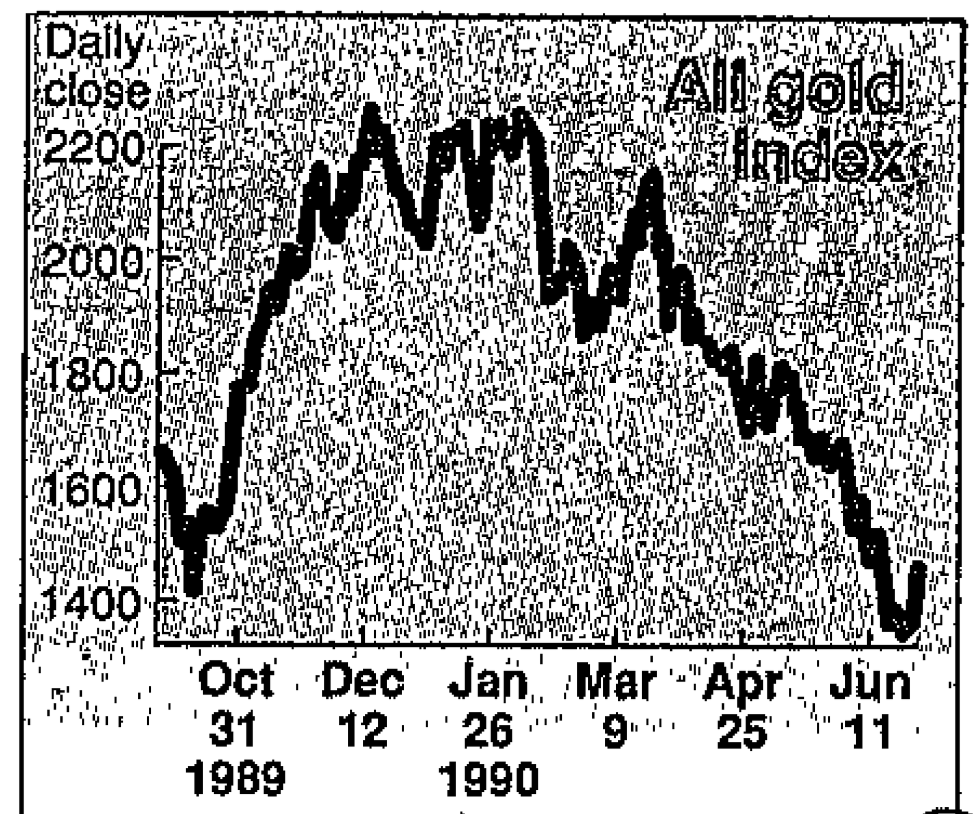

Graphic: FIONA KRISCH Source: JSE

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Gold shares soar after Bank steps in

B Day **MERVYN HARRIS** 26/6/90

GOLD shares soared on Diagonal Street yesterday as the metal rose nearly $5 to close in London at $353,60 in the wake of comments by Reserve Bank Governor Chris Stals that the Bank had intervened and would continue to intervene in the market to support gold.

Platinum gained $4,50 to close at $483. Analysts said SA, as the world's largest producer, could support platinum as well as gold. Silver, which usually rises in tandem with gold, was little changed at $4,83.

However, some dealers questioned how long SA would be able to support gold, as the country needed hard currency.

Piet van Schaik, a director of stockbrokers J D Anderson, said: "I would be surprised if SA can remain as buyers in the market if gold is in a long-term decline.

"If the Reserve Bank thinks there will be short-term volatility it could enter the market to smooth out prices. But this would not change a trend. The Reserve Bank has acted to smooth out price fluctuations in the local forex market and if there was a sufficient supply of dollars it could enter the gold market. But it would not throw dollars at a commodity to change a trend."

Gold was also underpinned by reports that West Germany favoured loans for Russia, which was interpreted as potentially bullish as it might reduce the Soviets' need to sell gold for hard currency.

The 6,8% rise in the JSE all gold index to 1 442 was also helped by a sharp weakening in the finrand investment unit to R4 to the dollar from R3,9050.

The unit's weakness was on the back of a US fund offloading De Beers shares in New York on Friday when more than 1-million shares changed hands. The selling seemed to have dried up yesterday and De Beers closed 125c up at R89,25, after opening lower at R87,25.

Stals

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From Page 1

certain times."

Speaking on the future of gold held by central banks — at 34 215 tons, unchanged since bullion was "de-monetised" 23 years ago and equal to 40% of total official reserves — Stals said there was no need for any further mobilisation of the metal.

He said there was no need for an increase in international liquidity, which had risen vastly with the foreign funding of US deficits, intervention on foreign exchanges and operation of the European monetary system. The pending 50% increase in IMF quotas would add to this.

Stals said, however: "The quality of this liquidity is not indisputable."

Central banks might look for ways of generating income from gold holdings — through swaps and loans — but it was still a "war chest" for governments to hold as a buffer against unforseeable risks; political, military or economic.

He noted changes in bullion reserves had mainly reflected switches from "old world" economies — such as Europe — to the new, as in Taiwan and others.

Later, however, Stals did concede that if liquidity increased, European monetary union might change attitudes in the long term. "I get the uncomfortable feeling that people may believe less gold will be needed to support the system."

Lamberto Dini, director-general of the Bank of Italy, said, however, it was "much too early" to think of the role of gold in a single currency Europe.

Even though it might appear less necessary, a pan-European currency "will still be exposed to third-country currencies and the reasons for holding gold will continue", said Dini.

Gold market 'critical, but not yet in crisis

Recent aggressive sales out of the Middle East had damaged the gold market, said Mr Robert Guy, a director of N M Rothschild & Sons, at the Financial Times World Gold Conference this week. He said low prices had brought the market to a critical condition — but not yet to crisis.

Mr Guy suggested it was not easy to judge whether the Middle East sales were "the mark of the amateur or of the extremely sophisticated. But wittingly or unwittingly, the marketplace has been abused.

"In the short term this is only of consequence to individual profit and loss accounts but in the longer term the Middle East gold market has damaged itself — its credibility is on the line."

Mr Rolf Willi, senior general manager and treasurer, Dresdner Bank, contributed to the generally downbeat views expressed by suggesting that European Community harmonisation would produce a change for the worse as tax rates on gold would be harmonised upwards — not downwards or repealed.

He characterised the tax on gold as "an envy tax" and said European governments would not be concerned if taxes drove gold bullion business out of the Community to, say, Zurich.

Mr Tom Main, chief executive, Chamber of Mines of South Africa, said the South African gold mine industry faced many difficulties at present but he was sure the country would enter the 21st century as the dominant supplier of the Western world's gold.

Although some mines were threatened by the present low gold price, intense exploration had located about 17 000 tons of gold in the Witwatersrand region.

But he added a warning that: "Given the lacklustre gold price, a good measure of political uncertainty, double digit inflation and the extended lead times involved in bringing new South African gold mines into production, such new gold mine developments are unlikely to be given the go ahead until the overall situation is clarified."

Mr Hugh Organ managing director, Western Mining Corporation, said recent Australian Government predictions about the country's output were "unduly optimistic."

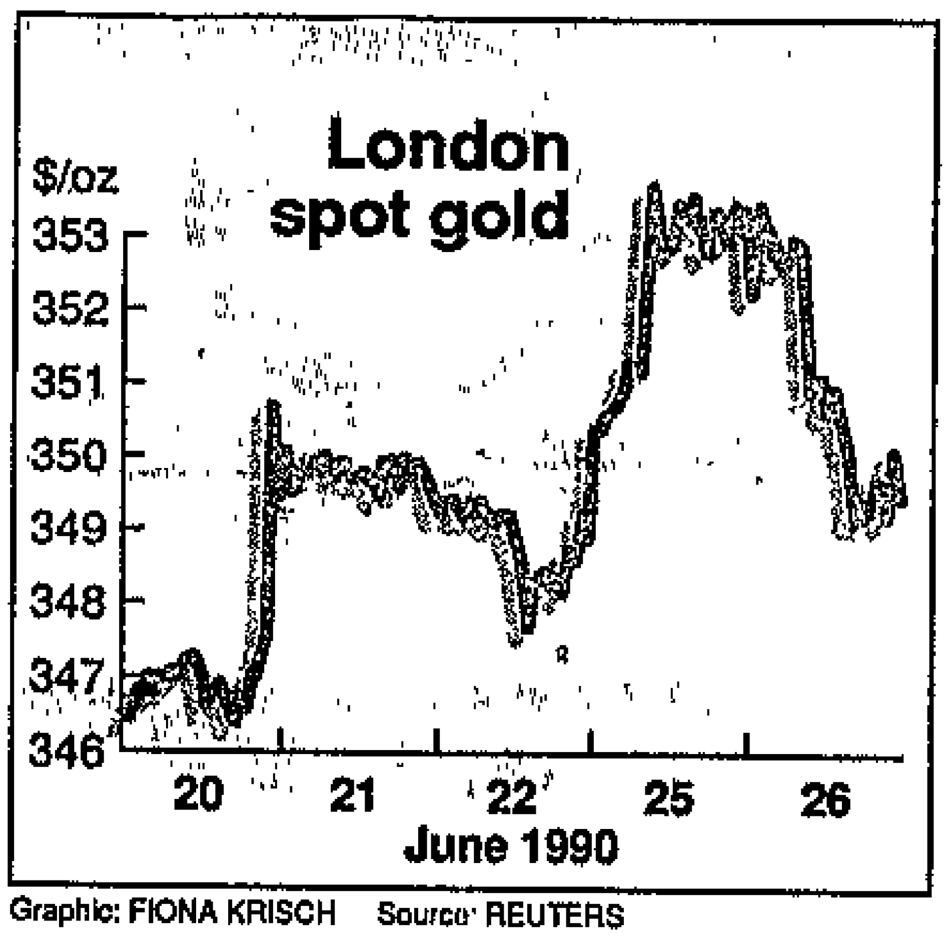
The Australian Bureau of Agricultural and Resource Economies had forecast gold output in 1990 at 220 tons, in 1991 at 180 tons, in 1992 at 160 tons and at 150 tons a year thereafter.

He said that without tax reform, a more rapid decline in Australian production should be expected.

Mr Ned Goodman, chairman of Corona Corporation, predicted that North American gold output was likely to fall by 11 percent by 1995.

Mr Jeffrey Nichols, managing director, American Precious Metals Advisors, went even further. In the one speech so far offering delegates a cheerful view of the gold market he suggested there would be an historic, record-breaking bull market in gold in the 1990s.

"In contrast to the glut of gold which characterised the 1980s, the current decade will be an era of insufficient supplies relative to prospective demand and a period in which gold ultimately moves to new historic highs." — Financial Times.



Graphic: FIONA KRISCH Source: REUTERS

Lower gold price fleeces shares of gains

79

MERVYN HARRIS

SPECULATION of fairly modest physical gold sales pushed the metal to the $350 support level, wiping most of the early gains off mining shares on Diagonal Street yesterday.

Gold eased from a high of $353,50 to a low of $348,70 before closing in a nervous London market at $350. In New York the metal also closed at $350, $3,25 down on Monday's close.

Dealers said stop loss orders in thin conditions exaggerated the effect of the original sales, which stemmed from the same Middle East player whose previous sales were thought to have triggered gold's recent steep decline.

Some bullion traders are very bearish, but others said Monday's comments by Reserve Bank Governor Chris Stals that SA was supporting gold should limit the damage. They added that the 1989 lows had been taken out and gold seemed to be near the bottom of its recent cycle.

The metal's downturn caused a sharp turn around in mining shares on the JSE and the all gold index retreated from a high of 1 472 to end four points up at 1 446, with the overall index showing similar movements.

New methods of trading in gold are being planned

6 10 cm 28/6/90

VENICE — Gold prices, around their lowest levels in four years, could draw fresh end-users to new and sophisticated trading products, delegates at the Financial Times World Gold Conference said. (7.1)

The Commodity Exchange (Comex) in New York has an instrument in the wings called the Gold Asset Participation (GAP), which is waiting for approval by the Commodity Futures Trading Commission (CFTC), Philipp Brothers MD Sidney Gold told delegates.

The GAP is a certificate representing 10 oz of gold that can be marketed to the public like ordinary shares.

It is expected to be launched later this year. It is not a futures product and settlement will be based on the cash price of gold, times 10, whenever the holder decides to cash in the GAP, Gold said.

Comex decided to launch the GAP because it can be marketed to a much wider base than futures. Currently, there are about 44 000 authorised futures salesmen in the US, against more than 500 000 stocks salesmen.

"It is a new product . . . the US public is used to trading stocks, but not gold bars."

In response to questions, Gold said the GAP is different from mining company shares which are vulnerable to political uncertainty and vary in relation to gold. The GAP will always be based on the spot gold price, he said.

Coincidentally, Japanese investors also have a GAP, although this is the Gold Accumulation Plan, Mitsui and Company precious metals division GM Junnosoke Inoue told the conference.

Investors "buy every day under an equally divided monetary budget . . . this product taps small investor demand, due to its minimum monthly budget of a few thousand yen (about $30)".

There were other alternative products on offer, particularly in the options markets, Credit Suisse First Boston director Dan McGanty said. These have been developed because of the high cost of ordinary options.

"Often the purchasers of these options have paid extra for something they did not need, while still not receiving adequate protection from risks." — Reuter.

JUNE • 29 • 1990 Financial Mail

GOLD PRICE FM 29/6/90 (79).

The Gorbachev factor

No sooner had Chris Stals told gold bugs in Venice that SA's Reserve Bank would not protect marginal mines, than gold reacted with a US$5 rise to $353,60/oz. But Governor Stals's performance at the *Financial Times* Gold Conference seems to have been but one of the sideshows distracting gold analysts from the major market factor — turmoil in the Soviet Union, which supplied over 10% of the Western world's gold last year.

There have been other sideshows. Brazil is the latest example. Its central bank dealt in 137,5 t of the metal since February. But the main feature remains the Soviet Union.

A month ago, according to Western commodity traders recently invited to Moscow by Soviet central bankers, the wheels almost came off as the USSR scrambled to find $2bn to cover foreign debt service obligations. The directive from Moscow's central bank was sell anything — particularly readily marketable commodities like platinum, palladium, zinc and gold — to raise the cash. Fail, and the USSR risked being cut off from further foreign credits by grain traders supplying the collapsing Soviet system.

It now seems the Soviet gold sales were handled behind a smokescreen and through several channels. This, apparently, led to the market view that Saudi Arabia was a major seller and distracted traders from Russia's problems. While Moscow was able to weather that immediate crisis, it now faces the problem of how to pay for ongoing imports of grain, food and consumer goods.

There is little doubt the Soviet economy is falling apart. This week, for example, freelance currency traders on the Nevski Prospekt are offering foreign tourists 15 roubles or more for each dollar — 15 or so times the "official" exchange rate. And talk is of a 30-to-one rate by year's end.

The catch for Gorbachev and his central bankers is that further gold sales could simply depress the price further and rapidly erode Soviet reserves. So sales have been slowed drastically. But something has to give if the EC balks at providing $20bn emergency aid to Moscow by September. If that does not arrive and Gorbachev cannot bribe ethnic minorities into staying inside the USSR, his career could end abruptly. Then the in-fighting starts — and real danger that restive coal-miners, oil workers and railwaymen will strike.

If coal-miners strike, how far behind will gold-miners be? New York metals dealers already see some slowing of Soviet gold sales and they believe there is a real possibility of strike-induced supply disruptions late this year. And if Mitterrand and Kohl do agree on emergency EC aid to the Soviets, Moscow will also be less pressed to raise hard currencies through gold sales.

The upshot is the very real possibility of serious gold supply disruptions from the Soviet Union late this year or early next. Couple that with declining output here in SA as squeezed mines cut production and curb the capital spending needed to maintain future output and the psychological effect on a jittery bullion market could be spectacular. ■

B/Day 29/6/90 (79)

Gold fall expected despite potential

NEW YORK — Gold is set to decline further despite potential long-term improvements in some fundamental factors, industry sources said.

"The overall trend is still lower," said William O'Neill of Merrill Lynch.

"Technically, the market probably wants to go lower, possibly testing the $340 level" basis spot, said Chase Manhattan Bank's chief bullion dealer Dinsa Mehta."This market is not showing a good correction" from prior drops, he said. Players should "not be faked out by short-term blips" to the upside, one analyst said.

On the Commodity Exchange Inc, August gold closed 30c up at $353,20 an ounce on Wednesday. Support for spot gold is now pegged at $345/$346, with another cushion seen at $340, dealers said.

Although SA has said it would support gold prices, it is cash-poor and "does not have the firepower to keep gold at higher levels for very long." Mehta added.

Nor does the USSR, another key gold producer, despite talk of its doing so, other dealers said. Soviet leader Mikhail Gorbachev is under severe pressure to appease this nation's consumer hunger, one dealer said. As a result, more soviet gold sales are likely, he said.

Recently, gold futures have focussed more on cash dealings instead of on the dollar or oil prices as is more typical, O'Neill said.

Yet other dealers said they were starting to re-evaluate their bearish stance. Aggressive sellers are not as active as they have been and there is light buying interest, traders said. "The market seems to be in equilibrium at about $350," basis cash, said Bull and Bear gold investors' senior vice-president Robert Radsch.

Radsch said production cuts in SA and the possibility of further reductions would help mitigate any steep slide. At current prices, 15% to 20% of SA mines are uneconomic based on production costs, he said.

If the full production costs of SA mines are counted, including capital expenditures, up to 40% of these produces about 38% of the world's gold supply. On the bullish side, "a lot of the (prior) sales at higher gold prices came from producers selling forward," Radsch said. — Reuter

Gold's got the guts to beat bad times

UNTIL the early '80s South African investors enjoyed the years of plenty as far as gold was concerned. It was the backbone of most portfolios.

Now it seems that the lean years are with us, but investors should not quickly abandon the investment ship that has served so well.

Gold fever no longer refers to the heady rush to invest in and develop mines. It more aptly describes the highs and lows of sentiment, the flushes of inexplicable bull runs and the cold shivers of fickle offloading.

One would need to be a clairvoyant to predict the gold price. Every rule or pattern which has fixed the price in recent times has been broken.

"Honest brokers" have the humility to admit that nobody really knows what will happen. A scenario-planning approach to the problem is best because so many variables apply. This introduces a more holistic and realistic approach. Only two years ago what scenario planners, or clairvoyants, would have tried to sell the possibility of an economically emancipated Europe?

This is the background against which one should ask the question: Whither gold?

Base-metal, platinum miners show the way

ST Times 1/7/90 (79)

Gold has the potential to weather the lean years and to emerge stronger, as happened in other branches of the mining industry, says IAN PRESTON, mining analyst of Andrew Forbes & Co Inc

Primary supply (non-communist) rose from 960 tons in 1980 to 1 635 in 1989, a compound growth rate of 6% a year.

Communist supplies, which could be partly new production and/or net reserve bank sales, were relatively unchanged if one excludes an abnormal supply of 90 tons in 1980 against a normal 200-300 tons a year.

Secondary supply — scrap — has also been variable, ranging from 243 to 492 tons.

Primary fabrication demand principally for jewellery has grown from 945 to 2 207 tons — compound growth of 9.9% a year.

Pure investment demand — "bar hoarding" — has been a major factor and its intensity has been influenced by the gold price and political, socio-economic conditions in many parts of the world.

Central banks have been net buyers of gold for seven of the past 10 years, but movements vary widely.

Speculative hoarding and related disinvestment provide a big swing factor in the market. Speculators are by nature net buyers when the gold price is weak and net sellers in a strong cycle.

SA remains the world's major primary gold producer. But supply from Latin America, Australia and the US has risen in the past 10 years. At the same time SA has moved from the lowest-cost to one of the costliest producers.

In dollar terms we must now face the prospect of major changes in the industry. At $375 oz only 412 tons of SA's gold production is profitable. The remaining 168 tons are unprofitable or only marginally so. This is amplified in that total production from those mines affected by the price is included in the 168 tons. Clearly, areas of the mines' marginal production are still profitable even at $375/oz.

However, at $375/oz one could expect that the 168 tons of marginal production would be reduced by 50 tons in terms of rationalisations, capex reductions and deferments.

Resilient

Production expansion in Australia and America has largely come from open-cast mines with relatively low costs — $209 and $247 respectively. It is true that the Australians have largely high-graded their relatively short-life mines ahead of the mining taxes to be imposed from 1991.

Production in the current decade is unlikely to grow at the same rate as in the previous 10 years. Major gold-mining developments in SA will take the best part of the decade to be brought into production.

Rationalisation must take place. The commitment to rationalisation from a resilient industry will result in major innovative and technological improvements.

One should not underestimate SA mining men's mentality. Platinum went through much the same low price-oversupply situation in the Seventies. Base-metal mines have learnt to weather the cycles. The gold industry will be no different.

Tightening up in the industry should be seen in conjunction with the likelihood that world production is likely to grow more slowly, particularly in Australia.

What of secondary gold production? Nothing in the past indicates that the future is likely to be any less volatile. However, the larger the overall gold pool, the more potential scrap is available to the market.

Fashion

What then of future demand? Given that today jewellery demand basically equates to primary production, can we hope that the next decade will see 9% annual growth rates?

Gold is no different from any other commodity. Jewellery is only one competitor for consumption expenditure. In a scenario of lower world growth, less discretionary income is implied. Where that discretionary income will be spent depends less on fundamental value and more on advertising fashions, fads and the like.

But one must take account of the materialistic aspirations of a commodity-starved Eastern Europe. Emerging and affluent democratising populations could fuel huge demand for Western fashions, including gold jewellery.

Investment demand is likely to continue to be influenced by political and socio-economic conditions. As world stability prevails, especially with the relaxation of exchange controls and more common economic policies, competing investments could negatively influence gold hoarding.

Swing

Central banks will still be fickle and, together with speculative hoarding-disinvestment, will continue to provide a major swing factor in the gold market.

A scenario of real world economic growth, which we support, is likely to lead to strong primary demand and with a lower growth rate in production, a rising dollar price for gold.

We expect the gold price to rise from a base of $350-$400 at maybe 1% or 2% faster than US inflation.

FIVE VIE FOR BUSINESSWOMAN OF YEAR TITLE

YVONNE LOTTERING

WENDY VORSTER

LINDSEY SEYMOUR

MARY HOLROYD

CHERYLL JONES

Go-getters enter selection finals

Business Times Reporter

AN impressive quintet make up the nominees for the SA Businesswoman of the Year award. They are:

- Mary Holroyd, founder and chairman of Weigh-Less;
- Cheryll Jones, managing director of Quest Personnel;
- Yvonne Lottering, director of Coin Security;
- Lindsey Seymour, managing director of DIY Sales;
- Wendy Vorster, managing director for Expeditors International.

Mary Holroyd has built a multi-million-rand international enterprise from what began in 1975 as a club for slimmers.

Cheryll Jones has been largely responsible for recruitment agency Quest's rapid growth from one office to a 31-branch national organisation.

Yvonne Lottering went from teacher to director of a company. In the past six years Coin Security has grown by an average 85% a year, bringing turnover to R60-million.

Lindsey Seymour is making her mark in the furniture industry and has been solely responsible for increasing her company's turnover by 519% since 1987.

Wendy Vorster, in the freight forwarding and customs clearance business, started with two shareholding co-directors and capital of R58 000.

Having been scrutinised by the Executive Women's Club of Southern Africa, the women now go on to the final selection.

Differing criteria for corporate and entrepreneurial candidates are applied. For corporate nominees, progress, standing in the organisation and its size, level of responsibility, financial control and innovations are considered.

In the entrepreneurial situation, the size of the company, its profitability and growth, enterprise displayed and innovation feature.

In both cases, difficulties overcome to achieve results are considered.

The award will be presented at a banquet in Johannesburg's Carlton Hotel on August 29. Guest speaker will be British Businesswoman of the Year Mair Barnes, managing director of Woolworths PLC.

Imbuia King Nick once voted boy least likely to succeed

By CHARMAIN NAIDOO

THE Std 7 school drop-out voted least likely to succeed has come a long way.

That's Imbuia King Nick Lourens.

His firm imported 60% of SA's imbuia supply last year, carving out the largest share of the SA market only four years after it began operations.

Mr Lourens started his import business with a pension fund payment of R100 000. The firm's turnover topped R15m in its first year. He expects between R32m and R34m this year.

In his imbuia-panelled office, toying with a rosewood pen and peeking over the top of his sleek oak briefcase, the 56-year-old self-styled millionaire says: "For a boy who started life with nothing, I'm happy with the way the business is growing."

Ailment

Domination of the imbuia market is Mr Lourens's greatest delight — "especially when you consider that I do not supply the two biggest groups, PG Wood and Federated Timbers".

But a career in wood wasn't always his ambition. As a teenager he wanted to be an electrician, but was advised against it when his doctor diagnosed a heart ailment.

So he went to work selling firewood for a timber company. Soon he became the bookkeeper and later joined Wilrose, which was subsequently bought by PG Wood.

Mr Lourens says "I spent 20 years with PG Wood, dealing for it in the Far East and opening an office in Brazil."

In 12 years, Nick has made 51 imbuia buying trips to Brazil. He also lived in Brazil for a year, learning about the imbuia market.

"Brazil is the only country in the world that has imbuia and SA is the only one that uses it. It's the closest substitute for our stinkwood."

Mr Lourens also imports American oak, cherry and maple from the US, meranti from the Far East and iroko, sapeli and afromosia from West Africa.

The biggest independent agent, he supplies furniture manufacturers and merchants.

"I tell my sons Gregory and Sean — both in business with me — that we have to keep the personal touch.

"For example, we saved one factory R200 000 a year by advising it about how to buy well."

NICK LOURENS ... from a lad with little to regal rule in timber Picture: SUE KRAMER

Drop in exports of gold is viewed as a 'positive' trend

(79)

B/Day 4/7/90

A CONTINUING downward trend in gold's contribution towards total exports from SA — apparent over a number of years — will help to shelter the economy from fluctuations in the gold price, according to June's Standard Bank Review.

The declining contribution was a result of the rapid growth of non-gold exports and was therefore a "very positive" development, the Review said.

"If this trend can be sustained, the economy will become increasingly sheltered from fluctuations in the price of what remains, after all, primarily a speculative commodity."

Vulnerable

The Review pointed out that pessimism for the short term economic outlook based on the drop in the gold price was probably unjustified because the economy's reliance on gold had diminished considerably in recent years.

In 1989 gold contributed 33% of total export earnings compared with 51% in 1980 which showed that while SA was still vulnerable to gold price fluctuations, its vulnerability had declined.

"Furthermore the decline in the gold price has occurred at a time when the surplus on the current account of the balance of payments was already substantial," the Review said.

But, it added, the most likely visible casualty of a fall in the gold price would be the volume of gold production.

CHARLOTTE MATHEWS

Since 1981 the gold mining industry had been cushioned by the declining value of the rand against a "lacklustre" dollar gold price performance.

The most recent decline in the gold price had occurred at a time of relative rand-dollar stability.

"At least 18 marginal mines will be under severe pressure to close if the rand gold price does not rise soon," the Review said.

"Since neither government intervention, nor a major price rise, nor a significant drop in the rand exchange rate are predicted in the immediate future, SA gold production is likely to fall significantly below 1989 levels due to rationalisation of production."

But the Review added the gold mining industry was a long term business and large short term cutbacks in response to a possibly temporary decline in the gold price were unlikely.

"Although the current gold price weakness may well prove to be only temporary, the fundamentals currently dominating the world economy are not favourable to an early and sharp gold price recovery," the Review concluded.

A sustained low gold price would be partly offset by the lower value of the rand but it would have an impact on the longer term growth performance of the domestic economy.

SUNDAY TIMES, Business Times, July 8, 1990

Reserves safe despite gold's crash

S/Times 8/7/90

Enough in the kitty to meet foreign debt repayments

79

THE gold-price crash has pushed hopes of a major improvement in the surplus on the current account of the balance of payments this year into the background.

But it will not jeopardise South Africa's ability to meet its debt repayments, says the Standard Bank Economic Review.

Even if the price remains about \$350, a reduced but substantial surplus on the current account will be earned.

Foreign-debt repayments this year are likely to fall because of rollovers which have been agreed to or are in the pipeline. The lower surplus should thus be sufficient to meet the remaining repayments without much pressure on foreign-currency reserves.

By IAN SMITH

Because of the volatility of precious metals "it would be foolish to make major adjustments to current domestic economic policies in response to what may, after all, be a temporary decline in the gold price", says the review.

"Current concerns about the price nonetheless highlight the dangers inherent for an economy which still relies too heavily on the fortunes of what is primarily a speculative commodity."

High

Last year total minerals and metals accounted for about 73% of export earnings. Gold alone made up 33% of all exports.

Foreign gold sales of R19,2bn were slightly less than three times the value of coal exports and almost 15 times the value of iron-ore shipments.

The price also has implications for SA's gold production. "Financial losses can only be sustained for so long," says the review.

Standard Bank has run simulations on its econometric model, first with an average gold price of \$375 for the rest of 1990 and production of 595 tons, and then with an average price of \$350 and production of 580 tons.

The higher price and production would give an overall gross domestic product growth rate of about 0,7% for 1990. The lower price and output would result in real growth of 0,4%.

The significant impact would be on the balance of payments, where the surplus on the current account would be reduced from R6,1bn to R5,4bn.

"The impact of a continued poor gold price throughout next year would have a far more noticeable impact on both growth and the balance of payments in 1991."

In a worse-case scenario, gold production of 550 tons in 1990 and a price of \$320 for the rest of the year would result in a slight decline in gross domestic product and a current account surplus of R4bn.

Critical

"Such a pessimistic scenario clearly has to be considered, but is hopefully unrealistic at this stage.

"Viewed against the background of the speed with which domestic demand and activity have been coming off in recent months, additional policy measures to slow the economy in response to a sustained fall in the gold price to \$350 an ounce are probably unnecessary.

"Existing policies have proved sufficient to change the economy's behaviour in all critical areas . . .

"There are now even suggestions that maintaining the current policy stance for much longer may induce an overkill."

Gold tipped to hit $400 by year end

CIT T/HS 14/7/90

79

By AUDREY D'ANGELO
Business Editor

GOLD's fundamentals are turning positive, but there may be intermittent weakness in the next two months on possible Soviet and Middle Eastern sales, Trust Bank chief economist Nick Barnardt warns in his weekly commentary on economic indicators and financial markets.

He expects gold to "recover more visibly towards the $400 level in the fourth quarter, especially if oil prices rise in the northern winter".

Although he expects foreign reserves to rise appreciably in the second half of this year, with a stable exchange rate and a gradual decline in the inflation rate, Barnardt thinks the downturn will continue — to bottom out in the first half of 1991 "with pain in motor vehicles, consumer durables and fixed investment-related sectors".

He believes the bank rate will drop from two to three points in the next 12 months.

Weaker rand

He considers the rand has clear fundamental stability. "A large balance of payments surplus in the second half of 1990 and in 1991 will support the SA unit further, together with a lower dollar, higher gold price, lower inflation and the phasing out of international sanctions."

But, he warns: "The rand will weaken somewhat against a strong yen and Deutschemark in the next few months, while strengthening towards R2,60 against a weakening dollar."

Because of this, he advises exporters to cover at least partially against the dollar, but says that importers "look relatively safe on lowish rand-dollar cover".

Discussing overseas trends, Barnardt says West German interest rates are unlikely to rise before the all-Germany election mooted for early December. But he expects them to go up slightly early in 1991.

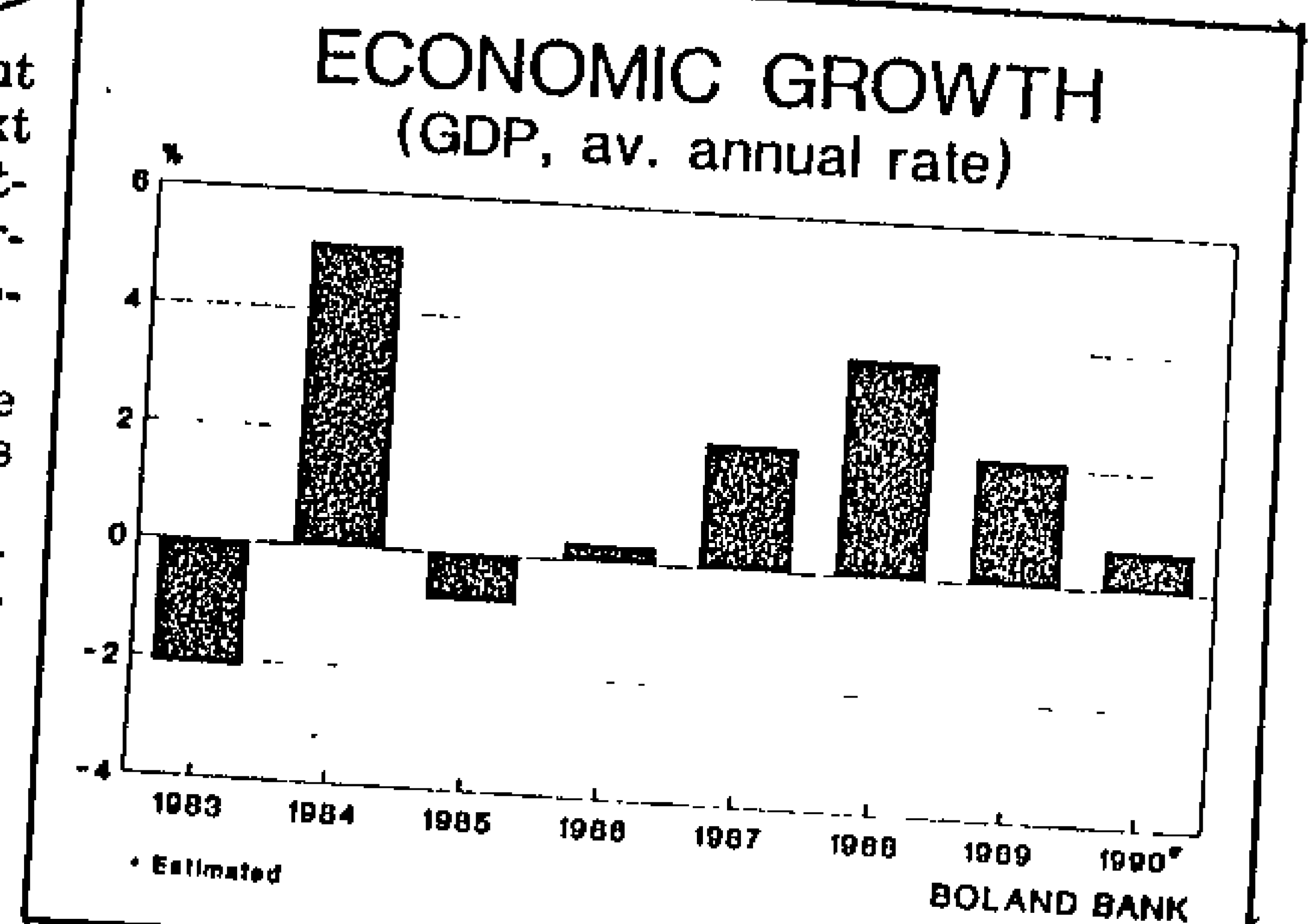
He thinks British interest rates will remain at their present high levels until the end of the year, but will "fall visibly in 1991".

In contrast to Barnardt's expectations of falling inflation, Boland Bank chief economist Louis Fourie says in his Economic Review that "the traditional lag between money supply growth and inflation implies that the excess money growth of the past three years will underpin inflation for at least another 12 months".

He points out that the inflation rate as measured by the consumer price index "stubbornly remains in the 14% area" and adds: "Accelerating food price increases and unrealistic wage demands complicate the fight against inflation."

But, he points out: "Fortunately, import price rises have started on a decelerating trend since July 1989, mainly owing to the stability of the rand exchange rate."

Pointing out that the fight against inflation is slowing growth in other countries, as well as SA, Fourie says: "The prolonged global interest rate squeeze has reached a crucial stage.



UK recession

"A sustained squeeze of this nature may indeed improve the medium-term world inflation outlook, but unfortunately also causes a contraction in the overall level of economic activity."

Forecasting a high risk of recession in Britain for the next 12 months, he says indications are that economic growth there will have to slow down further from the present 1,5% to meet the government's target of lower inflation.

Meanwhile, United Building Society economist Hans Falkena told a media briefing that the recession in SA would not bottom out until the third quarter of 1991 and said that, to be really effective against inflation, monetary policy would have to remain restrictive for many years.

He said SA would suffer hyper-inflation of Latin American proportions unless the Reserve Bank maintained its strict monetary policies for long enough.

Gold surges to $364,25 in New York

CAPE TIMES 14/7/90 79

Business Editor

THE week ended on an upbeat note with gold closing at $364,35 an ounce in London — more than $13 higher on the day — and at $364,25 New York.

The Allgold Index on the Johannesburg Stock Exchange rose 91 points, to close at 1 535 compared with 1 441 on Thursday.

But there was no euphoric buying on either the JSE or the London Stock Exchange. Remembering that previous rises in the gold price have been used by large holders of the yellow metal as opportunities to dump it, investors in SA and London were cautious and dealers reported thin trading there.

However, international agencies report widespread buying interest in New York, and heavy technical trading in Europe, following sharp falls in the dollar after Federal Reserve Board chairman Alan Greenspan said he was preparing to ease monetary policy.

In New york comex gold rallied to near seven-week highs amid expectations interest rates would decline, traders said.

August gold ended $6,20 higher at $365,70, below a session high of $369. Spot gold gained $6,30 to $364,40.

The rise began on Thursday on news of the easing of rates. The Fed's adding to reserves via repurchases yesterday bolstered such expectations, traders said.

"If the Fed continues to ease it would very supportive for precious metals," said Painewebber analyst Bernard Saviko.

Other bullish factors included early slippage in the dollar and rising crude oil prices because they can spur inflation, traders said.

Commission houses, funds and speculators were active buyers. Shortcovering and the expiry of August options fuelled the rise, which overcame important resistance at about $367,00/367,50, traders said.

Meanwhile US blue chips continued to ease in late trading, giving up most of their earlier gains, on profit-taking and some light futures-related sell programmes, traders said.

Canadian journal takes bearish view of gold prospects

HAROLD FRIDJHON

79

A BEARISH view on the prospects for gold is taken by the authoritative Canadian publication The International Bank Credit Analyst in its June issue.

"The price of gold and other precious metals, such as silver, measured in dollars or Special Drawing Rights (SDRs, the IMF "currency") have fallen to levels associated in the past 10 years with deflation in assets.

"The Deutschemark price of gold has been warning of this downward break for some time and the price of the metal has broken down against every major currency including the yen."

The reason for this is the contraction in global monetary reserves which have the tendency to contract coincidentally with intense deflationary pressure on asset prices and on economic activity.

The Bank Credit Analyst says the precious metals outlook is critically dependent on the prospects of the probable global liquidity squeeze. If the squeeze is sustained, then a contracting world economy could develop as soon as the end of this year or early in 1991.

"Soviet financial troubles clearly weigh heavily on the gold market. However, there are too many other factors which suggest that gold probably would be weak even if the Soviets were not actively selling."

B Day 19/7/90

Temporary

Since 1989 international money growth has been strong. Lower interest rates in the US sent credit growth rising faster than GNP and in Japan money growth exploded because interest rates were held much below world levels for some time.

But, says Bank Credit Analyst, a number of developments since the start of this year suggest that the upturn in world money growth — and share prices — may be temporary. Indicators suggest tighter conditions and a renewed downturn in international money supply is likely in the next few months.

Reading between the lines it would seem that the outcome between liquidity squeeze or a growth massage depends on who has the ultimate say, the politicians or the central bankers. The bankers' concern is inflation and the protection of their currencies. The politicians, tending their constituencies, turn Nelsonian eyes to a little inflation as long as unemployment does not increase too rapidly.

The G7 are already a little nervous that current policies are too stringent and they want to end the squeeze.

But what if the oil price continues to harden?

Investors remain cautious about gold

79

MERVYN HARRIS

GOLD closed virtually unchanged in Europe yesterday as Wall Street showed only minor losses in early dealings to provide no further upside impetus for the metal. B (Day 25/7/90

The metal eased 25c to close in London at $368,50, but traders are hoping some investors might switch their funds into gold from a shaky Wall Street which has declined sharply in the previous two trading sessions. In New York gold closed at $367,50, $1 off yesterday's finish.

Institutional and overseas investors on Diagonal Street adopted a cautious and hesitant approach as they waited on the sidelines for further evidence that gold would consolidate around current levels.

Dealers reported little follow-through buying of golds from Monday's uptrend and trading on the gold board was mainly by professional jobbers. But there was good demand for quality industrials and the JSE overall index ended with a gain of 20 points to 3 106.

‘Waiting for something to happen’

Gold touches high of $370

79

Cape Times 25/7/90

From JOHN CAVILL

LONDON. — Gold traded steadily in quiet trading on international markets yesterday, closing in London at $368,75 an ounce after briefly touching $370.

Other precious metals also marked time, slightly below Monday's best levels — platinum at $480 an ounce (after $481) and palladium at $118 (from $118,75) although rhodium held firm on $5 550.

Silver ended at $4,86/$4,88 compared with its close on Monday of $4,91/$4,93 after it was hit by speculative selling in a thin market.

The consensus among traders and analysts in London was that like the nervous equity and currency markets, precious metals were "waiting for something to happen" after Monday's surge when share prices plunged in New York, London and Tokyo.

With the dollar weakening on expectations that the US Federal Reserve will have to pump money into the American economy to prevent a recession, the rally in gold was "based on a better undertone", said Albert Loveless of brokers Smith New Court.

Upward pressure in oil prices — fuelled by Iraqi threats to Kuwait over its high production ahead of tomorrow's meeting of the Organisation of Petroleum Exporting Countries (Opec) — continued, pushing Brent North Sea crude to $19,60 a barrel, compared with the May low point of $15,75.

This is expected to help sustain bullion prices. Robert Weinberg, head of mining research at brokers James Capel, said: "I still don't see any great excitement in gold. We are in a rally from a deeply oversold position and back to about the mid-point of the trading range which prevailed in April and May.

"Gold could get up to the mid $470s or a bit more but it is difficult to see it much much higher. It isn't doing much against the non-dollar currencies."

Andrew Smith of UBS-Phillips & Drew said that having formed a base above $350 on physical demand, gold was better placed to respond to bullish events such as tension in the Middle East.

"The dollar no longer has the crutch of interest rates to support it. We have seen gold penetrate what was supposed to be a resistance level at $364 and follow through.

"The upward move has not been overdone and while August is supposed to be a flat month — because the Italian jewellery industry goes on holiday — it is interesting to note that in 12 of the last 21 years the gold price has averaged higher than the July level," he said.

Chartist Brian Marber said: "I am positive in the short term. The momentum in gold turned up at the end of June and the price has broken through the three months moving average and is rising. And the market is not overbought.

"Gold is still in a rally — the one-year moving average is at $381 — but with Monday's afternoon fix it came out of the top-end of a flag formation on the chart. Another afternoon fixing at $367 should mean it will go to the next hurdle in the $372-$374 range," said Marber.

● Reuter reports that gold closed in New York at $367,25/$367,75 against Monday's close of $368,50.

Spot market boosts interest in futures

B/Day 26/7/90

ANDREW GILL

A MORE active spot market this week brought renewed interest to the futures market as bullish sentiment over local economic indicators and a firmer gold price pushed futures to firmer levels.

Traders said gold's rally on Friday brought much needed relief to a previously listless market and futures contracts on JSE indices have been creeping higher as a result.

The all share index future for September closed at 3 214 points yesterday from last Wednesday's level of 3 085 points. The spot index closed at 3 170 points yesterday.

(79)

The all gold index future for September had shown similar gains, closing at 1 621 points yesterday from 1 562 points last week Wednesday. The spot index closed at 1 602 points yesterday.

Interest rate futures haven't seen any large increases in volume but the outlook is equally bullish.

The November three month liquid BA rate future closed yesterday at 17% compared with 17,12% last Wednesday. The spot rate closed at 18,10%, which is 20 points below the Reserve Bank's rediscount rate of 18,30%.

Dealers say positive signs from both money supply and inflation rate figures released on Monday have elevated hopes that the bank rate would be cut sooner than expected.

The view that the BA rate would be as low as 17% by November rested on a bank rate cut by that stage, they said. If the bank rate did not fall, the rate would be trading at a 130-point discount from the Reserve Bank's 18,30%.

The barely traded BA futures for February 1991 put the rate at 16,05%.

Gold bounces back to follow uptrends

(79)

B Day 26/7/90

MERVYN HARRIS

GOLD rallied on bullion markets yesterday afternoon to breach resistance levels at $370, touching a new two-month high of $374 and boosting sentiment on the JSE.

The metal's uptrend came after a slightly lower London morning fix of $367,40, but stop-loss buying after the fix lifted gold $4,25 to close in London at $372,75.

The metal closed at $371,55 in New York.

The rise has taken gold's gains to almost $13 this week and means the metal is now only $10 below the average price of $382,97 for the year so far.

Dealers said several factors contributed to gold's bullish trend. These included upside trends on technical charts and political tensions in the Middle East.

Other fundamentals were firmer oil prices and a weaker dollar in the wake of poor durable goods figures for June which encouraged follow through buying of gold.

"Sentiment has changed from bearish to bullish," a dealer on the JSE said as the value of shares traded soared to R128,3m from R77,9m the previous day. However, volumes were lower as almost a third of the value of shares traded was in De Beers and in associate Anglos.

Traders reported that local institutions were still wary of gold's rise but shares moved ahead in line with London prices and the JSE all gold index rose 3,7% to close at 1 605.

Graphic: FIONA KRISCH Source REUTERS

Improved sentiment was reflected in quality industrials and bank shares maintaining their recent upward momentum to help lift the overall index 2% to 3 170.

Analysts said that if gold could consolidate at current levels before going higher and positive developments were to emerge on the politcal front, the market could move ahead strongly.

SA gold mining policy attacked

B Day 27 7 90

79

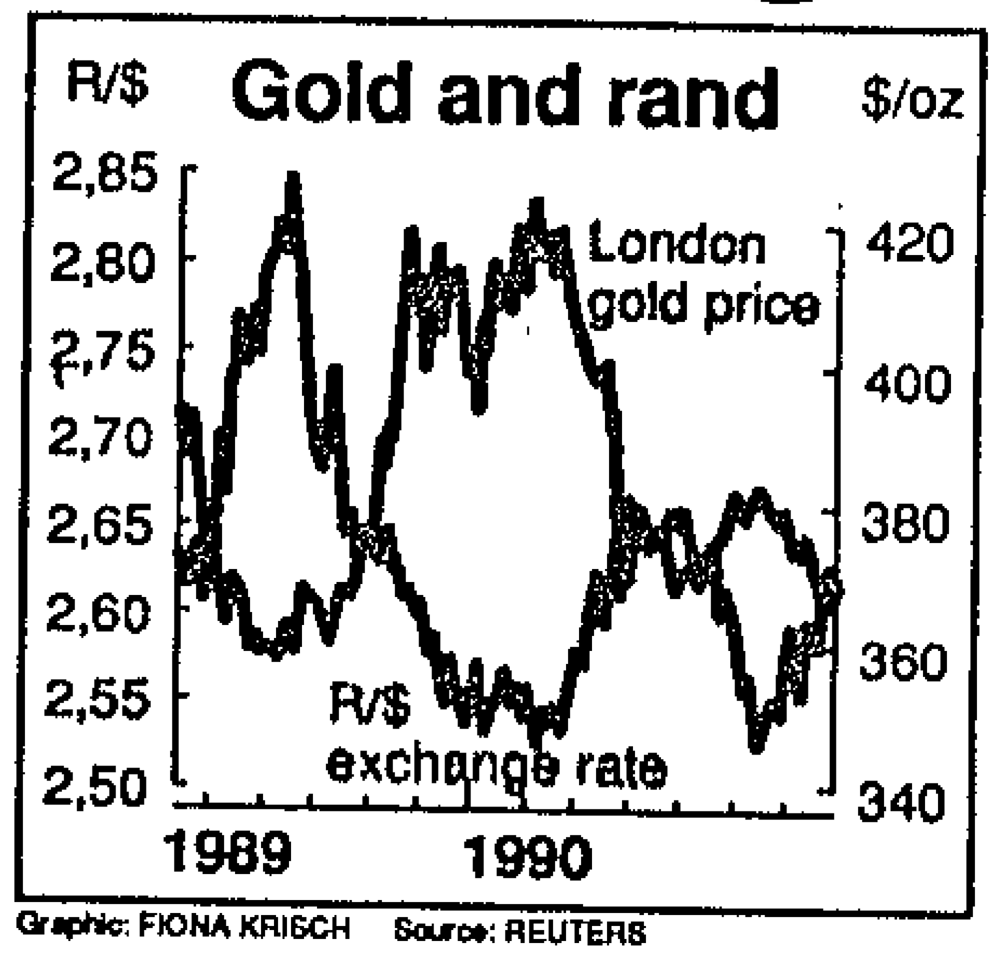
LESLEY LAMBERT

CAPE TOWN — The gold price and the rand would have been stronger now if government had forced gold mines to rationalise last year, rather than rely on rand devaluation as a support measure, says Gengold MD Gary Maude.

The gold price, which fell by $4 an ounce to close at $368,75 an ounce yesterday, would have to increase by another $100/oz to get back on its long-term trend line, Maud said.

Referring to the tough new line on financial assistance to gold mines recommended by the Marais Committee earlier this month, he said that stricter control of support measures last year would have hastened the critical rationalisation process which the mines were having to undergo at present.

If the current "crisis" in the industry had happened a year ago, the chances of recovery would have been stronger as a worldwide decrease in gold production would have lifted the gold price in about six months. The effects of a 50-ton cutback in local gold production, coupled with the 50 to 100 tons withheld by foreign producers, would have been enough to boost the price,



Graphic: FIONA KRISCH Source: REUTERS

Maude told mining analysts at a presentation in Cape Town this week.

But, the authorities chose rather to embark on a subsidisation plan for the gold mines and the rand was devalued to counter the fall in the gold price. As a result, sales were made at unprofitably low prices as producers clamoured to generate valuable foreign exchange.

Another effect of the devalued rand, said

☐ To Page 2

Mining policy

B Day 27 7 90

79

☐ From Page 1

Maude, was that it imported inflation by pushing the cost of imported capital goods to rates above domestic inflation. However, it was hoped that this effect would be reduced this year by the financial authorities' strong commitment to beating inflation.

Maude said local producers would have to increase their supply of gold as they were producing the same quantities this year as last year, at lower prices. The need to increase supply was being taken more seriously now that the rationalisation was under way.

He urged government to remove tax measures which were inhibiting the development of new mines as these were crucial to a healthier and more internationally competitive industry. Of the tax measures, ring fencing was most restrictive.

The long-term benefits to the economy of promoting new mines would outweigh the losses in tax revenue if the authorities were to make the necessary alterations to mining tax. Output would increase and new jobs would be created.

(79) F/M 27/7/90

GOLD F/M 27/7/90

Surprise surprise (79)

At last gold is responding to news. Scimitar rattling by Iraq against its oil quota cheating neighbour Kuwait; rising crude prices ahead of this Thursday's meeting of Opec; colly-wobbles in equity markets; and, above all, the admission of US Federal Reserve chairman Alan Greenspan that avoidance of recession is now the priority.

This confluence gave gold a sudden push on Monday after Wall Street's vertiginous opening sent the Dow Jones Industrial Average into a 105-point tailspin from the unbreached altitude of 3 000.

Gold hit US$371,50/oz for the August position on the New York Commodity Exchange — up $9,50 on Friday's close — before trimming back to $369,10 as the Dow rallied to hold blue chips' fall to 56,4 points at 2904,7. Comex volume was sharply up at an estimated 60 000 contracts (100 oz each) from 15 000 on Friday and an average of 33 000 the previous week.

Physical markets remained quiet but there was no sign of heavy selling into the rally. Fixed at $366,10 on Monday afternoon (after $361,80 in the morning), gold briefly touched $370 on Tuesday morning before settling at $368,25 at the fix.

As the *FM* goes to press, equity, bond and gold markets are awaiting the next move. Greenspan is due to make another statement to the US Senate where, it's expected, he will be forced to spell out the Fed's policy on easing liquidity to compensate for tightness by the bruised commercial banks.

Next comes Opec, gathering in Geneva this Thursday. Iraq's belligerence towards the overproducing Gulf States — Kuwait and the United Arab Emirates (UAE) — has had the effect of concentrating minds.

With the UAE announcing production cuts of 400 000 BPD ahead of the meeting, Brent North Sea blend climbed to $19,60/barrel, 25% above the 1990 low.

The Opec meeting is likely to be a rancorous affair. Demanding a price target of $25 (fob Gulf port), which equates to about $28 for Brent, Iraq has the backing of smaller members and is challenging Saudi Arabia's traditional moderating dominance.

It is not expected to win the day, but the Saudis and their allies will strive to find a credible agreement to support $18 (against the current $15,50 for Arab light fob). "Even if spot crude prices come off a bit because too much has been built on the meeting, nobody expects prices to fall back to the lows as we start moving into pre-winter stocking-up period," said Albert Loveless of Smith New Court Securities.

"We have to be cautious about gold. Nobody is yet recommending it as an investment but the undertone is looking better."

Chartist Brian Marber is positive, short term. "The momentum turned up at the end of June. The price has broken through the three-month moving average and is rising. And the market is not overbought.

"Gold is still in a rally — the one-year moving average is at $381 — but with Monday's afternoon fix it came out of the top end of a flag formation on the chart. With another afternoon fixing at $367 it should go to the next hurdle of $372-$374," he says.

Rumours abound — buying of Middle East oil is now up, even Federal Reserve buying — and there are strong residual fears that sellers could return in force, either producers trying to hedge while the going is better or the notorious National Commercial Bank of Jeddah. But so far so good for those who called the bottom of the market at the Venice World Gold Conference last month.

John Cavill

Gold expected to stay in tight range in short term

B/Day. 30/7/90 (79)

NEW YORK — Despite two sharp rallies in the first four weeks of the third quarter, spot gold prices are expected to maintain a fairly tight range through the beginning of September as the market lapses into the traditionally lethargic summer months, analysts and traders said.

A survey of 10 analysts and traders found that most expect a range of $350/oz to $380/oz through to the end of the quarter, although most concur that the bias will be toward the upper end of that range.

The predictions range from a low of $352 to a high of $400.

The same trading pattern that predominated in spot gold trading during the second quarter is expected to continue through the third quarter, surveyed participants agreed.

Intermittent price erosions are expected, but prices will gradually work higher, they said.

Spot gold closed up $4,05 at $371,55 above the pyschological resistance level of $370 on July 25, and it ended New York trading on Thursday at $369,25, down $2,30.

Gold snapped out of the slow pace that marked the start of the quarter when Federal Reserve chairman Alan Greenspan testified about US monetary policy before the Senate banking committee. Spot gold rallied a total of $10,50 that day, July 12, and the following day, a Friday.

The catalyst for the gains were said to be Greenspan's remarks that the central bank was ready to ease money, thereby lowering interest rates.

Although those gains were erased the first two days of the following week, Baker said the market looked steady and "would continue to bump its way higher".

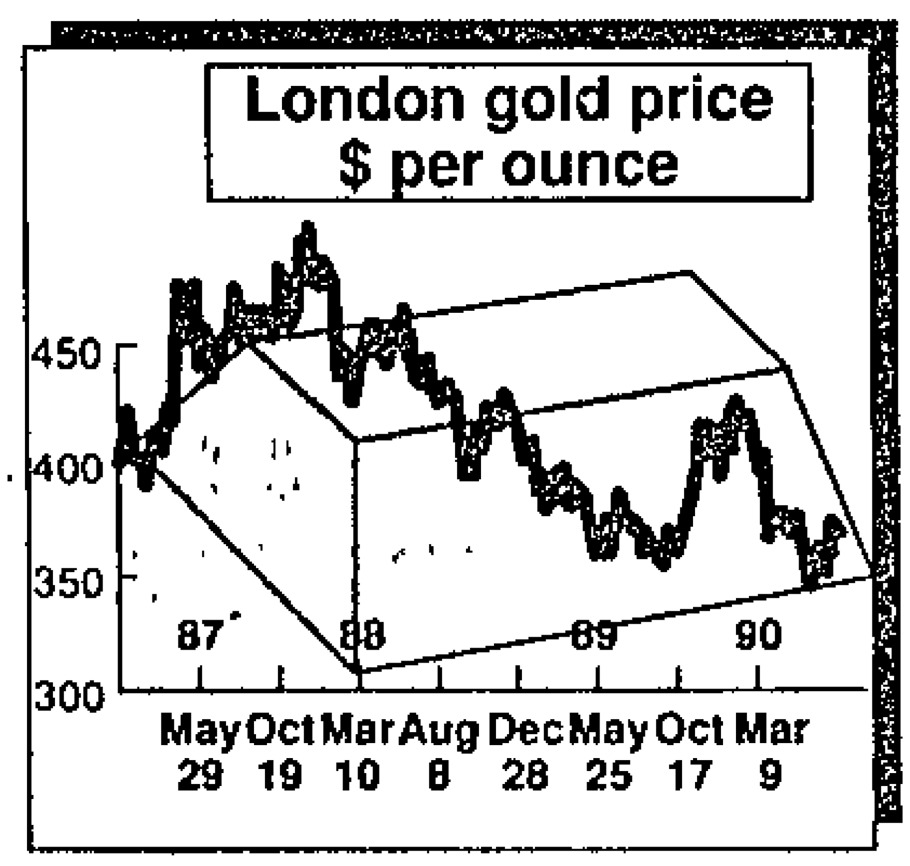
When James Koppel, MD of metals trading at Deak International Trading, was asked what would cause gold prices to move, he said: "Any significant movement in gold prices will be dictated by events that can't be predicted."

That remark was borne out July 23.

On that day, gold prices soared $7,50 to $368,50 as the Dow Jones Industrial Average (DJIA) closed off 56,44 at 2 904,70.

"Developments in SA are potentially very significant — any one development which interrupts supply for any length of time will boost gold prices," said Union Bank of Switzerland's Ken Gettinger.

Prudential Bache Metal's Bette Raptopoulos said: "The potential for severe disruptions in SA mining operations, either because of labour strikes or the threat of nationalisation of mining operations by the ANC are bullish factors for gold." SA Chamber of Mines president Kennedy Maxwell said in mid-June that it seemed inevitable that SA's gold production would fall to between 580 tons and 600 tons this year, compared with 608 tons last year, unless a dramatic increase in the gold price occurred.



Graphic LEE EMERTON Source JSE

Deak's Koppel said higher pay for unions would mean higher costs overall for the mining industry. He said he saw the break-even point for most SA mines at $350/oz to $360/oz.

Economist Fred Demler at Painewebber Inc said: "Gold prices have stabilised recently and, with the break above $368, traders are more comfortable buying."

Analysts and dealers contacted agreed that the traditional relationship of the US dollar to gold where gains in the dollar usually mean a decline in gold prices and visa versa has not been a consistent focus recently of the gold market. "Those looking for a traditional relationship between the gold and the dollar have been burned recently," one trader said.

Another said. "The investment community has learned to diversify against the decline in the dollar without necessarily turning to gold."

Potential outright sales by the Soviet Union of gold to bolster a flagging economy is a potential bearish factor for prices, traders agree. — AP-DJ.

Charter boosts income by 12 pc

Star 31/7/90 (79) (30/1)

Finance Staff

Charter Consolidated's four operating companies report strong earnings growth in the year to end-March, boosting the group's overall income by 12 percent to £75,8 million.

Together the four operating companies contributed £32 million to pre-tax profits.

Charter, which is a subsidiary of Anglo American's overseas investment arm Minorco, increased earnings a share by 0,5p to 43,6p, largely as a result of the lower contribution from Johnson Matthey.

A final dividend of 13p brings the total to 19,5p, up 13 percent.

The group has focused on four principal activities — mining equipment, building products and services, rail track equipment and quarrying.

Low yielding assets

Charter chairman Sir Michael Edwardes told shareholders in London yestereday: "The sale of peripheral businesses and low yielding assets is progressing well. Acquisitions in each of the four businesses amounted to £76 million."

Net cash balances of £90 million were available for new business opportunities.

Johnson Matthey's contribution to profits was 24 percent lower than last year as a result of restructuring costs and a disappointing trading performance.

"The rationalisation at Johnson Matthey is essential for that business and we fully support the new management. The restructuring measures should begin to realise benefits in the current year."

Commenting on the group's trading environment, Sir Michael said the group's original expectations for the current year took into account the likelihood that the UK economy would slow down, which it had.

"Charter's policy has been to balance its activities so that we are not dependent on any single product or market."

Soviets pour gold into London, Zurich

79

BDay 31/7/90

ZURICH — The Soviet Union, faced with a liquidity crunch, delivered as much as 300 tons of gold to London and Zurich in the first five months of this year, Credit Suisse said yesterday.

That was equal to the Soviet Union's total annual production last year, CS Holding's unit said in its latest quarterly bulletin.

"However, a significant portion of the amount delivered probably took the form of swaps for short-term import credits and did not, therefore, come on the market," Credit Suisse said.

It also said the long-term outlook for gold remained good.

Credit Suisse predicted that the successful restructuring of Eastern European economies would boost the global economy, making gold valued in the form of jewellery and as an investment.

The world supply of gold should outstrip demand by 270 tons in 1990 as mining output rises and industrial demand declines, Credit Suisse said.

But a drop-off in central bank sales should keep the surplus from widening significantly from 1989, when the oversupply, excluding stockpiles, was 271 tons.

"The gold market has again come to be dominated by industrial users and monetary authorities," it said.

Credit Suisse predicted that industrial demand would continue to set the tone for gold as high interest rates blocked investor demand for the metal.

Brazil, which mined about 97 tons last year, sold 137 tons between February and the end of June. The Brazilian central bank had also started to buy gold with dollars at market prices to prevent smuggling, Credit Suisse said.

The tumbling gold price pushed many SA mines into the red but output this year could be only about 30 tons lower than last year's 608 tons.

GOLD	1989	1990
Mining output	1 653	1 700
Tons of which SA	608	580
Eastern Bloc output	296	320
Central bank sales	225	50
Scrap	304	300
TOTAL	**2 478**	**2 370**
Industry demand	2 207	2 100
Central bank purchases	0	0
TOTAL	**2 207**	**2 100**
BALANCE	**271**	**270**

Australian production would peak this year at about 200-220 tons, declining to 100 tons annually in reaction to a new tax that will add substantially to mining companies' costs.

North American production jumped to almost 418 tons last year from 336 in 1988 as companies turned to cheaper mining of surface and shallow deposits.

However, environmental laws would raise North American production costs this decade, it said.

"All in all, global mining production looks set to continue to rise during the first half of the current decade, albeit at a more modest pace than in the 1980s," the bulletin forecast.

A dearth of investor demand should keep silver under pressure, Credit Suisse believed. But platinum had gained from buybacks by SA producers. Demand, it said, should remain brisk.

No real improvement in palladium prices was foreseen, the bulletin said. — Reuter.

Gold closes $3 higher

(79)

Cape Times 2/8/90

Own Correspondent

JOHANNESBURG. — The collapse of Kuwait-Iraq peace talks in Saudi Arabia yesterday sparked fund buying of gold in New York and triggered short-covering and stop-loss buying to lift the metal off its lows.

Gold closed $3 higher in London at $375,25 after the metal had briefly dipped below $370, reflecting a firming of the dollar in Europe.

Gold closed in New York $3,30 up at $373,30/80. Trading was slow as the Zurich bullion market was closed for a public holiday.

But dealers were watching the oil market, which responded to news of the mounting uncertainty in the Middle East and world oil prices moved higher.

The widely-traded North Sea Brent blend crude climbed to around $19,82 a barrel for August delivery, up from around $19,50 late on Tuesday.

Middle East tensions give gold a lift

MERVYN HARRIS (79)

THE collapse of Kuwait-Iraq peace talks in Saudi Arabia yesterday sparked fund buying of gold in New York and triggered short covering and stop loss buying to lift the metal off its lows.

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But dealers were watching the oil market, which responded to news of the mounting uncertainty in the Middle East and world oil prices moved higher. The widely-traded North Sea Brent blend crude climbed to around $19,82 a barrel for August delivery, up from around $19,50 late on Tuesday.

However, the gold price rise came after the close of trading on the JSE where gold shares drifted lower as investors withdrew to the sidelines to await direction.

AP-DJ reports that reconciliation talks between Kuwait and Iraq, hosted by Saudi Arabia, broke down with the sudden departure of the Iraqi delegation, but hopes of peace were revived hours later when the Kuwaitis said they were willing to move negotiations to either of their capitals.

The two-week-old dispute over oil, borders and money has been accompanied by a massive show of Iraqi military strength at the common borders.

Iraqi President Saddam Hussein's right-hand man Izzat Ibrahim left the Saudi summer capital early without any statements and without holding a scheduled second round of talks with Kuwaiti crown prince and Prime Minister Sheik Saad al-Abdullah al-Sabah.

After the surprise departure of the Iraqi delegation, Saad issued a statement, affirming his country's interest in continuing the dialogue through "direct negotiations".

● See Page 4

Setting the rate of exchange for the commercial rand

B|Day 2/8/90

79

MIKE DALY

HE strength of the rand against the US dollar in the period since February, when the gold price has ›een under severe downward ›ressure, has damaged a belief ›mong South Africans that a ›eakness in the dollar gold price ›ill always be partially "offset" y a decline in the value of the and.

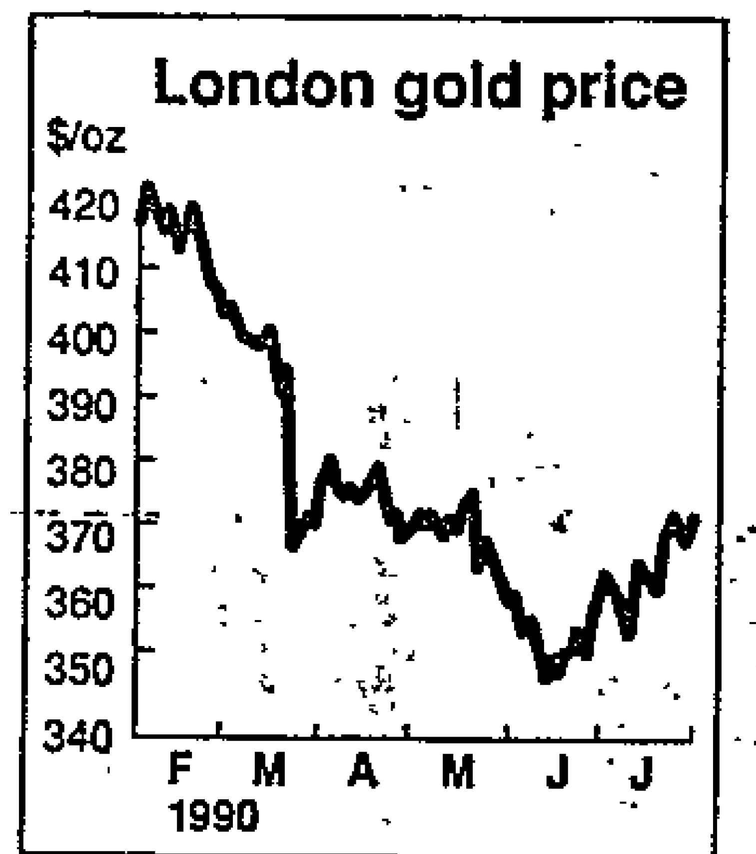
The reality has been that the 11% rop in the gold price to end-July has ccurred with the rand depreciating y only 2% against the dollar (al›hough on a trade-weighted basis by more substantial 5%). The gold rice in rand terms has therefore een largely unprotected, declining y some 9% over the period to the ›triment of the gold mines and gold ›are investors.

There may therefore be renewed ›terest in the workings of the ex›hange rate system and the role of ›e Reserve Bank in the determina›on of the foreign exchange value of ›e rand.

The monetary authorities have ›ogressively adopted more flexible ›change rate policies since the end January 1979, before which SA had ›aditionally applied a fixed but ad›stable exchange rate system with ›e currency linked closely with the ›und or the dollar. The interim re›rt of the De Kock Commission, ›blished in January 1979, recom›ended the establishment of a float›g exchange rate system for the ›nd in a competitive market, ›ough managed by the Reserve ›ink through intervention by means buying and selling dollars in that ›arket.

The key shift from the traditional ›stem has been that the rand is no ›ger "pegged" to a desired level ›ainst the dollar which is then de›nded by the Bank. Defending the ›nd against market forces that ›uld otherwise drive it lower in›lved the Bank, as custodian of the ›untry's gold and foreign exchange ›serves, selling as much foreign ›rrency as demanded by the mar›t at the desired rate.

This action would of necessity be ›ited by the amount of foreign ex›ange reserves the Bank was pre›red to lose, and could therefore be ›ly a short-term strategy — the ›emise being that prevailing ad›rse fundamental economic forces ›uld reverse themselves within a reasonably short time.



Graphic: FIONA KRISCH Source: REUTERS

Since the publication of the interim report the Reserve Bank withdrew the exchange control rulings in terms of which fixed buying and selling rates were prescribed for authorised foreign exchange dealers, essentially the commercial and merchant banks, and the dealers were henceforth allowed to determine their own buying and selling rates in competition with each other. In addition, the requirement for any buyer or seller of foreign exchange to deal only through their own bank was withdrawn.

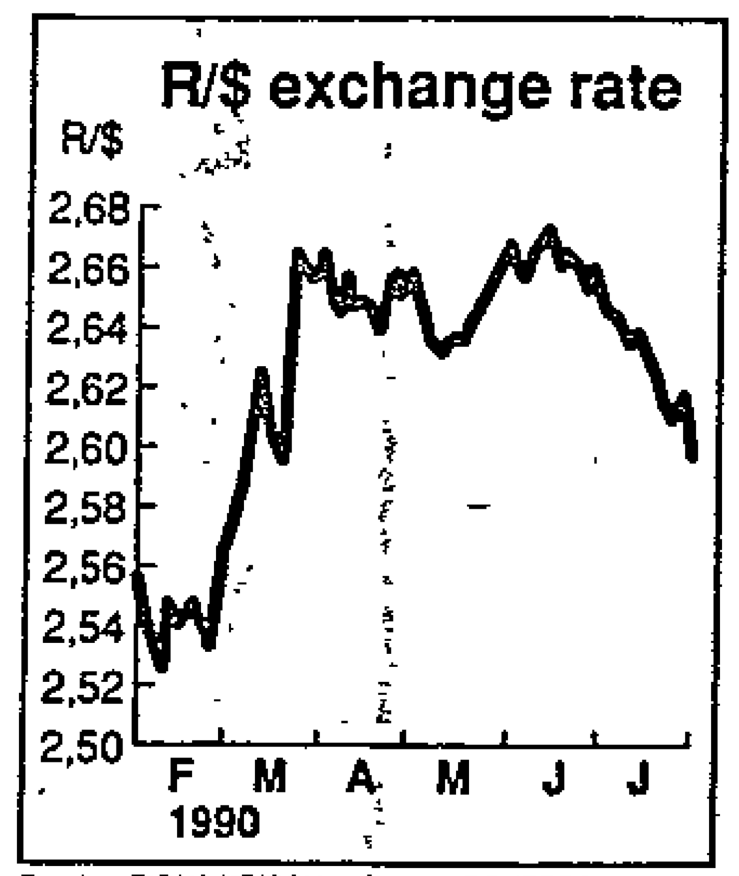
Buyers or sellers, essentially importers and exporters respectively, were enabled to obtain the best possible price in the market for their exchange transactions. At the same time the Bank supplied, via the Reuters monitor system, only "indicative rates" to authorised dealers which could change during the course of a day.

An important development in the establishment of a fully operational floating system for the rand occurred in September 1983. The Bank began to pay the gold mines directly in dollars instead of in rands for the gold that by law had to be delivered to it.

Like other exporters, the mines were required to sell all the dollars paid to them to a local foreign exchange dealer within seven days of receiving payment. In this way a major new, private, source of dollars to the market came into being, with the precise timing of these inflows being determined by the respective mines or mining houses.

For the next two years until the foreign debt crisis struck, the Reserve Bank's role in the market was minimal compared to the past. It did, however, "intervene" in the market in order to smooth out excessive fluctuations of a temporary or technical nature, which was entirely in line with the "managed float" system envisaged by the De Kock Commission.

Sales and purchases of dollars to and from authorised dealers, normally at the Bank's initiative, became part of the system in order to counteract exchange rate movements in the market that the Bank deemed undesirable.



Graphic: FIONA KRISCH Source: REUTERS

The accelerated withdrawal of foreign credit lines to SA in late 1985, coupled with the collapse in the value of the rand, led to the Reserve Bank paying the gold mines again only in rands, keeping the dollars for purposes of intervening in the foreign exchange market. However this institutional change did not materially raise the Bank's degree of control over the exchange rate — the overall supply of dollars from gold exports remained unaltered and the demand for dollars remained subject to the level of imports. As of December 1988 the gold mines once again received full payment in dollars from the Bank.

The Reserve Bank currently assumes a comparatively passive role in the day to day foreign exchange market, but maintains contact on a continuous basis, relying partly on the authorised dealers for indications of supply and demand.

It may nonetheless still intervene temporarily against rand weakness if for example the indications are that the fall in the gold price is being offset by an inflow of dollars from non-gold exports and inflows of foreign capital. It must be stressed, however, that were the latter conditions absent the Bank would not be able to resist the fundamental downward pressures on the rand even if it wished to do so.

While the South African foreign exchange market is highly competitive it is probably structurally deficient in that there are too few participants in the market and there are too many controls. A single large buyer or seller is able to move the exchange rate quite substantially during the period while it is dealing, which would indicate a lack of depth in our market.

For this reason a commercial bank may approach the Bank to help it put a very large order through, rather than deal directly through the market. If the Bank agrees that the market could be unnecessarily disrupted without its presence it will, for example, supply the excess dollars demanded at its preferred rate.

This reliance on the Bank exists despite the fact that banks are not content to simply carry out orders from customers, but buy and sell at the best possible rates for their own accounts. This largely arbitrage business contributes to the price discovery mechanism and adds some depth to what might otherwise be a very patchy and erratic market.

In addition, exchange controls still apply to residents, and controls on non-residents in the form of the financial rand were re-imposed in September 1985, thereby insulating the commercial rand from the potentially major effects of non-resident portfolio transactions on the JSE.

In this sense the value of the rand is not determined by the full range of market forces that would impinge on a "unified" currency, which was the ultimate intention of the De Kock Commission for the local exchange rate system.

☐ **Daly is chief economist with Southern Life.**

Cape Times 6/8/90

(79)

Gold unlikely to rise above $400, says SMA

Business Editor

SYFRETS MANAGED ASSETS (SMA) still considers the gold price unlikely to rise above $400 an ounce, economist Elmien de Kock said last night.

Pointing out that the economic fundamentals were unchanged, she said in an interview that she recommended profit-taking at current price levels.

She considered the recent rise in the gold price temporary rather than a new bull trend because "we are still looking at high real international interest rates and contained world inflation".

However, she continued, if the oil price remained at its present level it would have definite implications for the international economy — especially for West Germany and Japan, where it could make higher interest rates necessary.

There would be a risk of recession, especially in countries most vulnerable to a high oil price, such as Australia and the US.

"My view is that a high gold price is not sustainable and our forecast of $400 an ounce will not be exceeded."

Discussing the implications of the higher gold price for SA, De Kock said it would be positive for our economy. There was an increased possibility of lower interest rates.

But non-gold exports would be very important in an environment where everything was slowing down.

And, she pointed out, high oil prices would mean a high import bill for SA.

Gold and forex reserves show marginal increase

8/8/90

By Sven Lünsche

After five months of successive declines South Africa's gold and foreign exchange in July showed a slight 5,33 percent rise to R5,434 billion from R5,159 billion in June.

The reserves reached a peak this year of R5,95 billion in February but have been declining after meeting foreign debt commitments totalling about R3,2 billion in the first half of the year.

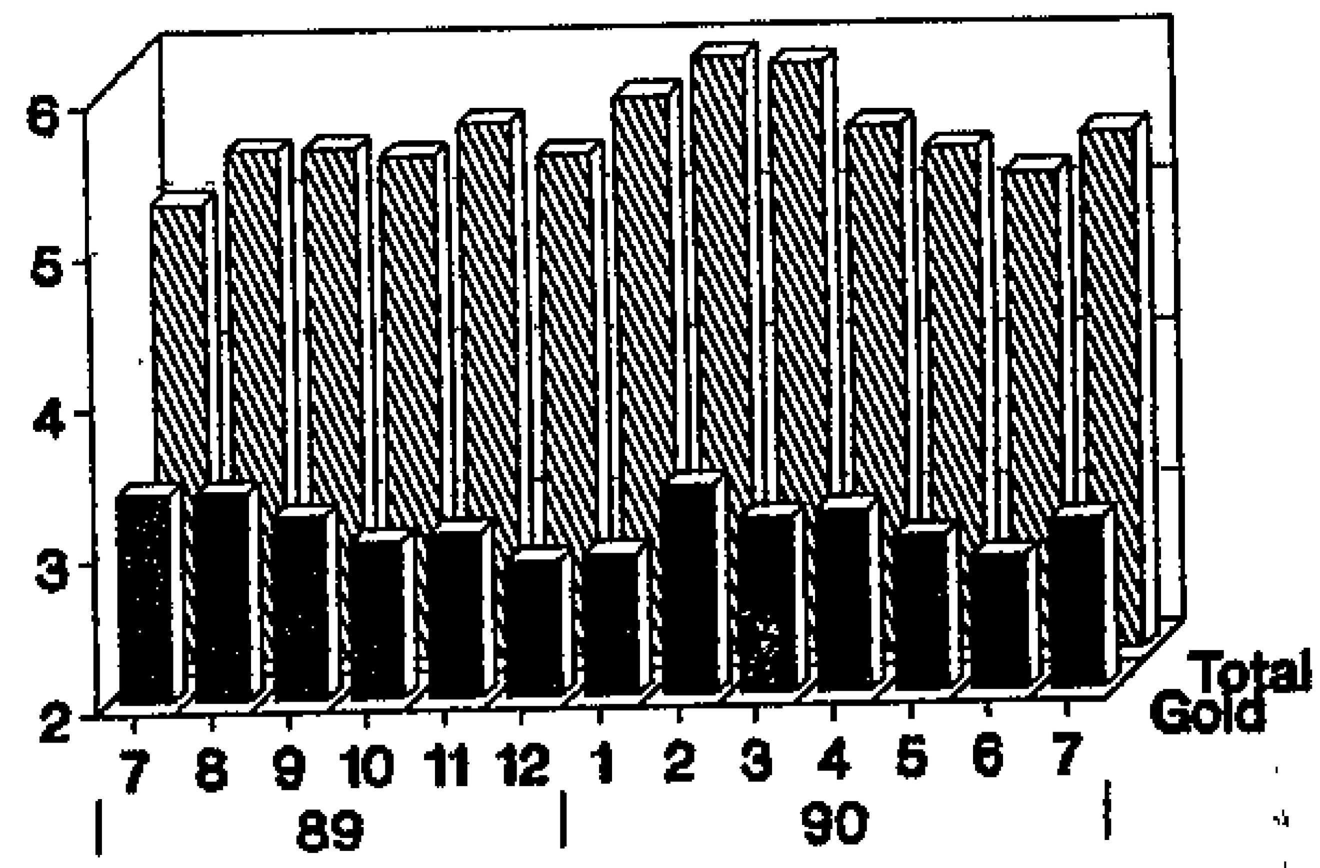
FURTHER RISE

Economists expect a further rise in the reserves in the month ahead as debt repayments are limited and imports are likely to decline in the wake of the slowdown in consumer and corporate demand.

The figures released by the Reserve Bank yesterday show that foreign exchange holdings in July increased marginally by 1,66 percent to R2,325 billion from R2,287 billion in the previous month.

Gold holdings, however, jumped by 8,15 percent from June's R2,871 billion to R3,108 billion.

The physical volume of gold holdings was boosted from 3,413 million fine ounces to 3,598 million ounces. Gold was valued at an average of R863,72 per ounce during the month, compared with R841,28 in June.



Gold and foreign exchange holdings

B/Day 8/8/90

SA gold stocks expected to rise in short term

SOUTH African gold stocks are expected to climb steadily in the short term, although they are seen to be first needing a downward readjustment following a sharp rise on news of Iraq's invasion of Kuwait.

Analysts see value in the limited range of good quality, low-cost gold producers. In addition diamond, platinum and manganese shares are said to offer good value. "But there's nothing in the market that really sparkles at the moment," one analyst said.

Meanwhile, the short-term outlook for industrials is bleak, with company profits hit by the recessionary climate.

79

As the recession is expected to endure well into 1991, investors are advised to confine their attention to consumer-oriented stocks such as SA Breweries, Pick 'n Pay, Kersaf and Richemont Securities AG.

"The underlying factors are looking good for gold, with oil prices up, the dollar weaker and agreement to bring US interest rates down eventually, but the $400-an-ounce barrier will be hard to get through," says Frankel Kruger Vinderine economic consultant Mike Brown.

Analysts say bullion, having risen rapidly to above $380 an ounce from below $350 only a month ago, will probably drop back below the $370 level before resuming its upward trend.

Any rise in the price of gold would boost the stock market overall because bullion accounts for more than 30% of SA's export revenues. Analysts predict a gold price at the end of the year of $380 to $400.

Besides increased investment interest in gold, stronger world jewellery industry demand is expected to take the price higher as bullion enters a seasonally buoyant period. But the plight of the gold-mining industry remained a negative factor as most producers were under pressure.

Analysts advise investors to stick with blue-chip gold stocks and avoid secondliners and marginally producing mines.

Among few lower-rated stocks recommended in the present climate are Venterspost because of a new mining operation being developed by it, and Loraine, which might benefit from proposed development of a new area.

Diamonds and platinums are seen offering comparable or better value than leading gold shares.

Analysts are divided over prospects for platinum shares, but agree the world's largest producer, Rustenburg Platinum, operating at relatively low cost, should remain a core holding for any investor in this sector. — AP-DJ.

Gold shares firmer amid indecision

LIZ ROUSE (79)

GOLD shares were generally firmer on the JSE yesterday, although minor declines in heavily weighted counters such as Vaal Reefs caused the JSE all gold index to record a small gain of three points to 1 674.

In general, the market was indecisive as the gold price churned in a narrow $3 range between $383 and $386 on European bullion markets. However, the JSE board showed reasonably active trade in golds and mining financials.

The industrial index shed four points to 2 994 while the overall market index was off five points to 3 132. Platinum shares continued to slide in relation to oil price moves.

BIDay 10/8/90

Bullion dealers said gold's movements were in tandem with new developments in the Gulf region. The market was very nervous because of the Gulf tension and if the situation there flared up, many players felt gold had room to move higher, said an AP-DJ report.

Good support is seen at about $382, while light resistance is seen in the region of $386/$387. Some dealers believe that if those levels are pierced, gold could surge towards $400.

The London afternoon fix was $383,60, and it rose further to close at $385,75, $3,50 up on the previous day's close. In New York gold closed at $386,00, up $2,75.

GOLD PRODUCTION FIM 10/8/90

Losing share

(234) (79)

Botswana and Mozambique may show the most percentage growth in gold mine output in the five years to 1993. Sharp rises are also expected in Indonesia, Mexico, Ghana, Papua New Guinea — and even France.

FINANCIAL MAIL AUGUST 10 1990

FIM 10/8/90

This prediction comes from the Washington-based Gold Institute, an international trade association, which has collated the projections of 206 mining entities in the 57 countries that are mining — or are expected to mine — gold during the years to 1993.

The output of SA, the biggest producer, is expected to be virtually unchanged by 1993, at 19,48m oz compared with 19,49m last year. SA's share of world production would, therefore, fall from 31,3% to 27%.

The Soviet Union, the second-largest producer, is forecast to experience only a marginal decline in share — from 14,9% to 14,6% — as its gold output rises by 13% from an estimated 9,3m oz to 10,5m.

A 35% rise in gold production in China is forecast, taking the total from 2,8m oz to 3,8m oz in 1993. (235) (79)

Apart from Papua New Guinea, already the eighth-largest gold producer and expected to see a rise of 65% in output, rapid growth in other countries is from a relatively low base. Mozambique, for example, is not expected to mine any gold until this year, when 10 000 oz should be produced, rising to 39 000 oz in 1993.

Of other countries:

- Botswana may rise from 2 000 oz last year to 22 000 oz;
- Indonesia from 148 000 oz to 566 000 oz;
- Mexico from 280 000 oz to 449 000 oz;
- Ghana from 411 000 oz to 717 000 oz; and
- France from 88 000 oz to 115 0000 oz.

Total world gold output is expected by the producers to rise by 15,5% in the five years to 1993, from 62,4m oz last year to 72,1m oz.

Gold soars to 5-month high

Cpt Tms 11/8/90 79

By AUDREY D'ANGELO
Business Editor

GOLD soared to a close of $392,75 an ounce in London yesterday — the highest level since March 22.

The rise came at the end of a week in which international stock markets were dominated by events in the Gulf and fears that rising oil prices would push up inflation.

In SA, some economists and analysts forecast that higher oil prices would cancel out the benefits of the rising gold price by pushing up inflation and this would mean no drop in the bank rate until next year.

But Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, disagreed with this.

"Higher oil prices will push up inflation in most other countries more than here," he pointed out yesterday.

"Their currencies are not going to appreciate, whereas the rand is likely to strengthen as long as the gold price remains high, and this will reduce the cost of imports."

Stuart said that, even if the trouble in the Gulf ended quickly, he expected oil prices to remain high. And the US economy was weakening, which would encourage a move into gold.

Bankorp chief economist Nick Barnardt said yesterday that he did not expect to see a steep fall in the gold price in the medium term.

"Interest in gold shares is picking up. I don't think gold will fall back very sharply if the crisis in the Middle East subsides."

But he thought the inflationary effect of higher oil prices could delay a cut in SA's bank rate, possibly until next year.

David Giese of Davis, Borkum, Hare, said that although gold looked very promising in the immediate future and platinum was moving up with it, he thought higher oil prices would undermine the Reserve Bank's efforts to bring down SA's inflation rate.

Giese said he was "very negative" on the future of the US economy. Profit-taking on industrial shares in Wall Street reflected expectations of a downturn.

● Reuter reports that on Wall Street blue chips recovered some lost ground but remained weak in afternoon trading.

Investors shed positions amid concern over the tenuous situation in the Middle East and the possibility of new hostilities.

Investors were apprehensive about what might happen over the weekend. "The market continues to be totally at the mercy of Middle East activities," said one trader.

The Dow Jones Index of 30 leading industrial shares fell about 42 to about 2 717. Losers led gainers by a ratio of about five to two.

In London, gold broke through resistance levels first at $390 and then at $392 in the afternoon, with the market taking its lead from the New York Commodity Exchange as mounting tension in the Middle East prompted buying.

Traders said Swiss-based Middle-Eastern buyers were most active.

Buying began early in Europe in very nervous trading with participants reluctant to get caught out with either long or short positions ahead of the weekend.

In Zurich, gold opened at $388 an ounce, up from $383,50 the previous day as the market concentrated on the military build-up in the Gulf region.

"There are risks on both sides. If you're long and peace breaks out, you're scuppered because gold could fall below $370 but if you're short and there's an attack you might have to buy gold at over $390 to sell it at around $380," said one dealer.

Gold goes over $400

Cape Times 14/8/90

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By JOHN CAVILL and AUDREY D'ANGELO

GOLD swept through the psychological barrier of $400 an ounce yesterday, closing in London last night at $404,60.

Earlier it had hit a high of $406 — a jump of $33 since Iraq invaded Kuwait 12 days ago — but profit-taking and reported North American producer selling trimmed bullion to its closing price.

New York's closing price was $404,25.

On the Johannesburg Stock Exchange foreign investors scrambled for gold shares, pushing up the price and causing the financial rand to soar to R3,69 to the pound.

In London gold analysts said gold's renewed vigour meant the next resistance area was in the $420-$425 range — which marked the top of the last mini-bull market.

According to analyst Andrew Smith of UBS Phillips and Drew, "people aren't running into the dollar for shelter because a recession in the US means interest rates will come down so gold is regaining its safe haven status — $20 in two days is not small beer".

Although oil prices rose only slightly — North Sea Brent blend firmed by 24c to $26 a barrel as Saudi Arabia enforced sanctions against Iraq by turning away one of its tankers — all precious metals rallied strongly on gold's performance.

Silver reached its highest levels since May and platinum the highest for 2½ months.

Silver closed in London at 516c an ounce, 21c up on the day. Platinum finished at $501 an ounce after opening at $489 and closing on Friday at $488.

Events in the Gulf and fears of inflation caused by rising oil prices were the main influence on international markets, which slipped as the JSE rose.

Wall St slide

Tokyo's nose-dive (a 4,2% slump in the Nikkei Dow Jones index to a two-year low of 26 176) undermined all Western stock markets. Hong Kong (-1,3%), Zurich (-2,3%), Frankfurt (-2,5%) and Paris (-3%) all tumbled in Tokyo's wake.

In London the FT-Stock Exchange 100 index dropped by more than 1% before rallying to halve the loss to 2 219,5.

And a forecast by US Treasury Secretary Mr Nicholas Brady that the Gulf crisis and higher oil prices could halve America's weak growth rate — currently only 1,2% annualised — saw Wall Street slide again.

One analyst commented that "President Bush may be facing his finest hour or disaster, the American economy is in trouble and the dollar is under pressure".

The gold surge is good news for the South African economy. But the country's import bill will be hit by the higher oil price.

Stockbrokers and analysts forecast yesterday that, whatever the outcome in the Gulf, oil prices would remain high — making gold an attractive investment.

Old Mutual chief economist Mr David Möhr said: "As long as the oil price is at these levels there will be serious implications of inflation for some countries — especially the US. Under these circumstances we could see significantly higher gold prices, in the mid-$400s.

"All of a sudden we are facing the biggest threat of world inflation for years."

Mr David Giese of Davis, Borkum, Hare said that although foreign buying of SA gold shares came mainly from Britain and Europe, there had been some US buyers too.

● Gold shares soar on JSE — Page 10

Gold price rise fails to make mines profitable

(79)

B Day 14/8/90

RIAAN SMIT

A GOLD price of $400/oz means some relief for the gold mining industry, but at this price 14 mines are still producing about 86 tons of gold, annualised, at a loss, June quarterly figures show.

The rise in the gold price from around R950/oz for the June quarter to about R1 030/oz yesterday theoretically changed another nine mines from loss making to being marginally profitable.

However, these figures dealt with a "moving target" — cost inflation which ran from 15% to 18% annually, stockbrokers Ed Hern gold analyst Tom Dale said yesterday.

Ed Hern's cost calculations, including capex, for the June quarter identified 12 mines with costs between R1 103/oz and R6 931/oz.

The cost after capex of two other mines — Gengold's Grootvlei and Anglo's Ergo — were R1 048 and R1 031 respectively for the quarter.

Mines could only cut capex to a limited extent before endangering the economic viability and safety of operations thus capex was inseparable from ordinary production costs.

Top of the list of loss-makers were developing mines Barbrook (Rand Mines) and Joel (JCI).

Barbrook's cost after capex for the quarter was R6 931/oz and Dale forecast it would lose 19c, 11c and 2c a share over the next three years on its 151,9-million issued shares if the gold price averaged R1 100/oz.

Working

The mine already had R105,6m in accumulated losses, stated Ed Hern's Quarterly Gold Share Review and Forecast.

Similarly, Joel, which had a working cost after capex of R2 673/oz for the quarter, would lose 30c and 31c a share each year on its 97,9-million issued shares for the next two years before making a profit of about 50c a share, Quarterly Gold forecast.

But Joel had accumulated losses of R424,6m, or 144c a share, Quarterly Gold stated.

Gold Fields of SA's Kloof mine had costs after capex of R1 246/oz and its Venterspost and Doornfontein mines recorded R1 231/oz and R1 189/oz respectively.

JCI's Western Areas had a cost after capex figure of R1 185/oz and its Lindum operation R1 133/oz.

Gengold's Stilfontein recorded R1 105 and its Grootvlei mine R1 048/oz.

The nine mines which were profitable at a gold price above $400/oz (R1 030/oz), but were not so at a gold price of R950/oz were Harmony (cost and capex R1 016/oz), Freegold (R1 004/oz), Leslie (R1 001/oz), Bracken (R990/oz), West Rand Cons (R983/oz), Durban Deep (R981/oz), Deelkraal (R977/oz), Western Deep Levels (R971/oz), and Randfontein Estates (R966/oz).

Gold rally comes to abrupt halt

Cape Times 16/8/90

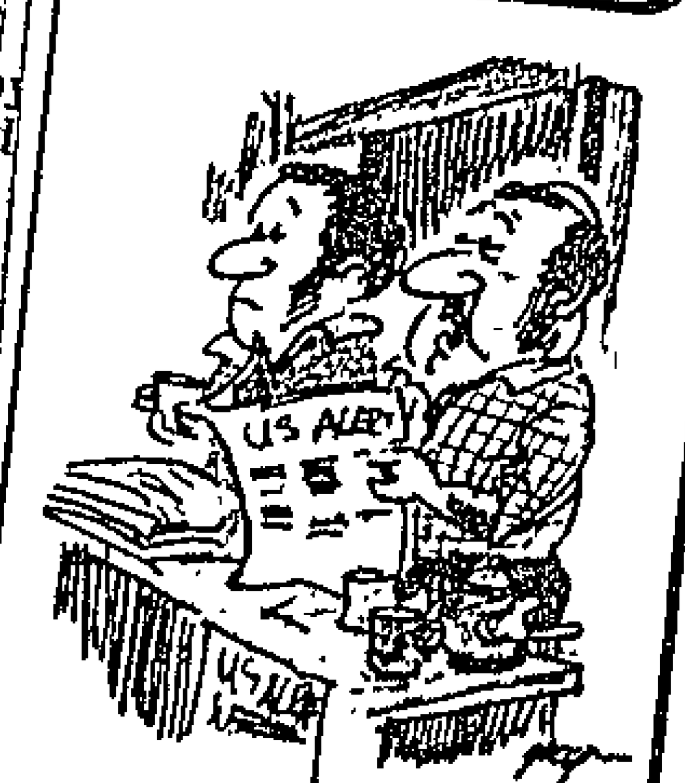
Own Correspondent

JOHANNESBURG. — Gold's rally came to an abrupt halt in late trading yesterday when the metal met strong resistance at new six-month heights of $416 and fell back to close $4 higher on the day in London at $408,25. It closed in New York at $404,75.

Earlier last night the metal continued to retreat before a torrent of profit-taking in New York, and some analysts said it could test the $400 level. They added that this would not necessarily ruin the uptrend.

Share prices had earlier come off their top on Diagonal Street as investors took profits after the sharp gains of the previous few days.

crack of dawn



Of course the US will support Saudi Arabia. After all oil is thicker than water.

Bean thief jailed

Cape Times 16/8/90 (19)

Gold takes on changing role

By ARI JACOBSON

GOLD's traditional role as a store of wealth in uncertain times has gone, says the latest International Goldmining Newsletter, referring to the yellow metal's reaction to Middle East tension.

The newsletter points out that although the present oil crisis is potentially worse than that in 1979, when gold rocketed to $800 an ounce, the metal has in contrast taken time to "chug towards $400 an ounce.

"The role of gold as a hedge against uncertainty no longer holds in today's sophisticated financial markets with high interest rates prevailing."

The physical presence of gold has diminished, with the advent of derivative markets and gold-backed instruments. "Coupled with this, many of the latest gold rallies have been countered by sizeable producer selling and profit taking."

The two pools of liquid funds used to finance the world's shortfalls, through the Japanese and West German surpluses, will soon be tied to rebuilding East Germany and propping up Japan's over-geared equity and property markets. This means liquidity will be scarce with interest rates high in the medium term.

The implementation of full economic sanctions will see up to 3,5m barrels a day — or 7% of the world's supply — withdrawn from the market, boosting the oil price.

"On the demand side of the equation, the industrial nations have an eight-year high of 99 days' worth of oil stocks — placing them in a strong position to weather a supply crisis."

The cuts will seriously affect Japan and could also hit the US, whose oil import bill has jumped to 50% of supplies this year on the back of lower domestic production.

"Already fuel prices have risen and stock and bond markets have fallen making gold holdings relatively attractive."

The newsletter said with oil revenues drying up Iraq may indulge in discreet selling of gold in exchange for vital goods.

"Most Iraqi oil is exported by pipelines through Turkey and Saudi Arabia. With US troops on the scene an invasion of Saudi Arabia is unlikely." Consequently, it says, there will not be any rapid movement in gold.

"But if Iraq is bold and opens hostilities with the US, gold should yet again take off to new highs."

Warning over rising costs of mining in SA

B/Day 01/8/90

PETER GALLI

THE gold price will have to rise to \$1 850/oz by the year 2000, unless SA black mineworkers' wage demands and the inflation rate abate, Michael Spriggs reported in the August issue of the London-based Warburg Securities.

Working cost inflation on SA gold mines would continue to stand at about 14% if this did not happen, and this gold price would be necessary were percentage margins to be restored to their 1988 level, Spriggs said.

The operating margin — the percentage difference per ton between revenue and costs — for SA gold mines fell to 23% in the quarter to end-June, the lowest point in the past decade.

Also, total distributable earnings (after-tax earnings less capex), showed a 60% decline — the steepest quarterly fall for over a decade — said Spriggs.

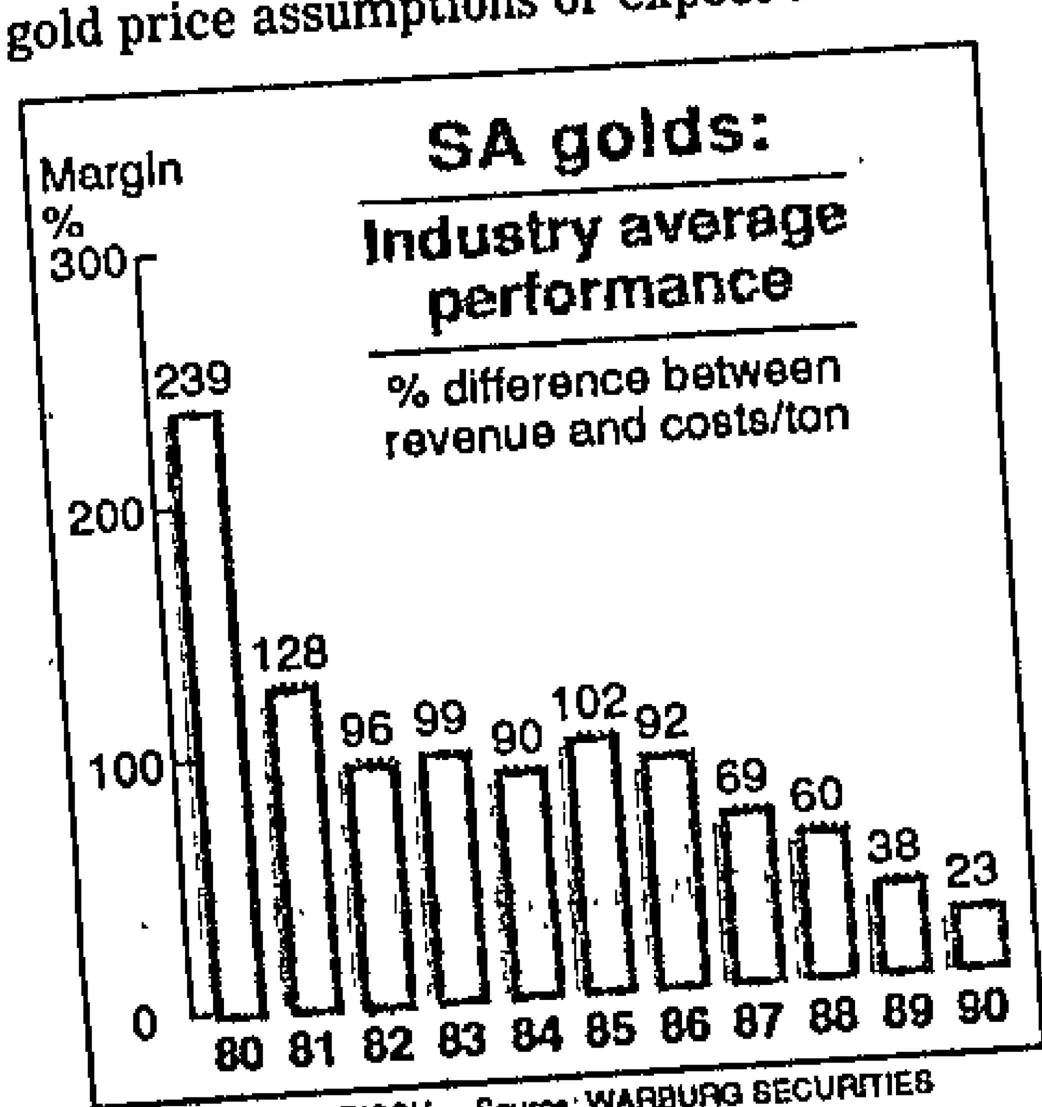
"We have to make some very optimistic gold price assumptions or expect a disastrous slump in the rand if the industry is to retain some semblance of health.

"Shaft closures and labour retrenchments are only short-term solutions, and the potential for raising grades is also limited. Extreme caution is now required," Spriggs warned.

However, Ed Hern, Rudolph gold analyst Tom Dale suggested that management could address the cost squeeze by hedging some gold production to lock in better prices, reduce capex, and calculate pay limits at a conservative gold price.

This should be combined with a tight control over mining policy, which would involve the closing of unprofitable shafts, he said.

79



Graphic FIONA KRISCH Source: WARBURG SECURITIES

Uneconomic

Spriggs felt that the condition of the SA mining industry remained very serious, since working costs continued to rise at an average of 14% per year, the average gold price decreased by 7% to \$370/oz (\$396/oz) for the June quarter compared with the March quarter, and tax and lease payments by the industry continued to decline.

Apart from this, the average price of R31 537/kg was the lowest for 18 months.

At current gold prices, about 20% of SA gold production is uneconomic.

Industry's response to these dire conditions has been severe, with massive drives under way to contain costs either by cutting production or deferring spending.

Furthermore, the work force in the industry continued to be cut, as a direct consequence of the drive for cost control, industry sources said.

GOLD FM 17/8/90

Sudden surge (79)

Gold went into a speed wobble in volatile trade as the *FM* went to press. After a break above US$400/oz on Monday, when equity markets around the world tumbled in near-unison, bullion followed to swing wildly around new six-month highs.

After $408 in the Far East, it shot up to $416 in Zurich on Tuesday with increasing investment interest reported from "traditional" buyers — the Swiss, Germans and Middle East sources which have shifted hundreds of millions of dollars out of Saudi and other Gulf banks in the past week.

When London opened, gold was pushed down by a wave of profit-taking to $406, rallied to $411 at the morning fix, and went on to $414 before retreating to $413.

Silver, in the vanguard on Monday with a net 26c advance to 516c/oz, went to 521c but the widening of dealing spreads to 4c (518c-522c) indicated nervousness. By contrast platinum virtually ignored the action, a mere 50c better at $502,50, though palladium put on $1,50 to $119,50/oz.

A pause seemed called for. While oil prices were firm they were not running away: Brent North Sea blend at $26,30/barrel was 30c off on the week while US benchmark West Texas Intermediate was $1 down at $27/barrel.

Equity markets

After seven leading equity markets hit new 1990 lows on Monday, shares were due for a rally with assurances from Saudi Arabia that Opec (or at least most of its members) would largely make up crude supplies lost from Iraq-Kuwait.

US Treasury Secretary Nicholas Brady admitted GNP growth could be halved "towards zero" this year if crude prices stay up. That virtually guaranteed lower US interest rates but the impact on the dollar was mixed. It stayed weak against the European currencies but held up in yen with Japanese buying of short-term US Treasury bills.

The situation in the Gulf receded into rhetoric in spite of the huge build-up of firepower by the US and allies. Sanctions against Iraq have been quick to bite — the Saudis refused to allow an Iraqi tanker to load at the Red Sea terminal of Yanbu while the other pipeline via Turkey has been closed — and Iraq's output has been cut to 600 000 barrels a day. This figure is just enough to meet domestic needs plus a trickle of road-hauled exports.

How long Iraqi President Saddam Hussein can hope to last when Iraq is losing (at $18/barrel) $300m a week is unclear. Iraqi troops are reported to have looted 2,5m oz of gold ($1bn) from the Kuwaiti central bank plus (it is guessed) $100m in foreign currencies and a lot more, by value, in aircraft, motor vehicles, machinery and other goods. But that is a wholly inadequate cushion against oil revenue lost on 4m-4,2m daily barrels of exports. FM 17/8/90 (79)

The uncertainties should continue to suit gold. But bullion still has to show its merits as an alternative to non-dollar currencies. The 10% rise since Iraq's move roughly mirrors the downside on the big equity markets. In dollar terms, the *Financial Times*-Actuaries world index (covering 70% of global market capitalisation) has fallen about 8,5%.

Longer-term holders have fared modestly. In the past 12 months gold has risen 12,3%. Ignoring interest, those who switched out of dollars into D-marks are 20% ahead, while sterling has appreciated by 17%.

Among major currencies, only the yen is down — by 7%. ■

BUSINESS MAIL

Gold bounces back as Gulf fears continue

79

WMail 17/8-19/8/90

GOLD rebounded to above $400 an ounce yesterday, but seems stalled there while the Gulf simmers.

The gold price closed in London at $403,50. It closed on Wednesday at $401,25. Later in New York, gold closed at $408,75.

During the day the gold price resumed the rally that appeared to have petered out on Wednesday, but the Gulf crisis is still the short-term key to gold's future.

The afternoon fixing of $402,60 in London yesterday was up from $399,25 at the morning fixing, and up from $398,40 at Wednesday afternoon.

Strong demand prevented gold from falling below $398,50.

But widespread uncertainty over the Gulf meant few investors were eager to take major positions. One dealer said the metal could remain in a range between $398,00 and $405,00 until the situation in the Gulf clarifies.

"I believe the situation there is still unsettled, and so it's a dangerous market," he said.

Other traders warned that any sign of a military conflict in the Gulf could send the metal toward $415,00 an ounce.

In Zurich, gold rose to a closing bid of $401,25, up from a $398,75 bid late on Wednesday.

Earlier, in Hong Kong, gold rose $0,97 to close at a bid $401,09.

The US dollar rose yesterday in European trading, dominated by anxiety over the Gulf crisis.

There were no new trends in the market, the dollar moved to a new high against the yen as world oil prices strengthened in spot-market dealings.

Fundamental concerns over the dollar, however, kept it locked in narrow ranges.

"We're waiting for the next inspiration," said the chief dealer of a US bank in London. "That may be military rather than economic."

Dealers were also watching the meeting between Jordan's King Hussein and US President George Bush for signs of any diplomatic breakthrough in the Gulf.

"If Hussein had something important to give Bush, then why is it taking two days to deliver the message?" asked a senior British bank dealer.

Dealers are discounting chances of a diplomatic coup for the Jordanian monarch, and they are reluctant to bet that lack of concrete action after the talks with Bush will lead to Gulf warfare.

In Tokyo, the dollar rose to a closing 147,90 Japanese yen from 147,15 yen at Wednesday's close. Later, in London, it fell to 147,62 yen.

In London, the pound fell to $1,8985 from $1,9045 late on Wednesday.

Gold-related shares were mostly firmer in thin, late dealings in London, following a day of volatile price movements, as the gold price fluctuated around the $400 level, dealers said.

As with gold, the Gulf crisis continues to dominate trade, and shares continue to follow gold price movements. — Sapa.

Opec set to increase production (79)

Gold plunges on prospect of peace in Gulf

Bday 28/8/90

ANDREW GILL

GOLD plunged more than $26 to $387,75 in New York yesterday as prospects grew for a peaceful end to the Gulf crisis and Opec moved towards increasing oil output.

Diplomatic moves towards an easing of tensions in the Middle East triggered heavy selling of bullion as US and European investors rushed to liquidate their positions.

The turnaround in sentiment, and a fall in oil prices, sparked rallies in most world equity markets, which came sharply off last week's dramatic lows.

In New York, the Dow Jones industrial average gained more than 3% (86 points), rising to 2 619 as investors poured back into the stronger market.

Platinum followed gold's fall, trading $24 lower at $483 in New York, while oil prices plunged with the benchmark North Sea Brent crude down $3,95 to $26.

"With diplomatic initiatives being stepped up and oil prices sliding, the outlook for equities is good but gold's immediate future is grim," an analyst said.

Sapa-Reuter reports from New York that a major flashpoint in the Gulf crisis was removed with reports that Iraqi ships had been given new orders by Baghdad not to defy the Western blockade.

Iraqi captains have reportedly been told to allow US Navy ships to stop their vessels and board and search them.

The move follows a UN Security Council resolution at the weekend sanctioning the use of minimal force to implement UN trade sanctions against Iraq following its annexation of Kuwait.

The Daily Telegraph reports that 11 Opec oil ministers meeting in Vienna are expected to conclude an agreement "for each country to produce as much oil as possible".

Kuwaiti Oil Minister Rasheed Salem al-Ameeri said the two-day informal consultations would be finalised at a formal Opec conference today.

He said the new agreement would not force any Opec member to produce more oil, but some, such as Saudi Arabia, the United Arab Emirates, Qatar and Venezuela, would be able to produce as much as they pleased. This means Opec's oil output could exceed the previous limit of 22,5-

□ To Page 2

Graphic: LEE EMERTON Source. REUTER

Gold

Bday 28/8/90 (79)

□ From Page 1

million barrels.

World equity markets staged marked recoveries with Tokyo leading the rally in thin trading. It posted its ninth largest one-day gain of 4% (6% in two days) to break the 25 000 point barrier and end at 25 141.

Gold slumped more than $8 to $401,25 in Zurich as yesterday's Middle East developments depressed its recent bull run.

The weaker gold price depressed stocks on the JSE with the all-gold index falling almost 3% to close at 1 657 points. It has lost 11,9% since the beginning of last week.

The overall index ended the day 23 points up at 2 931 points after touching 2 946 in early trading on the back of strengthening rand hedge stocks which were buoyed by the weaker finrand.

London was closed yesterday for a bank holiday but other European markets posted strong gains.

In Frankfurt, share prices soared with the 30-share DAX index staging its largest ever points rise, closing 95,76 points (6,14%) higher at 1 654.

In Zurich, Swiss shares closed sharply higher in active trading. The all-share SPI index rose 35,8 points to 1 024.

Paris shares rocketed with the CAC-40 index registering its biggest ever gain on foreign buying and short-covering to end 82,30 points (5%) higher at 1 699.

Sapa-Reuter reports that Washington yesterday expelled 36 Iraqi diplomats in retaliation for Baghdad's ultimatum to close embassies in Kuwait. The US also restricted the movements of 19 diplomats still in Baghdad's Washington embassy.

Meanwhile, Western governments continued to pour troops, warships and aircraft into the Gulf and Saudi Arabia. And nearly 17 000 refugees from Iraq and Kuwait, including about 50 Westerners, crossed into Jordan.

● See Page 7

Cape Times 28/8/90

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Gold cras

$26 drop as Gulf 'peace' moves g

JOHANNESBURG. — Gold plunged more than $26 to $387,75 in New York yesterday as prospects grew for a peaceful end to the Gulf crisis and Opec moved towards increasing oil output.

The metal had closed in New York on Friday at 414,55.

Diplomatic moves in the Middle East yesterday triggered heavy selling of bullion by US and European investors.

A major flashpoint in the Gulf crisis has also been removed with reports that Iraqi ships have been given new orders by Baghdad not to defy the Western blockade in the Gulf region.

Iraqi captains have apparently been told to allow US Navy ships to stop their vessels and board and search them.

Gold slumped over $8 to $401,25 in Zurich. On the Johannesburg Stock Exchange the weaker gold price depressed stocks with the all-gold index falling almost 3% to close at 1 657 points. It has now lost 11,9% since the beginning of last week.

The London exchange was closed yesterday because of a bank holiday, but the turnaround in sentiment, and a fall in oil prices, sparked rallies in most world equity markets, which came sharply off last week's dramatic lows.

In New York the Dow Jones index gained more than 3% (86 points) to 2 619 as investors rushed back to the stronger market.

Platinum followed gold's fall, trading $24 lower at $483 in New York.

"With diplomatic initiatives being stepped up and oil prices sliding the outlook for equities is good but gold's immediate future is grim," an analyst said.

● The apparent softening on the part of Iraq's President Saddam Hussein follows a UN Security Council resolution at the weekend sanctioning the use of force to implement UN trade sanctions.

Britain's Defence Secretary Mr Tom King suggested in London that Iraq may withdraw from Kuwait and then negotiate with that country "about their future relationship".

But he rejected any compromise on the occupation by Iraq.

● Washington announced last night that it was expelling 36 Iraqi diplomats in retaliation for moves against US diplomats.

Iraq is believed to be holding 63 US citizens hostage. Troops surround the US embassy in Kuwait City.

● PLO chairman Mr Yasser Arafat announced that he

...ms of two weeks of violence on the Reef ...east 515 dead.

...housand Soweto people ...bury the bodies of eight ...d in the street-fighting, ...clared that special emer... ...res imposed on Friday ...e desired effect — peace ...d to these strife-torn

...death toll in Soweto it... 126 yesterday afternoon, ...eople had died of unrest... ...ies in Baragwanath Hos... ...rday, according to SAP ...n officer Captain Joseph

...death toll for the Wit... ...ncluding Soweto, had re... ...5 since Sunday morning,

...caches were reported in ...e weekend, he said.

...e African National Con... ...allies for a "stayaway" ...nciding with the funerals ...read support.

...inesses were closed and ...ands of workers did not ...rk in Johannesburg and ...rial satellite cities, ac... ...ansport surveys.

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CT 28/8/90

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Cape Times 29/8/90 (79)

From page 1

Gold briefly touched a low of $378.50 an ounce, $14 down on the opening, a level last seen on August 3 shortly after the start of the Gulf crisis.

But most of gold's moves appeared technical as volume was thin, traders said, predicting a partial recovery in New York levels before the close.

In one of the strongest indicators of a possible breakthough, President Saddam Hussein said yesterday that he was willing to discuss the Gulf crisis with President George Bush and Mrs Margaret Thatcher.

He also said all women and children foreigners in Iraq were free to leave the country.

He issued the decree after meeting a group of foreigners held in Iraq and hearing complaints about children being held, the official news agency said.

President Hussein said he was "ready and prepared for direct talks with Mr Bush and Mrs Thatcher. Let us have the debate between me and them on television for the whole world to see".

But both Britain and the United States rejected the offer.

In Washington, State Department spokeswoman Ms Margaret Tutwiler said President Hussein's suggestion of a televised debate with Mr Bush and Mrs Thatcher was "sick and it doesn't even deserve a response".

A spokeswoman for Mrs Thatcher said: "I'm not in a position to give an immediate reaction except to say I don't think the position has changed. The bottom line is that he (Saddam) has to get out of Kuwait before any discussion can occur." — Reuter

Bush fish-hooked by son

WASHINGTON — President Bush's right ear lobe was punctured by a fish hook cast by his son yesterday, but he carried on fishing for another hour.

"The president was strong and courageous throughout this exercise," a White House spokes-

Gold plummets further

Cape Times 29/8/90 (79)

LONDON. — Gold continued its dramatic plunge yesterday as world markets responded to the prospects of a solution to the Gulf crisis.

In London, gold plummeted in late-afternoon trading as New York's Comex reversed direction after a higher opening.

It closed at $382/382.50 an ounce after opening at $391.75/392.50 and closing at $412.50/413 on Friday. In New York, the metal closed at $383,85 against Monday's close of $387,75.

The fall was triggered by steep losses in crude oil futures as well as a change of market sentiment towards immediate peace initiatives in the Gulf, traders said.

"There is no reason to buy this week if you're buying on the expectation of a war," Mr Andy Smith, precious metals analyst with UBS Phillips and Drew, said.

"The possibility of a war is almost negligible this week with UN secretary-general Mr Perez de Cuellar's meeting with Iraq's foreign minister tomorrow," Mr Smith said, adding: "If you've got a carrying cost for gold you might as well sell it this week and buy it back next week."

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● Opec meeting hit snags — Page 14
● Gold drops to $382,25 — Page 14

Gold climbs back to $390, JSE recovers

By TOM HOOD ARC6/ 79
Business Editor 29/8/90

GOLD recovered to $390 an ounce in Hong Kong today after the big drop in oil prices sent it crashing $10 to $382,25 in London yesterday.

The fall in crude, triggered by prospects of peace in the Gulf, raised hopes that oil-based inflation would not be as severe as some industrial countries feared.

Share prices also recovered in Johannesburg and other stock markets on the prospects that economies might escape a new oil crisis.

SHORTFALL

However, oil prices rebounded yesterday from their $6 slide a day earlier, jumping almost $1 dollar a barrel as traders speculated on diplomatic efforts to resolve the Middle East crisis.

Traders also were monitoring Opec discussions that could lead to boosts in crude oil production, offsetting the shortfall caused by the international boycott of Iraq and Kuwait.

The world's most widely traded crude oil, North Sea Brent, was quoted at $26 against more than $30 before prices plummeted this week.

JSE industrial index up 41 points

Gold's slide continues for a second day

79

BDay 29/8/90

JOHN CAVILL and BRENT MELVILLE

LONDON — Precious metals markets remained under pressure yesterday as buyers withdrew and waited for the outcome of UN secretary general Perez de Cuellar's attempts to mediate with Iraq in the Jordanian capital of Amman tomorrow.

Gold was volatile, swinging over a $15/oz range after Monday's $26,70 slump in New York. Gold closed in New York at $383,85 — a fall of $30,60 in two days.

In London, gold closed at $382,50, after not being traded on Monday due to the August bank holiday. The metal traded steadily, with the dollar's weakness against the yen — it fell from 145,90 yen to 143,15 yen — sustaining the market.

But on the JSE investors were reticent to let go of gold shares despite the weakening gold price and the firmer finrand.

On the back of the demise of bullion to just above the $380 support level in London yesterday, JSE investors left the all gold index just 38 points down at 1 619 on expectations that the index could crumble by as much as 150 points on the day.

The overall index finished a mere eight points down at 2 924 and the industrial index capitalised on some rare bullish sentiment on its blue chips to climb 41 points and close at 2 820.

Platinum, palladium and silver tracked gold. Platinum closed in London at $482,50 (after a low of $480) and palladium sagged to $109,50.

However, crude oil prices steadied after dropping more than $4/barrel to $26 for North Sea Brent blend (October). It was quoted at $25,70/barrel having been down to $25,40 on expectations that Opec would formally sanction and join Saudi Arabia's planned increase in output to offset the loss of Iraq-Kuwait supplies.

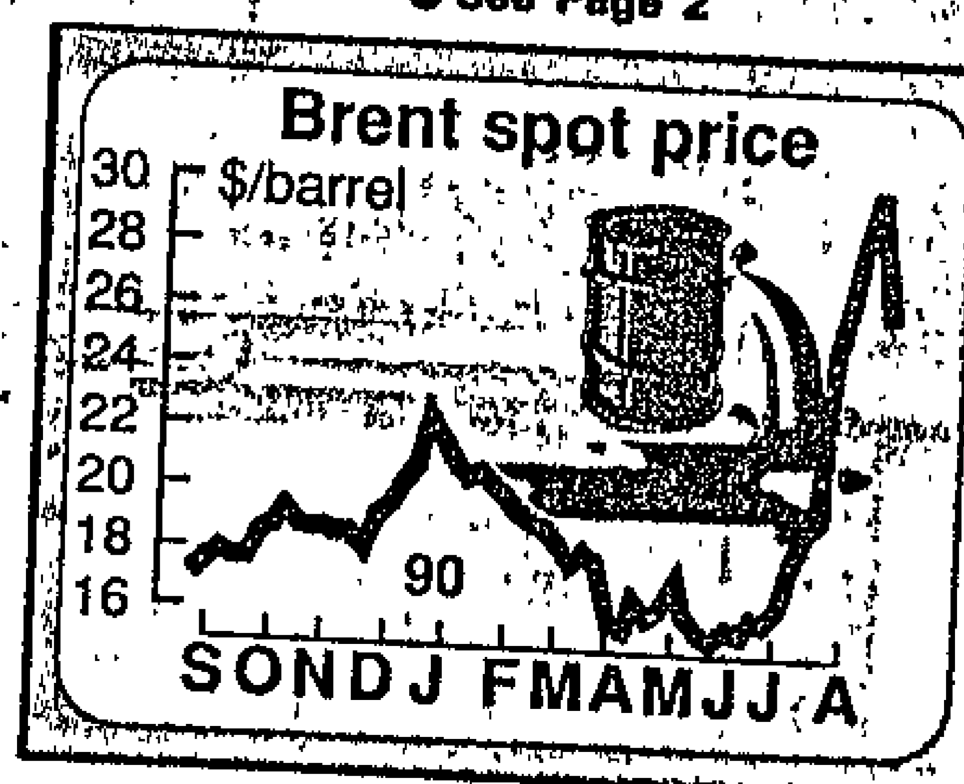
But Iran has demanded that consumers run down part of their stocks — equal to 100 days' demand in the industrialised countries — before Opec steps up production.

London traders and analysts, however, said the main factor was the cooling off of war tension in the Gulf.

Smith New Court's Albert Loveless said: "Gold was headline driven, now it's chart driven. It was overbought and a pull back to the 200-day moving average price is in line with chartist behaviour and that's what it has done."

Johnson Matthey's Mike Rose said: "The

● See Page 2



Graphic. LEE EMERTON Source. SASOL OIL

Citi-Times 29/8/90

Gold drops to $382,25

79

From JOHN CAVILL

LONDON. — Precious metals markets remained under pressure yesterday as buyers withdrew and waited for the outcome of the UN Secretary General Perez de Cuellar's attempts to mediate with Iraq in Amman tomorrow.

Gold was volatile, swinging over a $15-range after Monday's $26,70 slump in New York to $388,30. Initially it moved up $5 with Hong Kong and London resuming business after Monday's August Bank holiday.

Fixed at $392,55 in the morning, bullion traded steadily, with the dollar's weakness against the yen (from 145,90 yen to 143,15 yen) sustaining the market.

New York opened marginally higher but as selling came in to find no buyers, gold slid to a low of $377 before recouping to $382 as Wall Street hesitated after the sharp rally in share prices around the world.

Gold closed at $382,25.

Platinum, palladium and silver tracked gold. Platinum closed in London at $482,50 (after a low of $480), palladium sagged to $109,50 and silver fell to $4,83.

Crude oil prices, however, steadied after dropping more than $4 a barrel to $26 for North Sea Brent blend (October). It was quoted at $25,70 a barrel having been down to $25,40 on expectations that Opec will formally sanction and join Saudi Arabia's planned increase in output to offset the loss of Iraq-Kuwait supplies.

"Gold was headline driven, now its chart driven," said Albert Loveless of Smith New Court.

"It was overbought and a pull back to the 200-day moving average price is in line with chartist behaviour and that's what it has done."

Stephen Raphael of Chart Analysis said: "In the short term we could see gold bounce but it will be vulnerable. Although the one-year moving average line is at $385 which may provide some support, we never had a bull market confirmed in the run up.

"Because gold failed to get above $418, the three-month average did not go through the long-term trend line and now the market has also lost momentum."

Les Edgar, director of bullion traders Sharps Pixley said: "Everyone felt they had to be long of gold because of the Gulf crisis and the first signs of it quietening changed that. In addition the technical picture does not look good.

"But it is a very nervous, thin market. It has not taken much to send the price down."

Mike Rose, at Johnson Matthey said: "The selling has not been big but nobody feels the need to buy. The concern about an immediate war has receded and people prefer to wait to see what emerges from the talks between De Cuellar and the Iraqis."

● **In New York,** gold closed at $383,85 against Monday's $387,75.

Closing gold prices

(In $ an ounce)

LONDON:
382,00/382,50
Fixing am: 392,55
Fixing pm: 388,25

ZURICH:
389,50/389,50

NEW YORK:
383,60/384,10

— Reuter

Gold peaks at $390

Cape Times 31/8/90

79

LONDON. — Gold closed $3,90 firmer at $388,90/$389,40 an ounce, just below the day's high, amid continued tension in the Gulf.

Dealers said a statement from an Iraqi air force commander, who said his country would bomb Israel and Saudi Arabia if war broke out, helped to fuel the rise.

Tension in the Gulf has meant that few operators are looking to go into the long US holiday weekend holding short positions.

Gold peaked at $390/$390,50 an ounce after an afternoon fix of $389,75 and a morning setting of $385,80.

Other precious metals also rose, with platinum ending $7,5 higher at $487,50/$488,50 an ounce, up from its afternoon setting of $485 and its morning fix of $484,50.

Silver bullion reacted more sluggishly, closing only $0,1 an ounce higher at $4,84/$4,86. It was fixed at $4,83 at midday.

- **In New York,** gold closed higher at $387/$387,50 against Wednesday's $385,75. — Reuter

Unclassified exports leap by R544m

Trade surplus rebounds after gold price rise

79

Blom 18/9/90

GRETA STEYN

CASHING in on the gold price boom, SA's trade surplus bounced back in August to R1,26bn — more than double July's poor showing of R491m.

The dramatic recovery in the trade surplus goes a long way towards explaining the huge increase in the Reserve Bank's holding of foreign exchange reserves reported at the start of this month.

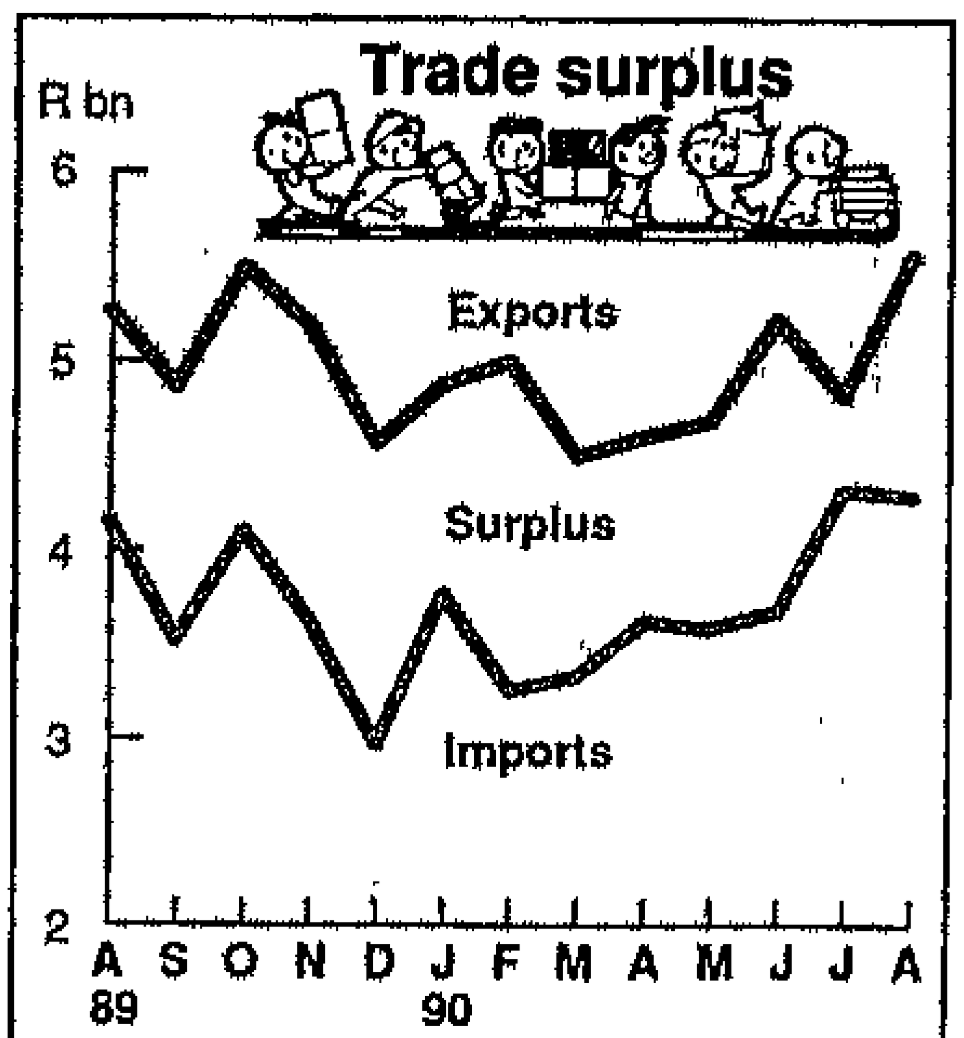
Customs and Excise figures released yesterday disclosed the unclassified category of exports, consisting mainly of gold, surged by R544m to R2,44bn for the month — an increase of 29%.

Gulf war tensions pushed the rand gold price to well over R1 000/oz to see SA achieve the highest monthly level of "unclassified" exports since July 1987. Non-gold exports also pulled their weight in August, rising by R208m from July.

Safto economist Bruce Donald noted that exports of machinery and transport equipment were boosting the contribution of manufactured goods to total exports. Prepared foods and non-metal minerals were also doing well.

But he added: "The invasion of Kuwait is dimming the prospects for SA's merchandise exports through its anticipated impact on the economic performance of our major markets. Economists worldwide are revising downward their expectations for world economic growth as the higher oil price takes its toll."

It was unlikely that the effect of these two factors would be offset by a higher



Graphic FIONA KRISCH Source CUSTOMS & EXCISE

gold price and rising demand for coal as an alternative energy source, he predicted.

Recent developments on world markets confirm this view as oil prices surge to seven-year highs and gold fails to keep pace. JOHN CAVILL reports from London that the spot price of North Sea Brent Crude was $34 yesterday in spite of increased Opec production outside Iraq and Kuwait. Industry analysts say oil may reach $40 because of the lag between higher output and arrival at world markets.

Gold jumped $4,75 to close at $389,50 in London yesterday. In New York the metal ended at $390, $4 up on Friday's close.

However, SA economists said the in-

□ To Page 2

Trade surplus

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□ From Page 1

creases would have to be far greater to offset the negative impact on the balance of payments of a high oil price. Frankel Kruger economist Mike Brown said gold should average around $420 in a year in which the oil bill averaged $25 per barrel.

The August surplus — the fourth best monthly trade balance this year — emerged relatively unscathed from soaring oil prices.

The "unclassified" category of imports — mainly oil — fell by almost R200m from July's four-year high of R759m. But Donald said it was still at a high level and upward momentum remained.

In spite of August's decline in the oil import bill, the overall monthly level of imports remained high in the light of the recession. At R4,31bn, imports in August were only marginally lower than July's R4,32bn. They were higher than a year ago, when the economy was still overheating and interest rates still in an upward phase.

Of note is the high import bill for machinery, which continued to climb in August after R230m surge in July. Machinery imports of R1,32bn in July were at their highest level since the peak reached in June last year.

However, economists warned against reading a trend into July and August's figures and Donald noted that the investment cycle was in a downward phase.

BDay 20/9/90

Gold price rules over union dictates

MATTHEW CURTIN

79

EVEN the National Union of Mineworkers admits the inevitability of retrenchments as the SA gold mining industry battles to maintain productivity in the face of a weak gold price, falling ore grades and rising costs.

NUM economist Martin Nicol said this week the industry's problems were "endemic".

The union was aware the industry-wide problems had forced mining houses to consider retrenchments from Chamber of Mines and head office level downwards.

Last Saturday, after a march through Johannesburg by up to 4 000 NUM members, the union presented to the chamber a memorandum claiming 25 000 mineworkers had lost their jobs this year.

The NUM said retrenchments should be minimised and subject to negotiations with the union.

In another report at the weekend Genmin chairman Brian Gilbertson put the figure of jobs lost at 29 000 and said a further 80 000 jobs were at risk if the gold price stayed at around R1 000 an ounce — a scenario similar to one drawn in the Marais report on marginal mines.

Chamber spokesman Peter Bunkell confirmed the continuing downward trend of employment levels on the gold mines.

In June this year the black workforce on chamber-affiliated gold mines numbered 418 391, down almost 30 000 workers from 448 197 in June 1988.

Genmin senior consulting engineer Kobus Oliver painted a more graphic picture of falling employment levels on the company's gold mines.

He said Genmin's goldmining workforce stood at 82 000 at the beginning of the year. It now numbered 70 000.

Oliver said the ratio of miners returning after the expiry of their contracts was very high at the moment, so there were only limited opportunities for relocating retrenched workers in other divisions.

He stressed the reduction of labour costs was inevitably central to attempts to maintain productivity as they accounted for almost 50% of all working costs and 25% of total expenditure on gold mines.

But Oliver said at least 40% of the 12 000 jobs lost at Genmin could be accounted for by natural attrition, resignations and retirements.

Nicol conceded that despite the union's decision to declare a dispute with the chamber if its demands on retrenchment negotiation were not met, the NUM was not necessarily in a strong position to fight job losses on the gold mines.

At many Goldfields, JCI and Genmin mines the NUM was not recognised and so was not in a position to negotiate retrenchments nor gauge for itself the extent of job losses in the industry.

But the NUM had been able to press its demands at individual mines where it was recognised, as at Anglo's Freegold South.

Anglo American gold and uranium division spokesman Adrian du Plessis said two months of talks with the union over the proposed laying off of 7 800 workers at Freegold South were proving constructive.

If proposals raised at the last meeting were accepted by both sides then there would be a "significant" reduction in the number of jobs lost.

Du Plessis said retrenchments at Anglo represented a tiny fraction of its 183 000 strong gold-mining workforce but the revival in the gold price did not imply a revival in the industry was on its way.

He reiterated chamber president Kennedy Maxwell's warning in June this year that even with a projected gold price of \$395 an ounce, 15 of the chamber's 33 gold mines would have production costs exceeding the price of gold.

With the price at \$350 an ounce, 20 mines faced operational losses and 200 000 mineworkers would "have reason to feel insecure".

Nicol said if a mining operation was genuinely on the line, the union could not prevent the inevitable job losses.

But, he stressed, the NUM distinguished between genuine retrenchments and "productivity retrenchments".

As long as a mine was able to carry a workforce it ought to, he said.

The NUM opposed the practice of paring down a workforce so that workers' jobs rather than shareholders' dividends bore the brunt of the low gold price.

Interest income lifts Minorco's earnings

(79) Star 21/9/90

Minorco's earnings from operations rose 40 percent to $220,0 million in 1990 from $157,3 million the previous year.

Interest income was the major factor in growth, arising from the proceeds from the sale of Gold Fields.

Dividend income declined $30,3 million because of the disposal of Gold Fields from which $37,9 million was received the previous year.

There were increases in dividends from Minorco's other investments, particularly from Charter Consolidated, Engelhard Corporation and Inspiration Resources Corporation, which began payment of a regular quarterly dividend during the year.

Operating expenses increased substantially, reflecting the acquisition of Independence Mining Company and the strengthening of Minorco management, particularly in the technical field, both in Europe and the US.

Earnings before extraordinary items were $229,2 million ($280 million in the previous year).

Minorco's share of undistributed earnings of companies accounted for by the equity method fell by $111,1 million, of which $70,9 million was attributable to the disposal of Gold Fields.

CONTRIBUTIONS

Contributions from Adobe Resources Corporation and Inspiration Resources Corporation declined.

Extraordinary net gains of $555,2 million were recorded ($0,1 million).

This principally comprised the net gain from the disposal of Gold Fields reduced by the share of Engelhard's restructuring charge, the write-down of Minorco's interest in Western Gold Exploration and Mining Company, as a result of the decision to close its Alaskan dredging operation, and provision against minority-held investments.

Earnings after extraordinary items were $784,4 million ($280,1 million).

Retained earnings increased by $185,3 million.

Earnings after payment of dividends and the transfer to legal reserves added $693,4 million to reserves.

Cash and short-term investments at June 30 1990 were $1,764 billion.

The directors recommending that Minorco's annual dividend be increased by 14 percent to 48 US cents per share (1989: 42c), comprising an interim dividend of 16c (1989: 14c) declared in March and paid in May, and a final proposed dividend of 32c (1989: 28c) payable in November. — Sapa.

ENCE

Blue chips 'more geared to gold price'

B Day 21/9/90

THE decline in the gold mining industry's profitability meant even blue chip mines were far more geared to rise on the gold price than had been the case in the past, Simpson McKie director Rodney Yaldwyn told the conference. (79)

Despite the fact that the initial benefits from a higher gold price would be offset by an attempt to reduce debt, strengthen balance sheets and increase capex, earnings could be expected to rise on any gain in the gold price above $400/oz.

The recent but growing realisation, especially in SA, that the local gold mining industry was far from healthy, had adversely affected investment sentiment, Yaldwyn said.

"The slashing of dividends of supposedly low-cost producers has certainly aggravated that fear. In fact, if one looks at the most recent quarterly reports, that is for the June 1990 quarter, some 20 mines, accounting for nearly 40% of total gold production, operated at a loss."

Sentiment played an important role and the political climate would have a strong bearing on the level of investment in gold shares.

If the level of violence did not abate, little foreign investment would take place irrespective of whether sanctions were abolished.

"One just has to look at the level of foreign investment in new long-life mines to appreciate the time scale that overseas investors place on SA gold shares — it is weeks or months and certainly not years." — Sapa.

Gold not saying anything long term, says analyst

BIDay 24/9/90 **MERVYN HARRIS** (79)

GOLD is not indicating any long-term trend, says noted international technical analyst Brian Marber.

He arrived in Johannesburg from the UK at the weekend to speak at a two-day Association of Corporate Treasurers of Southern Africa (Actsa) conference on technical analysis starting today.

"Gold was at a low of $355 in September last year and at a high of $423 at the start of this year," he said. "Last year's low was marginally broken in the second quarter of this year, but not by a decisive margin of 3%.

"If gold goes to $340, it will go lower, and if it goes to $430, it will go a lot higher," he said. In the shorter term, Marber said: "I would be friendly to gold at a London afternoon fix of $390. This would also have significance longer term, as it would be better for gold if it went above the current long term average of $384."

When people said gold's performance had been disappointing, they were saying it had not gone up as they thought it should.

COMPANIES

Gold 'looks negative despite upsurge'

B/Day 26/9/90 (79)

MERVYN HARRIS

GOLD shares are looking negative on charts despite the upsurge over the last two days, says noted UK chartist Brian Marber.

He was giving his forecast of market trends at the conclusion of a two-day Association of Corporate Treasurers of Southern Africa (ACTSA) conference on technical analysis.

He said the JSE all gold index, which closed yesterday at 1 582, would have to go to 1 700 points to break into new territory. If it did not, the index could test the 1 300 level. And if that was breached it could go down to 800.

The gold price was in neutral territory with a bullish bias. The good news was that the metal had held above the average of $390 but it needed to reach levels in excess of $422 for the next few days and to be set at $414 at the London afternoon fixing on October 1, and at $394 on the following day.

The overall index, which closed yesterday at 2 759, was in a bear market and would go down to 2 400 some time next year. There would, however, be a rally within that period which would take it to 3 000.

The rally would lag behind a bounce back from panic lows by both Wall Street and Tokyo. The rallies would come in late October and Wall Street's upturn could extend into the beginning of next year.

The downturn sweeping global equity markets would last for months, rather than weeks, as bear markets usually took time to unfold, he said.

BRIAN MARBER

GOLD SHARES' BEARISH MESSAGE

79

FM 28/9/90

Brian Marber is a leading London technical analyst. He spoke to the *FM* while in Johannesburg this week to address a training seminar organised by the Association of Corporate Treasurers of SA. He is not bullish on gold shares and world markets.

***FM*: What is your approach to technical analysis? Do you take any account of fundamentals?**

While technical analysis is an art rather than a science, it is far more scientific than fundamental analysis. A technical analyst is very short on theory and very long on empirical observation. The technical condition of the market is all that matters to me. The worst of all possible worlds is a technical analyst who dresses his views up with comments on fundamentals. Fundamentals are not a reality, only people's perceptions of them.

What is your view on gold?

There's no clear long-term trend for gold, but short term I've been taking a negative view. However, any afternoon fix above US$390 (as happened on Monday) would indicate a more positive view. I certainly would not want to be short on gold at that level. If it goes below $380, the price may well fall towards lower levels. A move below $340 would be very bearish.

And gold shares?

Though I generally do not relate one price to another, this is one subsidiary issue that could affect the view on gold. The JSE All Gold index, the Canadian gold index, the Australian gold index and the *Financial Times* gold index all look as if they are going to fall in the near term. And the shares have often led the gold price.

The JSE All Gold index's recent rally from the June low (1 322) back up to 1 900 was simply a rally in a continuing bear market, which wasn't sustained. There is no evidence that we have seen the market low. On the evidence available today, the low looks like 1 320 — at least, until I change my mind. The first clue that I might be wrong would come if the gold share index went above 1 590 (Tuesday's close was 1 582).

The charts tell us the negative trend for gold shares is not a result of the SA political situation, as the other gold indices are also going down to previous lows. That looks bad and more or less suggests gold will fall too.

Has the Gulf crisis pushed world stock markets into a bear trend?

World stock markets were going into a bear market before the Gulf crisis blew up. If they had not been doing so, I don't think the Gulf would have affected them.

The *FT*-SE index is in a clear bear trend. It has built a head and shoulders top, the most reliable technical indicator, which implies that it will go down to at least 1 800 on a long-term view. The pattern of Wall Street's Standard & Poor's index doesn't offer a reliable long-term view. It only swung into downtrend in the past six weeks but is in the early stages of a bear market. Tokyo has not yet reached its bear market low.

In general, people are complacent. There is a whole generation of fund managers who have never seen a long bear market such as we had in 1973-1974.

My short-term reading is that markets are near a temporary bottom World markets could rally round about mid-October; the JSE, a few weeks later. How do you know whether the rally will be the start of a new bull market? Basically, you don't. But I think world markets are setting themselves up for a rally which could last for weeks or months. The thing that really separates people from their money is a bear market rally.

What does that indicate for the JSE?

Unless the JSE Overall index is over 2 900 in November, the one-year average will turn down. That will confirm a bear market and indicate a fall to at least 2 700; I wouldn't be surprised to see it in the 2 300-2 400 range — though that is not a firm forecast.

Do you see any new trend for exchange rates?

My short-term view is that the rand will fall against the dollar, probably as a result of emerging dollar strength. I am bullish of the dollar against practically every currency except the yen. If the dollar moves above DM1,60, that will be very significant — it will suggest a major advance in the dollar. ■

SA gold shares punted for international investors

(79) BDay 11/10/90

KIN BENTLEY

LONDON — Leading City brokers James Capel have recommended that international investors "build up trading positions in SA gold shares".

John Taylor, SA researcher for James Capel's international mining team, said in a recent "international view on investment in the SA mining industry" that world equity markets continued to "look shaky and strong support for gold appears to exist at the $360 level".

"I believe that over the short term gold will behave more like a currency and this may make things very interesting. Consequently we would recommend building up trading positions in SA gold shares."

Taylor also indicated he had experienced clear evidence of a "political green light" towards investing in SA in recent months.

"However, from the economic perspective (and this cannot be divorced from politics) there is still very much a wait and watch attitude."

According to the James Capel Global Mining Index of the major mining companies in the world (275 of them), he said, "the most striking feature... is that the mining sector (in which SA has a 33,2% weighting) has been a far safer home for investors' money than overall equity markets".

In terms of market capitalisation, he said, SA was the 13th largest market in the world, slightly behind Australia and Spain and ahead of Hong Kong and Taiwan (now, admittedly, almost a third of what it was nine months ago).

Problems

"Indeed, it is interesting to note that only SA and Hong Kong of all the major markets show positive gains for this year. Many equity investors view the SA market (which as you all know is predominantly resource orientated) in much the same way as Swiss fund managers view the holding of gold bullion.

"Whenever they feel nervous about markets in general they tend to top up on gold. All things being equal, SA would normally be the beneficiary of the current fears about the weakness of the OECD economies in the light of its supposedly contra-cyclical status. The Gulf Crisis, by the way, did not create these problems, but rather highlighted and exacerbated them."

Taylor said bearing in mind that of a total market capititalisation of world equity markets of $10 trillion, gold shares made up just over half of 1%, so it could be said they had a "certain scarcity value".

"Perhaps gold shares should not really be looked at from a fundamental value angle at all. In many ways they can be considered as options on the gold price. Shares, like options, are a geared way of playing the gold price. The performance of gold shares during the two recent surges in the gold price tend to bear this out.

"The South Africans have relatively high working costs compared to their overseas peers and the majority of producers have not (until now) sold their production forward. Conseqently one can look on them as 'out of the money' call options.

"As a result they move quicker and higher than gold shares in other countries. Unfortunately this principle also works equally well (or badly) when the gold price is falling. So although we may have reservations about the value in gold shares, there is no doubt that they are superb trading vehicles."

R240m dip in September reserves

Bank rate set until 1991, say pointers

81Oct 8/10/90

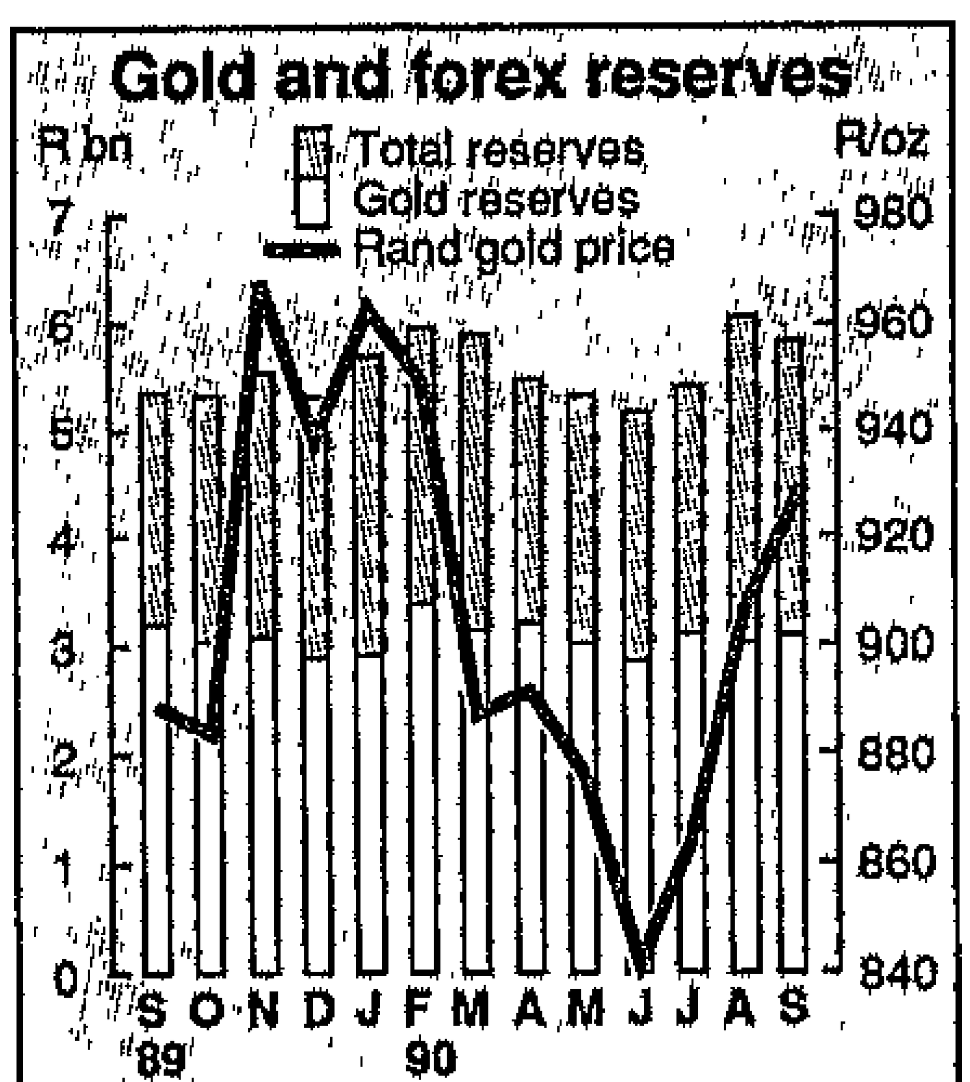
GRETA STEYN

THE dip of R240m in the Reserve Bank's gold and foreign exchange reserves in September is the latest indicator that a cut in Bank rate is still some months away — possibly as late as February next year.

Changes in the reserves reflect the state of SA's balance of payments (BoP) — and are the result of all transactions, capital and current, with the rest of the world.

The fall came as economists speculated that the current account of the balance of payments could have swung into a deficit in the third quarter because of the oil crisis, a general rise in imports and a sluggish gold price.

Reserve Bank figures released on Friday show a R240m fall in the Bank's holding of gold and foreign exchange reserves.



Graphic: LEE EMERTON Source: SA RESERVE BANK

There was a marked drop in currency holdings, and physical gold holdings were down by more than 72 000oz.

However, the fall in the volume of gold was disguised by a higher rand gold valuation of R927,81 a fine ounce (August R905,52). After adjustment for this factor, reserves declined by an effective R310m, with the Bank's kitty of foreign cash falling by more than R250m.

Economists cautioned against reading too much into the extent of the fall — a major part of it could be technical — but added that the balance of payments was clearly not strong enough to generate signficant new foreign exchange inflows.

"There could be a movement of foreign exchange from the Reserve Bank to the banking sector, leaving the actual situation for the country as a whole unchanged," said Nedcor economist Edward Osborn.

But he projected a possible deficit, or very small surplus, on the current account of the BoP in the third quarter. The current account is the trade balance less net payments for "invisible" foreign trade such as insurance, freight and dividends.

Other recent indicators against an early cut in Bank rate include the uptick in inflation to 13,6% and indications that the oil price rise could take the inflation rate close to 15% by year-end.

Reserve Bank Governor Chris Stals is said to have taken to heart the IMF's advice on fighting the oil crisis, with tight monetary policies.

Economists say the Reserve Bank made much of the "mild" nature of the recession in its latest Quarterly Bulletin, noting a

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Bank rate

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small rise in unemployment, no evidence of a clear upward trend in insolvencies and liquidations, and the limited increase in "amounts overdue" by banks' clients.

Bankorp economist Nick Barnardt points to the small overall decline in "final demand" — private and government consumption and fixed investment — as proof of "a soft landing".

"This, with rising imports and relatively firm motor and retail sales in the third quarter, and inflationary fears on fuel price increases, could postpone a Bank rate cut until next year — despite a falling monetary growth rate."

☐ SA's strategic oil reserves should be viewed as capital — in the same light as the country's gold and foreign exchange reserves — and government would not consider using income from selling the reserves to subsidise current expenditure, Finance Minister Barend du Plessis said yesterday.

Such a move would be "irresponsible", he said in response to a question on speculation at the weekend that the strategic oil reserves would be used to finance lower energy costs.

Last month Du Plessis said some of SA's oil reserves — worth several billion rands — would be sold internationally if the oil embargo were lifted. He told the French newspaper Le Figaro: "When the oil boycott against us is lifted, we will begin to reduce these reserves to a more normal level for a country like ours. That could immediately bring in foreign currency, so necessary for our economy."

CONFIDENCE INDICES (79)

UPBEAT

FM 12/10/90

A stronger dollar price of gold and slight decline in the three-month bankers' acceptances rate were among factors that boosted the SA Chamber of Business (Sacob) Business Confidence Index (BCI) to 94,2 in September, from 91,8 in August.

The favourable reaction to the Washington meeting between President Bush and F W de Klerk, which brought closer the removal of economic sanctions, probably contributed.

In addition, new car sales and expected real retail sales were higher than in the previous month. Registered unemployment (all races) fell slightly and there was an increase in net immigration.

Inflation rate

Negative factors included the inflation rate, which rose from 13,3% in July to 13,6% in August. Insolvencies among individuals and partnerships rose, while the number of new companies registered fell.

The report says the BCI may overestimate business confidence in September. The gold price has already risen on the Gulf crisis while the impact of the higher oil price has yet to be reflected in many of the indices.

The mood among many businessmen remains less optimistic and more uncertain, as shown by the decline in Sacob's Index of Manufacturing Activity.

Orders placed with manufacturers in September were sharply lower than in August and production volumes are expected to be less in the next 12 months than in the previous 12. ■

Minorco dips toes in Iberian waters

(79) Star 12/10/90

Diagonal Street

DEREK TOMMEY

Minorco in some ways fits the old saying: All dressed up and nowhere to go.

It has $1,8 billion (R4,6 billion) in cash, which it would like to use to acquire mining operations.

But since its unsuccessful bid for Consgold it has not found any major investment worthy of its attention.

But it has been making a few minor investments recently, so its announcement yesterday that it had acquired a small Portuguese wolframite mine (Beralt Tin & Wolfram) did not cause much surprise in the market.

Nor was there any reaction to Minorco's statement that the purchase would have a minimal impact on earnings and assets.

However, what excited some interest was Minorco's statement that it could serve as a base on which exploration and further mining activity could be centred.

A Minorco spokesman said yesterday that although the acquisition was a small one, it provided an opportunity to buy a quality ore body with a long life.

This was in keeping with Minorco's strategic policy of acquiring businesses in which it would have control, particularly over cash flow.

He said the acquisition would provide Minorco with another foot in Europe, particularly the Iberian penisula, which was proving to be a potentially rewarding natural resources region.

Clearly, there are hopes at Minorco that from its little acorn a mighty oak will grow.

Minorco is proposing acquiring for £14,9 million (R75 million) an 80,55 percent stake in Beralt Tin & Wolfram and 100 percent of Anmercosa Sales. The remaining 19,45 percent of Beralt is owned by the Portuguese Government.

Charter has a 75 percent interest in Beralt and will receive £11,1 million.

At March 31, Charter's share of the audited net assets of Beralt was £7 million and its share of the trading loss before interest and tax was £126 000. Its share of the audited pre-tax loss was £52 000.

The Minorco spokesman denied that the acquisition was being made to help Charter get its house in order.

Charter was focusing its interests in four specific business areas, while Minorco wanted to be a natural-resources company.

Beralt no longer fitted in Charter's book, but it fitted into Minorco's, he said.

Beralt owns the Panasqueira wolframite mine, 300 kilometres north-east of Lisbon.

Reserves are estimated at 14,5 million tons, with an in situ grade of wolframite of 0,38 percent. It is one of the largest wolframite deposits in the world and the only one within the European Community.

The mine produces a quality wolframite, which commands a premium price. Wolframite contains tungsten, which is used in the production of hard metals such as tungsten carbide and in the manufacture of light bulbs.

The spokesman said Minorco was planning to invest about $10 million (R25,6 million) in upgrading facilities at the mine and had no plans to lay off employees.

The market will keep a close eye on Minorco's Iberian and EC activities.

Iberia has been a rich source of minerals since the Carthaginians colonised it more than 2 000 years ago.

But it seems that some rich mineral deposits remain, and modern prospecting methods should make it possible to find them.

Gold coin trading back in fashion

(39)

By MONDLI MAKHANYA

THE gold coin business is booming again, despite demonstrably poor returns of the past.

Investors seem either to have forgotten, or not noticed, that all that glitters is not gold. Dealers seem to have forgotten the 1985 gold coin crash in which some got into difficulties and many investors burnt their fingers.

A coin that recently came on to the market, the Battle of Britain, sold over 6 000 units in one week, according to the South African Gold Coin Corporation.

Coin dealers, especially the SA Gold Coin Exchange, have marketed gold coins with zeal.

The SAGCE has even launched a drive to market gold coins to blacks, with the appointment of Vincent Dlamini as investment liaison officer.

A distinction must be made between Krugerrands and other gold coins. There is a ready and open market in Krugerrands. They are quoted on the Johannesburg Stock Exchange. The value of a Krugerrand is the value of one troy ounce of gold, in rands, plus a "premium" for its minting.

The value of an ounce of gold midweek was around $389 an ounce or R1 000. Krugerrands were quoted at R1 070, so the premium was R70.

Other coins are not as easily tradeable, and their value is difficult to ascertain.

There has been a controversy about the real value of coins such as Proof Krugerrands and "Prestige" sets. What makes coins have numismatic value is not that clear, but dealers maintain rarity makes a coin more valuable than its weight in gold.

Aside from that there is the danger posed by a dealer making a market in the coins he sells. The danger is that when the dealer gets into difficulties, the buyer of the coin may find he cannot sell his coin at the price he expected. The dealer may also push prices up artificially.

The SAGCE operates both as a market and a supplier. It has stipulated it will only open its marketing facilities to investors who buy coins through it. In this way it has established a market within itself in which it is effectively able to manipulate prices.

The SAGCE price for the PPP series is R22 000 but smaller dealers charge much less. The Gold Investment Corporation sells these coins for R15 000 and Absils for R17 000.

The chairman of GIC said: "I believe our prices reflect the true market value of the coins. The price we are trading at is purely based on what the supply and demand has stipulated." Another dealer attributed the wide price discrepancy in gold coin prices to SAGCE's in-market trading.

Justifying the closed-market trading, SAGCE's Pierre Louw said it was meant to deal with people who bought coins overseas at much reduced prices and sold them for cheaper prices in South Africa.

"There are people who just want to make a quick buck. They buy coins cheaply on foreign markets and dump them on the South African market," he said.

He added that the SAGCE's pricing mechanism served its 18 000 clients well since it provided them with buying and selling facilities as well as stockbrokers.

Minorco invests $745-m in mining

Star 15/10/90 Finance Staff (79)

Minorco's offer of £14,9 million (R75 million) for 80,55 percent of the Portuguese wolframite producer, Beralt Tinand Wolfram, brings the amount it will be spending on and investing in new projects this year to around $745 million, a company spokesman says.

Earlier this year it took over the American company, Freeport McMoRan Gold, whose name was later changed to Independence Mining Corporation for $705 million. The Beralt investment will cost about $30 million and another $10 million will probably be invested in that operation.

79

Stepping on the economic brakes

Vehicle sales plummet

By DON ROBERTSON

THE 54-day plant closure at the Mercedes-Benz factory in East London was reflected in September car sales, which fell sharply by 12,6% over the previous month.

But the National Association of Automobile Manufacturers of SA (Naamsa) says that the impact of the shut-down was not as dramatic as originally expected

Work resumed at the plant on Tuesday.

Car sales in September fell by 2 588 units to 17 872, compared with an above average August sales figure of 20 460.

Decline

Sales for the first nine months of the year were also lower at 160 600, compared with 169 805

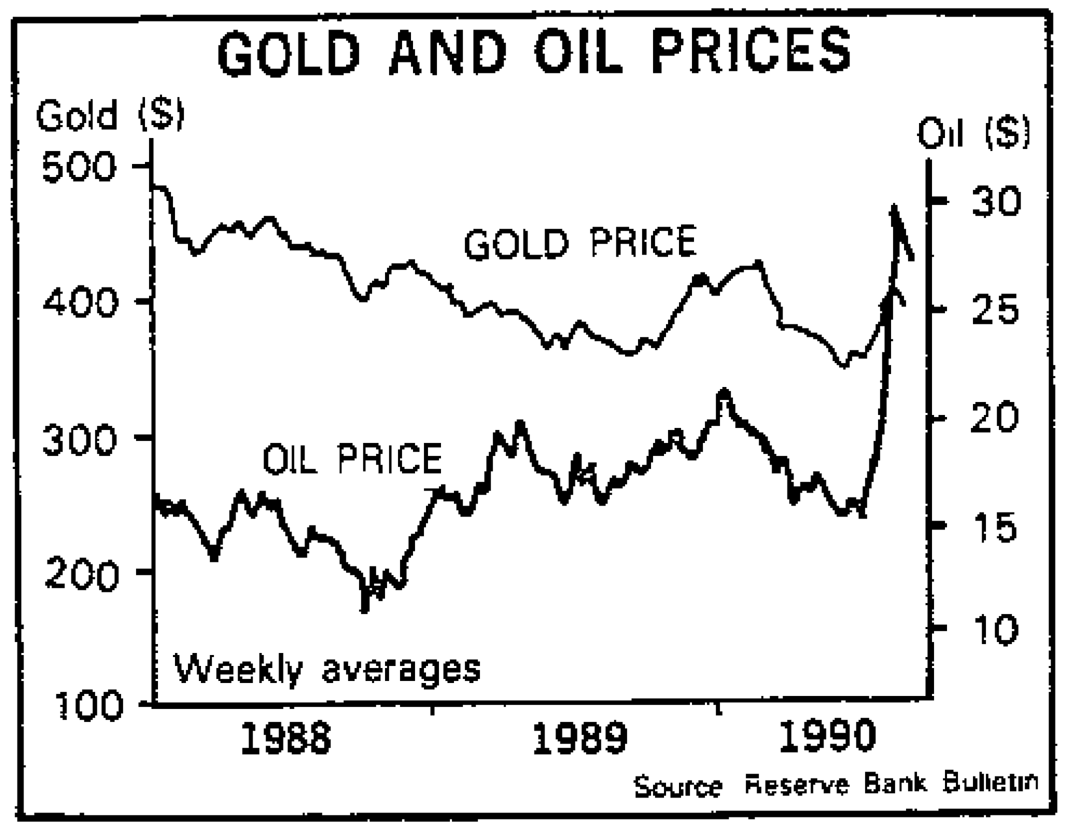
Sales in the other three sectors also declined in September. Light commercial sales dipped to 9 804 against 10 131, leaving the total for the year at 86 021 compared with 87 852.

Medium commercial sales fell to 416, compared with 464, while heavy truck sales fell by 17,6% to 646 from 784 Medium truck sales for the year were, however, better at 3 728 units against 3 333 in the first nine months of last year, while heavy truck sales totalled 5 875, compared with 7 300 S/Times 14/10/90

DESPITE the severe oil price shock to the economy, Reserve Bank deputy governor Jan Lombard still hopes for a current account surplus of between R5,5-billion to R6-billion this year.

Last week's Reserve Bank Bulletin showed the current account balance down to an annualised R3.2-billion in the second quarter from R5 6-billion in the first quarter.

But, says Dr Lombard "The higher oil price has added about $30 to the gold price, so there is some compensation. In the second quarter, gold receipts were an annualised R18,5-billion — down from R20-billion in the fourth quarter of 1989 Failing further setbacks, the improvement in the gold price since June and some promising non-gold exports could get us somewhere near our R6-billion target for the full year" S/Times 14/10/90



The cost to SA of the rise in world prices from an all-time low of $10 a barrel to the present range of $40 is a State secret, so it is not easy to establish how much compensation a slightly higher gold price provides. A rule of thumb is that $10 on the gold price adds $200-million a year, so, if sustained, gold's gain from $360 to $390 could be worth $600-million a year

The need to preserve a healthy surplus, together with higher inflation from increased fuel prices, could well extend recessionary

By DIRK TIEMANN

clamps on the economy

Head of the Reserve Bank's economic department Jaap Meijer says progress has been made in the fight against inflation but no convincing drop has yet taken place.

Nedbank chief economist Edward Osborn notes that there is cause for concern about the current account surplus, because in spite of brakes on the economy the value of imports in rand terms has increased by R700-million a month from the R3,6-billion a month in the second quarter to R4,3-billion in both July and August.

He says that if this continues there will be a big squeeze on the BOP, which could reduce the annual surplus to R4,5-billion.

Offset

Mr Osborn calculated that a sustained oil price of $36 a barrel for the next three months would add R700-million to SA's oil bill.

Although the higher gold price has partially offset the rise in the oil price, the Reserve Bank Bulletin says a price of well in excess of $400 a fine ounce would be required to offset an oil price of $30 a barrel.

Mr Meijer says "A R6-billion surplus would have been great but that was an optimistic figure even before the oil shock. Still, we believe the surplus will be above R4-billion."

Mr Osborn forecasts rates of inflation of 14,7% for December after a 22% increase in the petrol price to R1,56 a litre.

The Reserve Bank Bulletin says the reduced inflation rate has been encouraging, but "can clearly not be regarded as adequate". The stronger rand in the first two quarters of 1990 and lower import surcharges caused the rate of inflation on imported goods to fall from 19,3% in June 1989 to 4,7% in July 1990

The annualised rate of price increase for domestic goods remained steady at 12,6% in the first quarter and 12,2% in the second quarter

The relatively high internal inflation rate is attributed "to price increases in a wide range of sectors and sub-sectors of the domestic economy, involving mining products, beverages, tobacco, textiles, wood products, rubber products, chemicals, coal and petroleum products, machinery and equipment, basic metals and metal products and non-metal mineral products'

It must be remembered that these price increases have not taken the higher fuel bill into account, which is sure to change the picture somewhat.

Mr Meijer says that far too little is known about the factors which are fuelling inflation, but he says the recent wage settlements, which have "been on the high side", are a contributing factor

"We can no longer blame inflation on the exchange rate and on imports, because the overseas inflation rates have not been high and the exchange rate has been stable.

"The exchange rate held up well in the second quarter and this is viewed in a positive light."

Smooth

The central bank has also managed to roll over a substantial amount of foreign debt. It had no option but to to do this as $2,5-billion fell due in the second quarter The repayment of as much as two thirds of this amount was done very smoothly Net reserves at the Reserve Bank rose by as much as R2,1-billion during July-August, says the Bulletin.

Mr Osborn says this is not simply justified by the surplus on the current account of R300-million for the same period He says this seems to suggest a shift in reserves from commercial banks to the Reserve Bank, which bought dollars on substantial scale to keep the rand stable.

Mr Meijer says the Reserve Bank has not been very active in managing the rand.

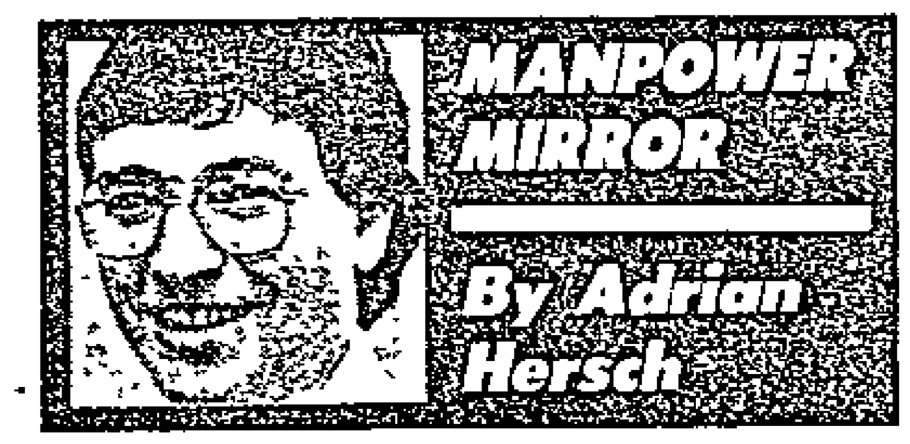
Back to school

PROFESSIONALS are being given the chance to go back to school — to learn how to run a business Wits Business School's Centre for Developing Business is offering a series of one-day courses to train professionals to run practices more cost-efficiently

"Many doctors, engineers and architects run a practice and often they lack the expertise to cope with today's high inflation interest rates and taxes," says the centre's Dr Ian Katz.

The first course will be held on October 27.

OPENING VITAL DEBATE



TWO books about employer-worker relations have recently been published locally — one about the application of worker participation in South Africa, the other a management handbook.

Worker Participation is edited by Mark Anstey, director of the industrial relations unit at the University of Port Elizabeth. It comprises contributions by leading local and international practitioners in industrial relations and academics.

The book consists of two parts. The first covers conceptual, theoretical and practical issues, and some international trends are outlined. The second covers a number of practical initiatives in SA regarding worker participation.

OUTLINE

The chapter on the employee shareholding scheme at Anglo American relates to the wide issues regarding financial participation by workers raised in section one of the book. Another chapter described Volkswagen SA's efforts These are influenced by the West German system described in part one. Toyota SA's policies can similarly be traced to Japanese and US approaches.

There is also a chapter on the Zenzeleni co-operative which can be read in relation with the chapter referring to co-operatives in general.

Worker participation in a pension scheme, and health and safety measures in SA are also outlined.

Anglo American's manager of the group employee shareholder scheme, Clive Fletcher, describes the project's workings, its objectives, and he responds to its critics.

Despite union opposition, by the end of 1989 about 145 000 employees, or 73% of those eligible, had become shareholders at Anglo

Volkswagen AG's (VWAG) head of international personnel operations, Brian Robinson, describes worker participation in Germany, and also how it specifically works at VWAG.

VWSA human resources director Brian Smith says that between 1980-1986 relations were characterised by strike action. Although industrial action still occurs, there was an improvement from then on, which he attributes to greater worker participation and involvement of the union.

Mediator Don Power, who has also had extensive experience in initiating employee involvement programmes in the US, warns management and unions that implementation will not result in swift improvement in productivity or in attitudes towards one another.

He stresses that before starting the programme the union should be involved. "It is important that the union understands that its existence is protected."

S/Times 14/10/90

SYSTEMS

The trials and tribulations of implementing various worker participation systems over a number of years, finally with success, is outlined by Toyota SA group industrial relations consultant Steve Dewar.

One of the major purposes of the book is to open debate about worker participation in SA. It makes a valuable contribution in this regard and should stimulate debate among practitioners, academics and students.

The book comprises readings presented at a conference It could perhaps have been shortened and some of the terms made easier to understand.

Practitioners could potentially miss out on some of the valuable information which the book offers because they do not have sufficient time.

Practitioners will find Levy Piron Associates' Management Handbook useful. It is concise but comprehensive and easy to understand.

USEFUL

The pamphlet advertising the book says it has been designed to prevent labour pains, but the book does not recommend a caesarian. Instead the pocket-sized book provides useful information on Cosatu, Nactu and other federations.

The do's and dont's when managing a strike are presented, and other information includes notes on the industrial court, the Independent Mediation Service of SA (IMSSA) and industrial relations periodicals.

Worker Participation: SA Options and Experience is published by Juta & Co and sells at R49,95 The Management Handbook: A Guide to Labour Relations 1990-91 is published by Electronic Publishing Corporation and retails at R45,99. Both are available at leading booksellers.

Oil price throttling economy

79

Outlook is bleak as gold keeps sliding

B/Day 17/10/90

GRETA STEYN

GOLD crashed through the $365 barrier yesterday, raising the spectre of severe balance of payments problems, a prolonged recession and more inflation as the high price of oil throttles the economy.

Platinum's plunge added to the gloomy scenario.

The gold price fell $17 in London yesterday to hit a low of just below $360 before recovering to close at $362,25. In New York it closed at $362,50 — $13,25 down.

Reuter reports that gold sank to its lowest level since July, triggered mainly by a fresh collapse in the price of platinum, which was fixed yesterday morning at $389,75 an ounce, its lowest since February 1986. Platinum has fallen on worries about recession in major Western economies.

Econometrix economist Azaar Jammine said: "If present prices for gold and oil persist, SA faces the distinct possibility of a deficit on the current account of the balance of payments. Should the situation continue for a year, SA would have to fork out an extra R4,5bn to pay for its oil imports — enough to wipe out the entire current account surplus."

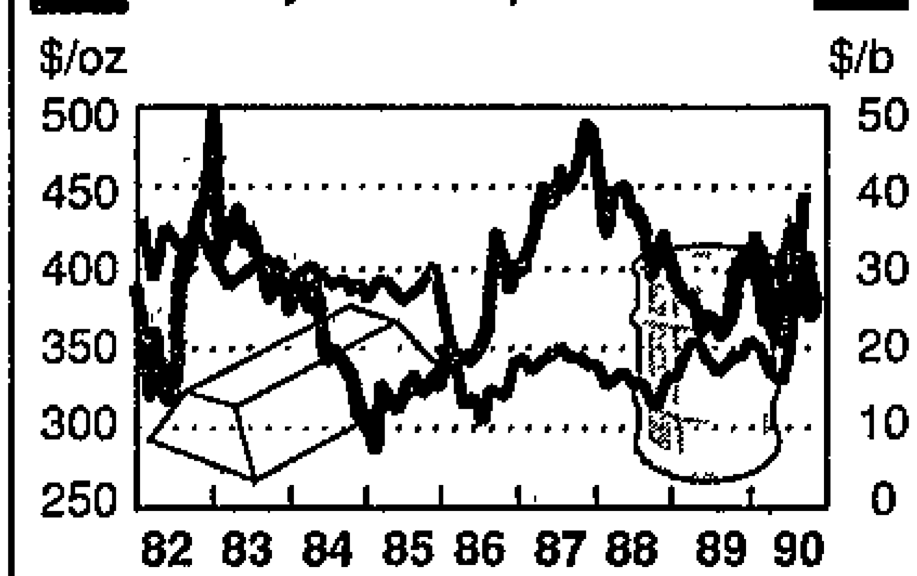
Severe balance of payments problems in the wake of the Gulf crisis would put renewed pressure on SA's already threadbare foreign exchange reserves.

The Reserve Bank might be forced to use foreign bridging finance to tide SA over foreign debt payments, put at $600m in the second half of this year.

Syfrets economist Elmien de Kock estimates the surge in the oil price from an average of $15,80 a barrel over the past year to a projected $25 a barrel over the next year will require an average gold price of more than $415/oz in order to counter the outflow on the trade account.

Correlation between gold and oil price

January 1982-September 1990



Graphic: LEE EMERTON Source: THE DISCOUNT HOUSE OF SA

Discount House of SA analyst Anel Bosman said SA should not have bargained on gold coming to the rescue of high oil prices, as the relationship between the two has historically been unstable.

A BoP squeeze could see interest rates remain high for much longer than anticipated and the possibility of restrictive measures to reduce the import bill cannot be ruled out.

The bulls are dwindling in the money and capital markets and long-term interest rates have risen by about 1½ points on the slump in metal prices. In the money market the liquid BA rate edged up five points in sympathy.

Jammine expects inflation to remain at

☐ To Page 2

Gold

B/Day 17/10/90

about 13,5% to 14,5% for the next year and has sliced 0,5 percentage points off his growth forecasts for 1990 and 1991. This year should see the economy shrink slightly in real terms, with only a marginal rebound next year.

Yesterday gold was also battered by Middle and Far Eastern selling.

The price of oil is still more than double the $18 a barrel seen before Iraq's invasion of Kuwait in early August. West Texas International for November delivery was quoted at $37,30 yesterday.

79

☐ From Page 1

MERVYN HARRIS reports that share prices were again mauled on the JSE yesterday with the all gold index shedding 3,5% to 1 346 to bring its losses to almost 7% so far this week.

Weakness across the board swept the overall index down 1,7% to 2 576 with losses on the market outnumbering gains by more than five to one as investors scrambled to get out of the market.

Dealers said share prices would only start recovering when prices were at a level where investors perceived value.

Gold prices reflect some small gains

Star 18/10/90 (79)

By Michael Chester

Gold prices showed signs of pulling out of their dramatic tailspin on world bullion markets today and recorded marginal recoveries in key centres.

Gold was quoted at $369,95 an ounce in first deals in Hong Kong this morning, $2,14 higher than at the close yesterday, but still nearly $50 below recent peaks at the start of the Middle East crisis.

The modest rise followed fractional gains to $366,70 in New York, in line with the London market.

Dealers said "technical corrections" were steadying prices after a massive wave of selling by Far East and Middle East speculators earlier in the week.

The Chamber of Mines has warned that thousands of mine jobs were at risk, with 18 mines operating at a loss, if gold stayed below $390.

At Gengold, where retrenchments have already hit 17 000 workers in the past two years, managing director Gary Maude revealed that a further 10 000 jobs would be in jeopardy if gold prices stayed in the doldrums.

The National Union of Mineworkers has estimated that retrenchments on South African gold mines as a whole had reached 32 000 since the start of the year.

● 10 000 jobs at risk — Page 23.

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ELAWARE
D1

Democrats a chance to capture the State Senate and redraw the New York congressional districts next year to precisely their own liking. Mr Cuomo, looking towards 1992, will be more interested in the results from California and elsewhere.

Prediction: Democratic stranglehold

North Carolina

N★C

The most written-about race has Senator Jesse Helms, conservative Cold War bull elephant, fending off a stronger than expected challenge from Harvey Gantt, the eloquent black former Mayor of Charlotte.

Prediction: Helms by a whisker

Florida

The most intriguing race. Lawton Chiles, former Democratic Senator, and gentle populist, is running an anti-campaign campaign for governor in which he sits in the audience and invites people to talk to him. The unpopular Republican Governor, Bob Martinez, with a 3 to 1 advantage in funding is carpet-bombing Chiles with misleading attack ads.

Prediction: Democratic gain

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at most, 10 Senate races.

The overall Senate outlook is for little change from the present balance (55/45 to the Democrats).

In the House of Representatives — a Democratic fiefdom since the second Eisenhower administration — the Republicans are already at a relatively low ebb (176 to 258 with one vacancy) and are unlikely to suffer sweeping losses.

But their hopes of containing or eroding the Demoratic majority, to provide a beach-head for a frontal assault in 1992 and 1994, will probably lie in ruins next Wednesday.

The dreams of Republican activists depended on the belief that it should be possible, over time, to convert the Nixon-Reagan presidentail appeal in the blue-collar suburbs, and the South, into congresssional seats.

Fairness

In fact the developing recession, and the tax fairness issue avoided by Mr Bush, may be about to solidify the old Democratic base. Perversely, Republican hopes of making inroads in Congress may only be fulfilled if the economic fairness tide brings a Democrat back to the White House...

MONTHS ago, Thor Chemicals allowed mercury to leak into a river and had to shut down. It had been importing waste which the US found too hazardous to handle.

Then somebody wanted to build a hazardous waste treatment plant on the West Coast.

The public fretted. But on August 25 the Minister of Environment, Gert Kotze, made the following unequivocal remarks. Indeed, I have never known a Minister to be more unequivocal.

Read this out loud to your beagle and see if he agrees:

"I wish to announce that South Africa will, under no circumstances, allow other countries to export their hazardous waste to South Africa.

"This decision implies a total ban. No hazardous waste may thus be imported into South Africa — not for the purposes of treatment, nor for dumping or disposing in any other manner, or with any ulterior motives, for instance the making of profit or to generate income.

"I want to state unequivocally; I will not allow South Africa to become the dumping ground for the world's hazardous wastes.

"Unscrupulous adventurers who exploit and abuse the environment for personal and financial gain, if caught, will be vigorously dealt with, with everything at our disposal."

Now ask your dog what the Minister said. He will say: "The Minister is against importing hazardous waste".

'Good boy!'

Right! Good boy!

Now tell your dog that Thor Chemicals continues to import mercury waste and watch his brow furrow and his eyes roll.

Thor Chemicals is importing mercury from the US and Britain because, says a Department of Environment spokesman, it is considered a "raw material" and not a hazardous waste.

The Minister described his own warning as "serious" and I think he did so because most people think, most of the time, that he's kidding.

His warning about offenders being "vigorously dealt with, with everything at our disposal" should have caused your dog to make a little growl.

This is because dogs can't laugh out loud.

No case of environmental abuse has ever been dealt with vigorously in South Africa.

This year the mill that steri... ...fined

...y yet ...ay

S12 3/11/90 (79)

...that gold behaves ...e way to most other ...oing up when near- ...else is going down ...

...portant investment ..., according to Mr ..., head of the mining ...ckbrokers James ...it is an asset that is ...iability. This means ...nts the highest qual- ...insurance."

...ut that people take ... — on cars, houses ...not in the hope of ...t with the fervent ...will *not* collect on

...einberg: "Today we ...t of circumstances ...nvestors would be ...hold some gold in- ...the expectation, or ..., that its price is ...out just in case the ...ything else should

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...n up about 70 per- ...ue in real terms ...0 years, a process ...tively has taken ...s appeal.

...of investment look ...because interest ...gh; whereas in the ...were negative in ...the same time, a ...old-backed instru- ...growth of gold op- ...ve eroded the im- ...e physical gold

Traders hoped that 1990 was to be the start of a bull market in gold. A revival started last autumn, when the price rallied from a low point of $360 an ounce to its February peak. However, once gold approached $425 the price was held back by the weight of selling, including forward sales by Australian and North American gold producers who rushed to lock in certain profits, and by Brazil and the Soviet Union desperately seeking dollars.

But even before the Gulf crisis, this was a gold market year to remember, because of the activities of a group of middle-eastern investors operating through Saudi Arabia's National Bank of Jeddah.

On March 26 they dumped between 50 tons and 100 tons of gold on an unsuspecting international market, driving the price down by $33 an ounce in three days and leaving traders stunned, nursing big losses, and extremely nervous.

Middle East

The Middle East operators returned to hammer the market twice more — in May and June — in a way which was so crude and disruptive that it caused Mr Robert Guy, chairman of the London Bullion Market association, to suggest that "it was the mark of the amateur or of the extremely sophisticated. But wittingly or unwittingly, the marketplace has been abused."

The furore, and some of the nervousness in the gold market, died away in the wake of the Gulf crisis.

Private investors seeking some "gold insurance" against further possible consequences of the Gulf flare-up will find the easiest way is through modern gold coins or small bars.

Unlike gold jewellery, which is a hopeless investment because of fabrication and wholesale and retail mark-ups, coins and bars carry small premiums on the cost of their gold content, typically between 3 percent and 7 percent.—Financial Times.

Star 9/11/90 (79)

Minorco ready to eat up depressed mining assets

By Neil Behrmann

LONDON — Cash rich Minorco is in an excellent position to bid for depressed international mining assets.

At the annual meeting of the company yesterday, chairman Julian Ogilvie Thompson said that in the present economic downturn "attractive investment opportunities will become available to companies which are debt-free and have substantial reserves of cash".

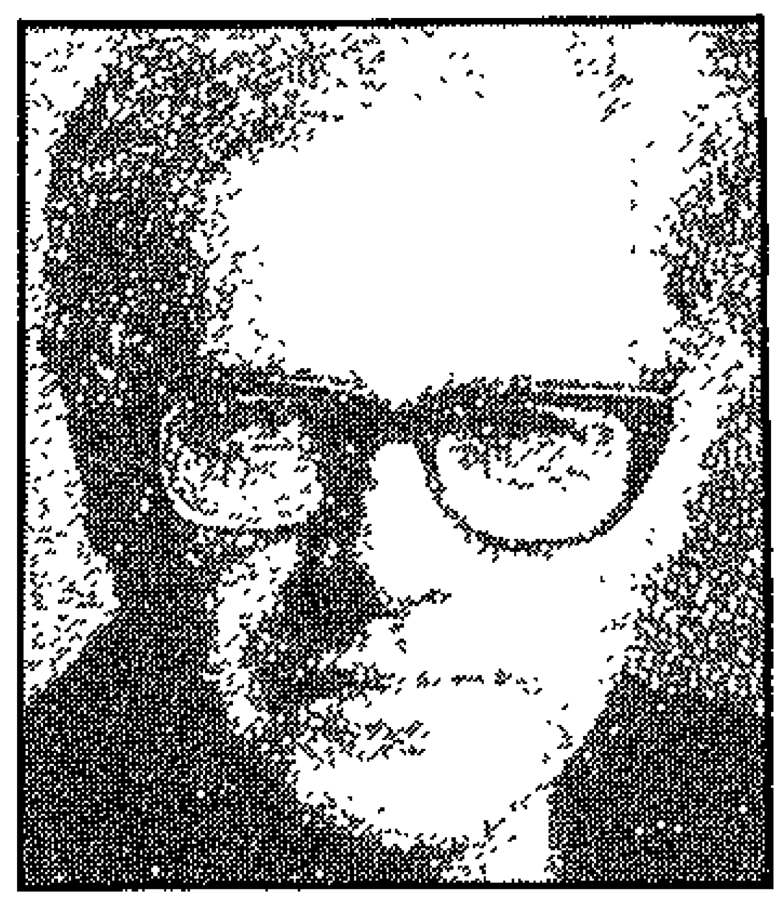
"Minorco is thus exceptionally well placed in the current environment," he said.

Shareholders, however, might question the manner in which the company has deployed its funds so far.

Minorco has $1,6 billion in cash to make strategic investments. Curiously, the latest balance sheet indicates that the international mining company kept its money market investments in dollars, a currency that has been none too strong in the past year.

Recently Minorco paid around $29 million cash for a 80,6 percent stake in Beralt Tin and Wolfram.

Based in Portugal, Beralt operates the only Wolfram mine in Europe, producing tungsten concentrate. The mine was bought from another Anglo American international company, Charter Consolidated. This small acquisition has been praised.



Julian Ogilvie Thompson . . . Minorco cash rich.

Yet Minorco's first major investment was in February this year when it bought US gold mine Freeport McMoran Gold.

The purchase of the mine, which has been renamed Independence Mining Company, drew criticism from several mining analysts. They said at the time that the payment of $705 million was excessive.

The historic price earnings ratio was 55 and on estimated gold production of 300 000 ounces in 1990 from 244 000 ounces in 1989, the prospective price earnings ratio was around 30. Yet those estimates were based on a gold price which was then around $420 an ounce.

The purchase was made at a time when the Securities Exchange Commission disclosed that US directors, executives, and other company insiders were selling shares in North American gold counters. The insiders were correct.

Over-priced North American gold share prices have slumped by around 30 to 40 percent since then and Minorco's executives are unlikely to receive full marks for timing.

In its defence Minorco says that it was prepared to pay more for Independence because of the mine's potential reserves.

"Particular attractions were the able management team and significant exploration potential," said Mr Ogilvie Thompson.

Minorco has been one of the better performing mining shares.

Excluding extraordinary items, notably the $645 million profit from the sale of Consolidated Gold Fields, pre-tax earnings rose to $223 million in the year ended June 1990 from $158 million in 1989.

The shares have declined by less than 10 percent this year and Peter Rolfe-Johnson of brokers Williams de Broe says that they are a "buy".

With assets worth $22,42 a share including $10,36 in cash, Minorco is ideally placed to rise out a bear market, he says. He estimates that earnings per share will rise to $1,60 next year from $1,35 in 1990 whilst dividends could jump to 64 cents per share from 48 cents.

The potential price earnings ratio is thus 9,7 and dividend yield 4,1 percent.

The gulf between 1980 gold price and now

S Times 25/11/90. (79)

DIAGONAL STREET

By JULIE WALKER

BIG differences between the 1980 Persian Gulf crisis and the present one are responsible for the gold price's failure to rise.

The views of British and international commentators are carried in the authoritative Mining Journal's International Gold Mining newsletter.

Shearson Lehman Brothers' view is that at the end of the 1970s when the oil price rose to the present equivalent of $50 a barrel, political tension over the Iranian hostage crisis had been preceded by the Soviet invasion of Afghanistan.

Precious metals were already bullish from the attempt by the Hunt brothers to corner the silver market. (Silver fell to a 14-year low this month.)

In the late 1970s, inflation was still high, and although real interest rates were positive, the view was that they would fall.

Current expectations are broadly similar. The difference this time is that there is a widely held view that global co-operation will try to keep inflation under control. Interest rates are considered the major instrument to effect this.

Forced sales of 84 tons of Soviet gold in August are reported by Barclays de Zoete Wedd. It says high real interest rates attract money away from gold. A Middle East bank sold 70 tons in October when the price of gold topped $400 an ounce.

The gold market is more flexible now than 10 years ago. Techniques of hedging and trading mean that gold exposure can be obtained through derivative instruments, limiting the need for investors to hold physical bullion.

Hedging into price strength brings additional supplies to the market in a strong rally, halting its advance.

County Nat West believes gold's curious performance defies conventional explanation. It believes that discreet official action to control gold-price movements may have prevailed more this year than for many.

The thesis is that the international financial and geopolitical scene is more uncertain now than at any time since 1979. Although gold is not directly involved in the developing crisis it has a public role to play as an objective observer of the world's political and economic health.

Shearson says gold is doing its job — acting with stability when other currencies are volatile.

Smith New Court says gold's volatility will increase in the next 10 years as the world faces more uncertainty. It expects the price to range over 40% in a year, and puts its widest limits at $280 to $660.

Central banks are looking to add value to their gold reserves and to generate returns from the previously moribund asset. This will increase the supply of gold to the market.

UBS Phillips & Drew says that with fewer players in the gold market, the official and private holders of stock will flex their muscles. The 1990s will be the decade of "bully markets".

Political change in SA and the Soviet Union — the world's largest producers — could disrupt supply. A gradual decline in mined gold is also expected to tighten the market.

Jewellery demand has underpinned the market for the past few years, but world recession would dampen it. Japan has also imported more gold since September for national reserves and for the issue of 2-million commemorative Emperor Akihito coins with a face value of 100 000 yen ($733).

Generally, any movement to Middle Eastern peace has depressed gold and talk of war has had the opposite reaction, each with successively smaller rises.

Barclays de Zoete Wedd says aggressive forward selling by the producers above $400 provides an indication of their expectations about gold's prospects.

Laing & Cruickshank admits it does not know where gold is going, describing trying to forecast changes as a mug's game. Neverthe less, it forecasts gold to average $385 to $395 in 1990, rising to $420 in 1991.

Shearson Lehman Brothers says that without heavy sales from Brazil and Saudi Arabia earlier this year, gold would not have gone below $370 to $380, a range which the company regards as the downside.

It believes that the supply of gold will still exceed demand in 1991, but it will be smaller than 1990's surplus by a margin. Shearson says the fundamentals of the gold market are not strong enough to maintain prices much above $440 for long.

Any strong rally to that level, rather than a gradual creep, would bring out profit-taking and scrap jewellery sales from industrialising regions along with more forward sales Shearson says the average gold price in 1991 will be $410, ranging between $370 and $440.

The outlook for SA gold producers is hardly rosy, with almost half of its mines struggling to show a profit. Production costs have risen because of inflation, but the rand price of gold is little changed in four years. In real terms, gold is about 30% lower than it was in 1986.

There is so much expertise in gold mining, and in analysing investment potential, that those in the gold industry seem reluctant to diversify.

Given the low expectations about the gold price in the short term, SA has few prospects that could be regarded as "gold mines" in the figurative sense of the phrase.

Gold mining is a long-term proposition, but the risks are becoming almost too great to bear.

Hotels a strong point for

LONRHO offers value, says British broker SG Warburg.

Warburg says that Lonrho's pre-tax earnings to September 1990 will be 10% up, but because 1989 included exceptional profits from the sale of liquor stocks, 1990's figures will represent a 17% rise.

The surge in the rhodium price is boosting 73%-held Western Platinum's revenue, and last year's merger with Impala's Karee mine will help Lonrho's pre-tax profit.

Net asset value is estimated at 384p a share, compared with the trading price of 185p, or R14,45 on the JSE. Th the Am for 90 Lonrho mostly Warb ings wil maintai

GOLD AND GOLD SHARES (79) FM 7/12/90

PRICES STILL BRITTLE

Gold shares have fallen a long way since taking off in what many saw as a bull market late last year. There could be worse to come — the fundamental outlook for the industry remains bleak and share prices are likely to fall further.

The gold industry has not only gone ex-growth but is facing contraction unless the gold price moves to much higher, and sustainable, levels. Dividend declarations over the next few weeks will deepen the gloom in the JSE's gold sector.

While a few London analysts have offered more bullish forecasts, many believe evidence in favour of a continuing weak gold price is mounting. A study just released by Deutsche Bank falls squarely in the bearish camp. Deutsche Bank's conclusion is that it would be surprised to see gold rising above a trading range of US$450-$500/oz, and its longer-term prediction is a clear declining price trend toward a target range of $200-$300/oz.

The report contends that official gold reserves will continue to drop, partly because of the disappointing performance over the past two decades. Despite the tripling of oil prices in the mid- and late-Seventies, gold's share of the IMF members' (excluding international organisations) external reserves, valued at market prices, has failed to retain any lasting gain.

Not only has this ratio declined from 58% in January 1980, but the value of these holdings dropped from $362bn in 1983 to just under $350bn by mid-1990, even though the US$ had lost about 25% in value against the SDR and substantially more against the D-mark and yen. The value of IMF members' non-gold reserves doubled between 1983 and 1989 while their dollar component fell from 70% to around 60% of total reserves.

Liberalisation and globalisation of financial markets, with the refinement of hedging techniques, today offer greater long-term returns and lower risks — a combination hard to resist. The Deutsche Bank argues that if the past decades have confirmed gold's demonetisation, the final phase of its demise as an investment will be seen in the private sector, as growing numbers of investors lose faith in the metal's utility as a shield against political or economic misfortune.

More important to the speculative-orientated buyer is the rising opportunity cost of a sterile asset with high carrying costs, at a time of declining commodity prices and higher interest rates, in a period when cash is king.

Nor would it be surprising to see investors adopt a similar stance towards gold shares. There have been sharp cuts in dividends paid by gold producers, including some of the more profitable mines. Driefontein, for example, cut its first quarter dividend by an annualised 11%. Last month Harties, a high-grade and well-managed mine, reduced its pay-out from 65c to 50c.

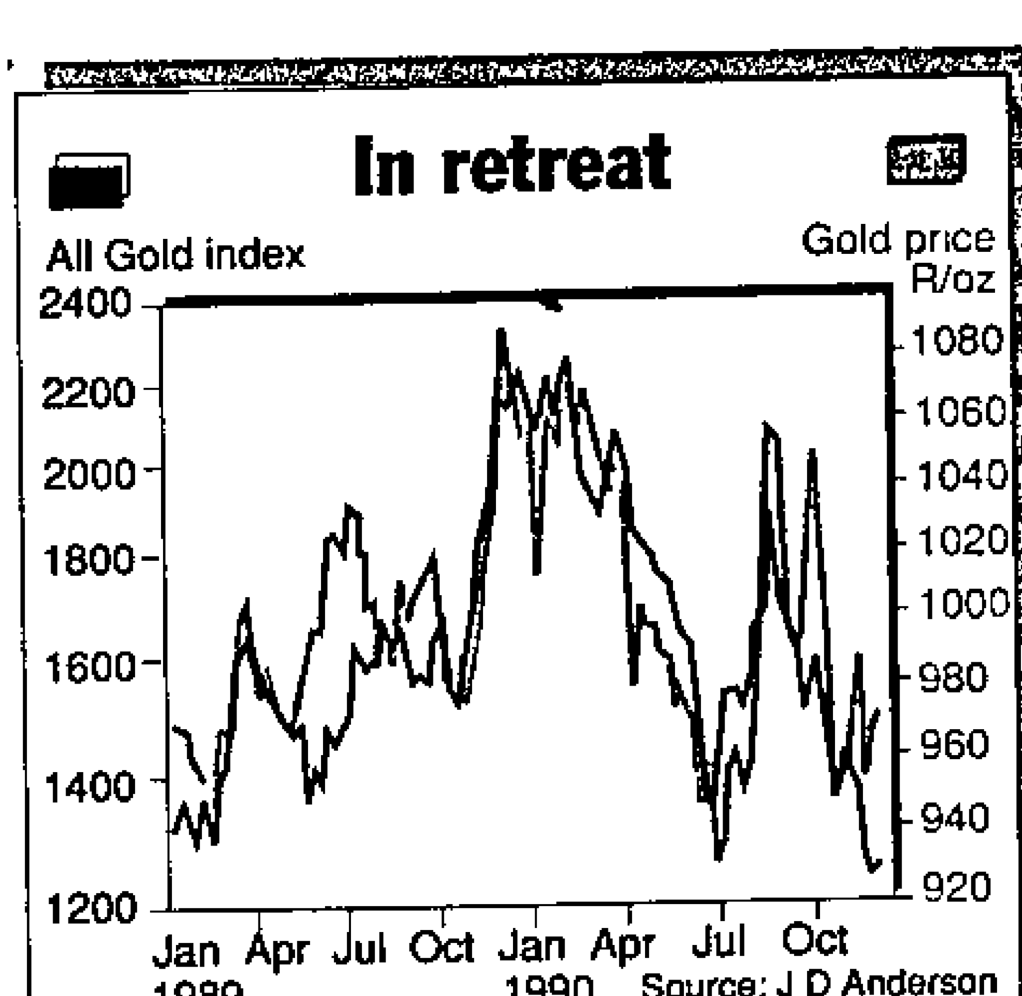
Much, but probably not all, of the industry's deterioration is reflected in the share prices. Since peaking last December at 2 250, the JSE All Gold index has tumbled by some 44%, and stands at 1 267. Average yield on the shares is now 4,5%, but the prospective yield is even lower unless the price moves well above $420 and stays there.

Bruce Williamson, gold analyst at J D Anderson, is forecasting dividends will drop by another 20%-25% in the year to September 1991. Unless investors are willing to accept an even lower yield, that means the All Gold index will keep sliding. A prospective yield of, say, 3,5% on gold shares contrasts poorly with the 4,5% average for industrials, which still include growth stocks. It is also a far cry from the gold sector's average 10% yield a decade ago.

Many gold shares have fallen precipitously this year — marginals such as Modder, South Roodepoort, Rand Leases and Venters are down by 60%-80%; heavyweights such as Kloof and Southvaal have fallen by 30%-45%. That does not make them attractive.

At the September quarter, only 20 out of 53 mines were covering working and capital costs. Unless revenues can outpace cost increases, the profit margins will worsen next year. On present trends, the rationalisation now taking place at many mines will generally mean a reprieve rather than a turnaround.

Andrew McNulty



UBS FM 7/12/90

POSITIONING THE BOOK

In the past, building societies would have been worried about impending lower interest rates. They have benefited from a rising

Non-resident gilt deals up

B/Day 7/12/90 (79)

LIZ ROUSE

NON-RESIDENT dealing in SA gilts perked up again in the week ended November 30 while dealings in SA equities resulted in a small surplus compared with the deficit of the previous week.

Gilt sales amounted to R113,4m and purchases totalled R106,1m, resulting in a net deficit of only R7,334m compared with the previous week's deficit of nearly R32m.

Foreign gilt dealing resulted in a small surplus of R9,212m with purchases at R88,6m and sales at R79,6m. The previous week's trade showed a deficit of R69,5m.

Overall activity was at a low ebb before the current week's surge.

Salad days are over for gold holders

S Times 9/12/90 (79)

TEN (stylised) facts about gold as an investment are presented by Roy Batchelor of the City University Business School in London.

His article appears in the World Gold Council's Gold Review.

Professor Batchelor says most studies of gold investment have applied modern portfolio theory by computing the conventional measures of return and risk which would be relevant to a dollar-based investor.

His study has two features: the properties of gold are assessed from the viewpoints of investors in nine currencies; and reasonable objections to the use of modern portfolio theory are met by computing some less conventional measures of the riskiness of gold. He finds:

- The average return on gold has in the past been higher than on conventional financial investments.

He says that to a dollar-based investor from 1968 to 1988 gold gave an average yearly real return of 5,95% compared with 4,06% from shares and even less on bills and bonds.

- The volatility of gold returns is higher than for conventional financial investments.

The annual standard deviation surrounding gold returns of 50,1% means that while on average in any quarter an investor should expect to make a 5,95% return, there is a one in three chance that the actual return will be either 50,1% higher than or lower than this.

This makes an unhedged investment in gold extremely risky for a short-term investor.

- The volatility of gold returns falls sharply as the investor's holding period lengthens. The average standard deviation of gold returns over five years falls to 11%, and over 10 years to 6%.

These lower deviations mean that although the range within which the return to a quarterly gold investment will lie with two-thirds probability is 5,95 plus or minus 50%, the corresponding range of returns for a five-year investor is only 5,95 plus or minus 11,4%

The long-term gold price is more predictable than in the short term.

- Returns to gold are negatively correlated with returns to financial assets.

For a dollar-based investor, the correlation between real returns on gold and real returns on an equally weighted portfolio of bills, bonds and shares is always negative, becoming more so with time.

Gold provides a hedge against unexpected changes in returns on financial assets. The exact percentage by which returns to gold can be expected to change when returns to the financial portfolio increases by 1% is called the beta of gold.

- The properties of gold as an investment are independent of the investor's home currency. Professor Batchelor's study of gold in nine currencies showed it to produce relatively high real returns in all countries but one.

Only in Japan have returns on financial assets kept pace with gold. Risks in gold are high in the short term, but low in the long term in all the countries.

- A long-term investor is more likely to match long-term liabilities using gold than by stock-market investments.

Volatility is related to required return. Gold's high returns combined with low long-term volatility means that gold dominates share investments for long-term liability matching.

- Gold's hedging effectiveness does vary over time. But it varies in a sytematic way, rising and falling with the general rate of inflation. If American inflation-rate figures are superimposed on a graph of gold's beta there is a strong inverse relationship between inflation and gold's hedge effectiveness.

The beta of gold has not varied at random. It has been at its lowest points at times of peak inflation. In times of low inflation the beta has become less negative and risen close to zero. Gold is widely regarded as an inflation hedge.

- To minimise risk in a well-diversified portfolio of dollar assets, about 10% should be held in physical gold.

Increasing gold from 0 to 10% unambiguously improves the investor's position, reducing risk and increasing return. More gold becomes more risky.

- Gold is most expensive when it is most useful to investors.

If gold is regarded as part of a portfolio of other financial assets, the demand for it will be high when the return on financial assets is low or the hedge effectiveness of gold is high.

- The real return on gold in the future is likely to be lower than in the 1970s and 1980s.

Professor Batchelor admits that this is a conjecture rather than an established fact. But he says it follows from the previous nine facts that although the gold price has fluctuated considerably in the past there seem to be good reasons for the fluctuations.

These are rooted in changes in real interest rates and in the effectiveness of gold as a hedge instrument. In other words, returns on gold fit the pattern predicted by modern portfolio theory.

Unfortunately, the theory also predicts that long-term returns on a negative-beta hedge asset should lie below, rather than above, long-term real returns even on the least risky financial asset.

An ineluctable principle of finance is that one cannot get something for nothing. In the case of gold, the investor cannot expect immunisation against inflation-induced fluctuations in financial asset values without paying the price in the form of a low return on the hedge asset gold.

The high returns on gold achieved in the 1970s may therefore prove less typical of its long-term performance than do the lower returns of the 1980s.

Gold shares fall on report of DM1bn sale

79

MERVYN HARRIS

GOLD shares were under renewed pressure on Diagonal Street yesterday on an unconfirmed report that the German Bundesbank was prepared to sell DM1bn worth of gold to finance German unification.

The JSE all gold index slipped seven points to a new low of 1 190, with bellwether Vaal Reefs slipping 300c, going below R200 for the first time since 1985, and closing at R198. The shares peaked at R453 in February.

The report of the rumoured German plan pushed gold down from a high of $374,75 to $370 before the metal regained some poise in confused and hectic trading. It ended $2,00 down on the day at $371,75 in London.

AP-DJ reported that an advance copy of a report to appear in Friday's editions of a German weekly magazine, said top officials of the German central bank were prepared to sell about DM1bn worth of gold to finance unification.

The weekly Wirtschaftswoche reports the German Economics Ministry plans to use the Bundesbank's gold reserves to mint DM1 000 gold coins to finance rebuilding eastern Germany.

Reuter reported that a Bundesbank spokesman said he could not confirm the contents of the article, saying "it is all pure speculation".

JSE battle of the golds ends in a draw

B/Day 18/12/90

MERVYN HARRIS

THE battle of the bulls and bears ended in a draw on Diagonal Street yesterday as players scrambled to buy or sell index-weighted gold shares according to strategies they had adopted on the close out of December futures contracts.

The JSE all gold index swung from a high of 1 140 to a low of 1 123 before ending seven points up at 1 129 as players sought to take advantage of price differences in the cash and futures markets.

Market action concentrated on heavyweight golds as there were 2 025 open contracts at the start of trading compared with 400 unclosed industrial contracts which, dealers said, gave little scope for price manipulation by big players.

79

Greenwich Futures trader Bryan Coyne said futures traded at a discount to golds on the spot market for most of the day. "This was due to rumours that certain large players were waiting to come in as substantial sellers of golds on the JSE.

"But the rumours were picked up by other large players in the market and they became counter productive, neutralising the close out on heavy volumes." Gold rose nearly $3 to close in London at $376,50 as war fears mounted in the Gulf on deadlocked talks between the US and Iraq. The strength of golds and mining financial shares and a steady industrial board enabled the JSE overall index to close five points up at 2 682.

Rush for cover in gold and dollar markets

B'Day 21/12/90 (79)

JOHN CAVILL

LONDON — Safe-haven money flooded into the dollar and gold markets yesterday on news of Soviet Foreign Minister Eduard Shevardnadze's shock resignation and on rumours that a US military aircraft had been shot down over the Persian Gulf.

Gold started its rally on Wednesday after the US Federal Reserve cut the discount rate by half a point to 6,5%, weakening the dollar against the Deutsche Mark and other European monetary system (EMS) currencies. From $376,95/oz in London it climbed to $380,20.

Yesterday saw bullion and the dollar both climbing. The US currency firmed from DM1,478 to DM1,505 and from 133,90 yen to 134,35 yen. Sterling's dollar rate slipped from $1,932 to $1,919.

The rand closed sharply weaker against the dollar at R2,5375/90 from its opening at R2,5235/50. It gained 2c on the pound, closing at R4,85.

In a thin, pre-holiday market, gold bounced to $387,50 as short sellers covered in before sagging to $385,45 at the London afternoon fixing. Other precious metals followed: platinum was up nearly $12 to $428,25/oz dropping to $425,50.

However, silver shot from $3,97c/oz in London overnight to $4,33c in New York.

MERVYN HARRIS reports gold shares surged on the JSE and the all gold index ended almost 76 points higher at 1 188.

Worries about disruption in the Soviet Union, which accounts for 20% of platinum production, sent the platinum price sharply higher in London but platinum stocks failed to react significantly to the jump.

Southvaal was in the forefront of the gains among better class golds. The shares rose 10,9% or 850c to R86. Driefontein rose 7,4% or 250c to R36 and Vaal Reefs gained almost 6% or R11 to R197.

Cynic crushes the golden optimists

S1 Times 30/12/90 (79)

By JULIE WALKER

INTERNATIONAL gold buff Julian Baring has put a few noses out of joint with a bearish view of the metal.

Mining Journal's International Gold Mining Newsletter says Mr Baring outlined "a fairly cynical view of the current market situation" at the Institutional Investor conference in London.

On share value, Mr Baring pointed out that fund managers were usually told by mining analysts what the value of a share was at a given gold price.

He prefers to know what gold price is being used in a discounted cash flow for a net-present-value a share equal to the company's current share price.

He believes that such figures would be too bad to publish as brokers give only bullish recommendations.

Brokers should focus on the returns for a fund manager or investor. Mr Baring says a real return of 4,5% can be achieved from an index-linked government bond.

A return of 6,5% should be expected from inherently riskier gold shares, even though investors have had returns averaging 7,8% a year since 1918 from American equities.

Rarely have returns from gold shares topped 6,5%.

The average cost of producing gold is about $255/oz, overheads are $75 and tax adds another $20, giving a total of $350. At a price of $400, the average company should make $50/oz profit.

He believes that this $50 is a benchmark for looking at a company's market capitalisation an ounce of resource. But the average gold share is capitalised at $150/oz of resource.

This suggests that gold shares are worth only a third of their average market valuation. Mr Baring says better value can be obtained from base-metal shares.

At the same conference, another fundi, Timothy Green, also foresaw a bearish outlook for gold in the short term because of falling physical and investment demand.

Looking into the 1990s, Mr Green is concerned that the current volume of forward sales could cap the gold price.

With a falling or static gold price, pressure is increasing from the mining companies for banks to provide forward contracts for longer periods, now up to five years ahead.

In August and September this year, when gold went to $400, Mr Green believed that 8-million ounces of forward sales came on the market.

Although mine supply is declining, Mr Green believes the market will have to absorb gold from other sources in the next five years, such as distress sales by Eastern Europe.

He does not expect an avalanche of central-bank selling, but Soviet and Chinese sales could increase.

Mr Green expects jewellery fabrication to absorb all the Western world's 1990 gold production, but recession in 1991 may limit demand. Jewellery will remain the key factor in gold demand.

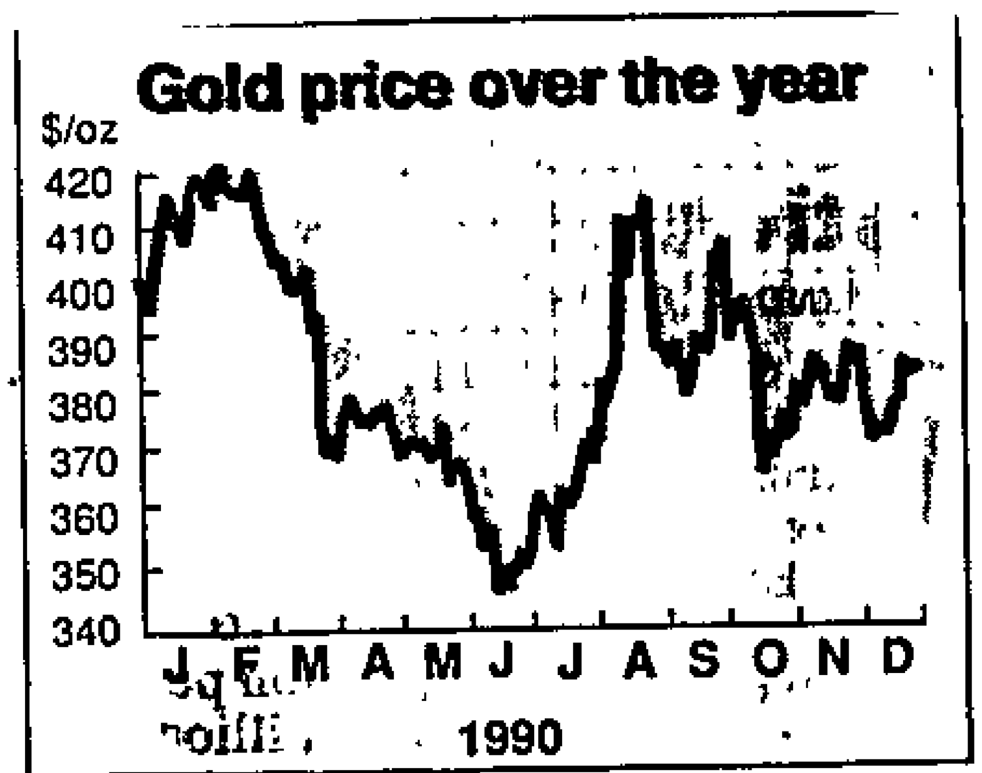
The Soviet view at San Francisco's Gold Show, put forward by Natalya Zubareva, is that gold sales to the West can be increased by between 30% and 40% without causing any significant deterioration in the price.

This is the conclusion of a report on the gold market prepared for the Institute for Foreign Economic Relations of the Soviet Council of Ministers.

Miss Zubareva does not expect much joint-venture exploitation of Soviet gold deposits with foreign companies.

The World Gold Council reports that sales of gold coins at the end of the third quarter to September 1990 were 26% higher than in 1989.

An August surge brought on by the Persian Gulf crisis tapered off to normal by September.



Graphic: LEE EMERTON Source: INET

BDay 31/12/90

Tax from bullion takes a nosedive

GRETA STEYN

79

GOVERNMENT's revenue from gold mines tax plunged by an unexpected 30% in the first seven months of the fiscal year from the same period in the 1989/90 book year — making a mockery of the 5% drop foreseen in the Budget.

Revenue from gold mining is shrinking as a percentage of overall state revenue, while the stake of individuals rises.

The metal's tiny contribution of 1,3% to total revenue in the period April to October is a far cry from 1980, when revenue from gold mines accounted for almost a fifth of government's total revenue.

Although government did not disclose its estimate of the gold price in the March Budget, officials indicated it was an average price for the year of more than $400.

But gold spent most of the year languishing below that level, even briefly sinking below $350 in June and failing to impress as a "safe haven" during the Gulf crisis.

Government also budgeted for an 8% drop in income tax receipts from gold mining leases.

But here, too, massive underrecovery is taking place (down 40%).

The few hundred million rands in revenue lost because of weak gold mining will be more than offset by substantial overrecovery of personal income taxes because of fiscal drag.

The Reserve Bank's policy of keeping the rand stable saw it refuse to push the rand exchange rate lower to help the ailing gold mining industry — a move which also kept down the taxes the industry paid.

The effects of the lower-than-expected gold price on the balance of payments were not as severe as initially feared, with the current account still set to record a

☐ To Page 2

Nosedive

BDay 31/12/90

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☐ From Page 1

R5bn surplus.

The Bank had projected a surplus of about R6bn at the beginning of 1990.

The Bank said it would intervene in the gold market to support the price. It has built up enough foreign cash reserves to allow it to keep gold from the market, and has indicated it wants to rebuild gold reserves.

There was evidence of that at the end of November, when gold holdings surged by 323 000 oz — the biggest move since February 1990.

But at just more than 4-million ounces, the Bank's gold holdings are 33% lower than three years ago and 66% less than in 1980.

War jitters push gold above $390

(79)

B Day 31/12/90

GOLD broke through the $390/oz level in New York on Friday to close at $393, and consolidated at $391,75 in Hong Kong as investor fears of impending war in the Gulf were compounded by a tumbling dollar.

As the UN's January 15 deadline for Iraq's withdrawal from Kuwait approaches, gold is seen to be capitalising on investor jitters that a military confrontation might take place.

Analysts say gold is likely to continue gaining as the deadline moves closer, and it could breach $400 before January 15 if no peaceful solution is found.

Gold rallied $8,25 to $393 in New York on Friday as oil prices firmed and the dollar toppled from its recent bull run as a result of surprisingly poor indicators.

The Leading Economic Indicators index, which reflects what the economy is likely to be doing within the next six to nine months, fell by 1,2% in November after a 1,3% fall in October.

The plunge exacerbated Thursday's release of durable goods sales, which showed a massive 10,5% drop in durable goods new orders in November. It matched the worst fall made in this indicator.

The dollar fell below DM1,50 on Friday to DM1,4935 from DM1,5260 breaking three technical resistance levels on the way.

The rand closed at R2,5635/50 to the dollar, sharply up on its opening of R2,5715/30 and Thursday's R2,5780/95 finish.

ANDREW GILL

Analysts say the short-term outlook for gold is bullish as confrontation threatens worldwide financial markets and diminishes the attractive yields of currencies in the face of possible interest rate cuts.

This has already happened in the US with the official discount rate falling 0,5 percentage points to 6,5% three weeks ago.

The move initially sent the dollar tumbling, but Soviet Foreign Minister Eduard Shevardnadze's shock resignation brought it quickly back into the limelight thanks to its safe haven reputation.

Weaker yields on the dollar prompted a quiet gold rally.

Last week's closing of $393 in New York was more than $10 up on the week, and reflected a fair amount of short-covering over the weekend and the New Year. New York is open for a half-day today, as is London. They will both be closed tomorrow.

However, Old Mutual chief economist David Mohr says any strong rally in gold is likely to be short as the metal's fundamentals are not sound.

If the Gulf crisis drags on, there could be continued higher prices. But once the uncertainty is out of the way there is little chance of a sustained bull market, he says.

International inflation is a major factor for gold as it determines yields and, after the oil hiccough in the figures, is likely to resume a downward trend, he says.

GOLD – 1991

Price hopes ease Bank's 79 gold sales

BIDay 3/1/91.

KEVIN DAVIE
and ANDREW GILL

THE Reserve Bank has cut sales of gold in the forward markets in anticipation of higher gold prices above $400, informed sources say.

The metal yesterday traded briefly in London at a high of $393,50 an ounce before closing at $390,75.

On the JSE gold stocks burst into the New Year with a flurry as investors took heart from the higher price and sent the all gold index soaring over 5% to 1 266 points.

SA and international market participants now believe that a number of factors are bullish for gold and there could be sufficient support up to about $425.

These factors include strong physical demand, the absence of Australian gold sales, and the double uncertainty of war fears in the Gulf and continuing turmoil in the Soviet Union. Softer US interest rates should also boost the gold price.

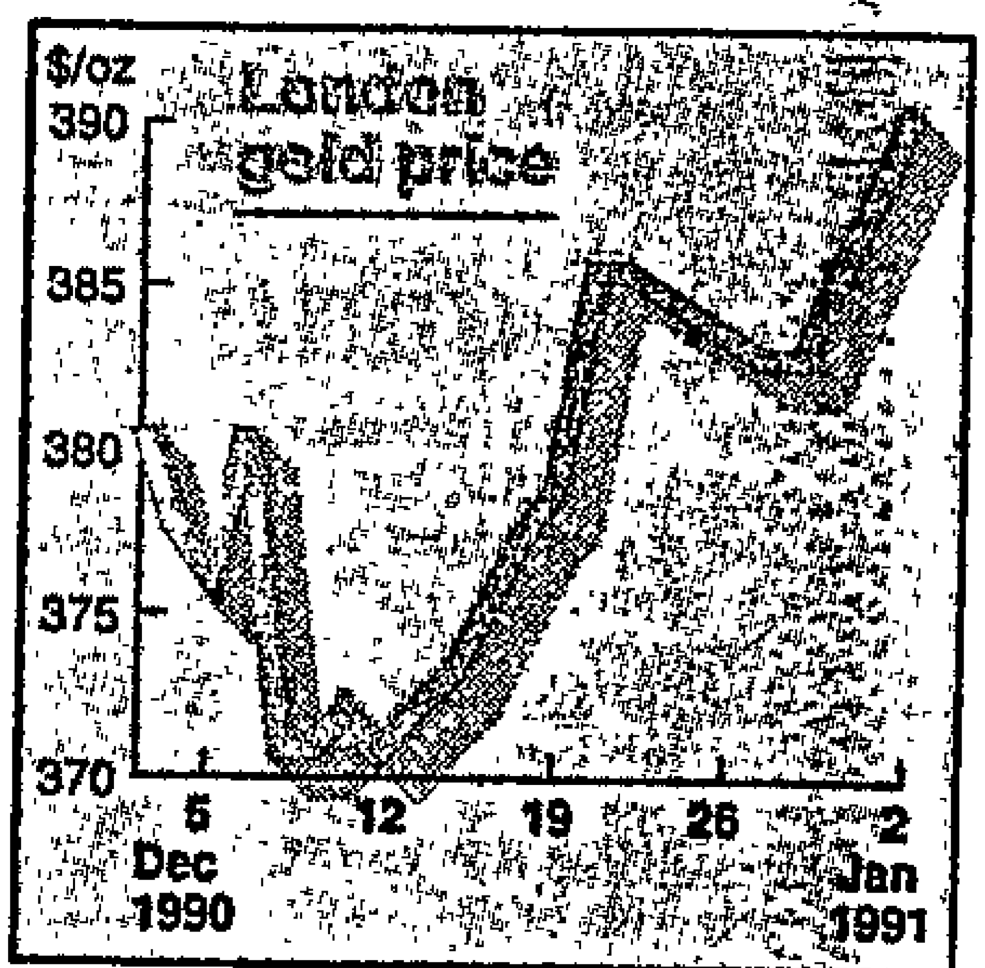
Market participants say they doubt the Soviet Union has massive reserves which it could flood onto the market if hit by a major crisis.

But turmoil in the Soviet Union could mean a fall in gold production, creating shortages and pushing up the bullion price.

A war in the Gulf may not necessarily boost gold, though, as there are strong indications that many producers have been waiting in the wings in anticipation of war, meaning that a temporary oversupply may push down prices.

An AP-DJ report says there are a num-

☐ To Page 2



Graphic: FIONA KRISCH Source: JSE

Gold sales BIDay 3/1.1991

79 ☐ From Page 1

ber of major companies waiting for a price rise to unload unmined production.

Central banks would likely make use of a selling opportunity, as would currency-starved governments in gold-producing nations such as SA and Brazil.

Quoting analysts, traders and economists AP-DJ confirmed the view that war in the Middle East could combine with other factors in the first quarter to launch gold across $400 an ounce.

But flying bullets will not usher in a bull market, they said. A bull run would be restrained by the weak US economy and sluggish investment demand which plagued the market throughout 1990.

The key to gold's first-quarter performance will be whether investors want it.

Observers predict the market will remain volatile and well-supported heading into the January 15 deadline for Iraq to withdraw from Kuwait.

A factor puzzling some dealers has been the absence of Australian producers from the market. One view is that these producers have been waiting for better prices near the January 15 Gulf deadline, but there are also indications that Australia has already made its sales.

On the JSE, although volumes were low and industrials drifted lower in thin trade, dealers said there were firm undertones that auguered well for the coming weeks.

Expectations of a still higher gold price as January 15 approaches and a belief that an interest rate cut is imminent are apparently giving rise to bullish sentiment. The overall index closed 22 points up at 2 742 as gainers led losers by over two-to-one.

● Comment: Page 6

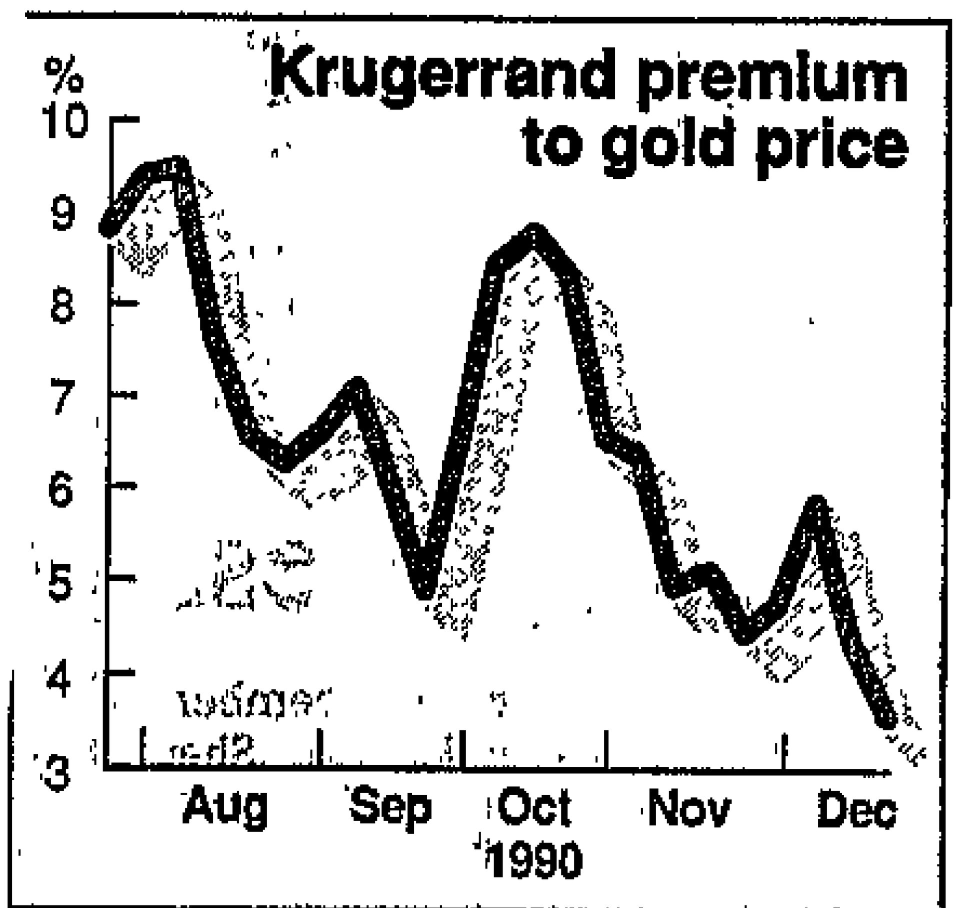
Krugerrand has had it — trader

PETER COUTROMANOS

SPECULATION that lifting of sanctions will boost Krugerrand sales is unwarranted, say some Krugerrand traders.

After the imposition of sanctions on Krugerrands in 1985 and the introduction of gold coins such as the Chinese Panda, American Eagle and Canadian Maple Leaf, the Krugerrand lost its dominant market share.

Traders say the Maple Leaf is dominating the international market: of all gold coins traded internationally, 21% are Canadian Maple Leaf coins.



Graphic: FIONA KRISCH Source: FIRST NATIONAL BANK

Coins In Randburg's Gary Levitan says: "There is no chance that the Krugerrand will recapture its market share.

"Even if sanctions are totally abolished, one cannot expect investors to switch to Krugerrands.

"There is no reason for them to do so. The number of new coins available is simply too great. The market has been lost permanently."

Krugerrands are trading at a zero premium to the gold price in New York and London.

Traders expect that this will continue to be the case.

Locally, the coins are trading at an average premium of 3,5%.

Traders say the low premium is a result of poor demend.

Despite uncertainty in the Gulf, investors have not increased their purchases of Krugerrands, and the premium appears to be on a long-term downward trend.

Gold moves send shares leaping

CAPE TIMES 3/1/91

79

JOHANNESBURG. — The Reserve Bank has cut sales of gold in the forward markets in anticipation of higher gold prices above $400, informed sources say.

The metal yesterday traded briefly in London at a high of $393,50 an ounce before closing at $390,75.

On the JSE gold stocks burst into the New Year with a flurry as investors took heart from the higher price and sent the All Gold Index soaring over 5% to 1 266 points.

South African and international market participants now believe that a number of factors are bullish for gold and that there could be sufficient support up to about $425.

These factors include strong physical demand, the absence of Australian gold sales, and the double uncertainty of war fears in the Gulf and continuing turmoil in the Soviet Union. Softer US interest rates should also boost bullion.

An AP-DJ report says there are a number of major mining companies that are waiting for a price rise to unload unmined production.

Central banks would likely make use of a selling opportunity, as would currency-starved governments in gold producing nations such as South Africa, the Soviet Union and Brazil. Investors holding gold also would be expected to take their profits out of a price rise.

Quoting analysts, traders and economists AP-DJ confirmed the view that war in the Middle East could combine with other factors in the first quarter to launch gold across $400 an ounce.

The key to gold's first-quarter performance will be whether investors want to buy it.

● **The JSE** waited for four days to test reaction to a $391 gold price thanks to the weekend and market holidays, but a dealer said it was well worth the wait.

The Overall Index closed 22 points up at 2 742 as gainers led losers by over two-to-one.

Quality scrip was prised away at a price as was reflected in Vaal Reefs, which made a large 9% gain to R218 before slipping slightly to close at R216,50. It is now 20,3% above its R180 low reached only two weeks ago.

At the other end of the scale, Barbrook made a 60% gain off a low base of 25c to end at 40c. This is despite the mine being in a disastrous situation and being placed on a care and maintenance basis.

● **Capital market rates** closed sharply higher yesterday after the bullion price eased.

The benchmark Eskom 11% 2007/2009 finished at 15,88% (15,76%) close. The RSA 12% 2005 ended at 15,98% (15,86%). The Tnet 12,5% 1993 also rose to 15,99% (15,85%). Volume on Friday fell to R134,57m (R595,9m).

● **Oil prices** slipped by more than $1 per barrel in London and New York yesterday. Traders said that last-ditch moves to avert war in the Gulf were forcing prices lower.

North Sea Brent crude oil futures for February loading stood at $26,90/b, down $1,37. Light US crude oil futures for February delivery were down $1,09 at $27,35. — Financial Staff, Own Correspondents and Reuter

Closing gold prices

(In $ an ounce)
NEW YORK: 388,40/388,90
LONDON: 390,25/390,75
Fixing am: 392,50
Fixing pm: 390,80
ZURICH: Markets closed

— Reuter

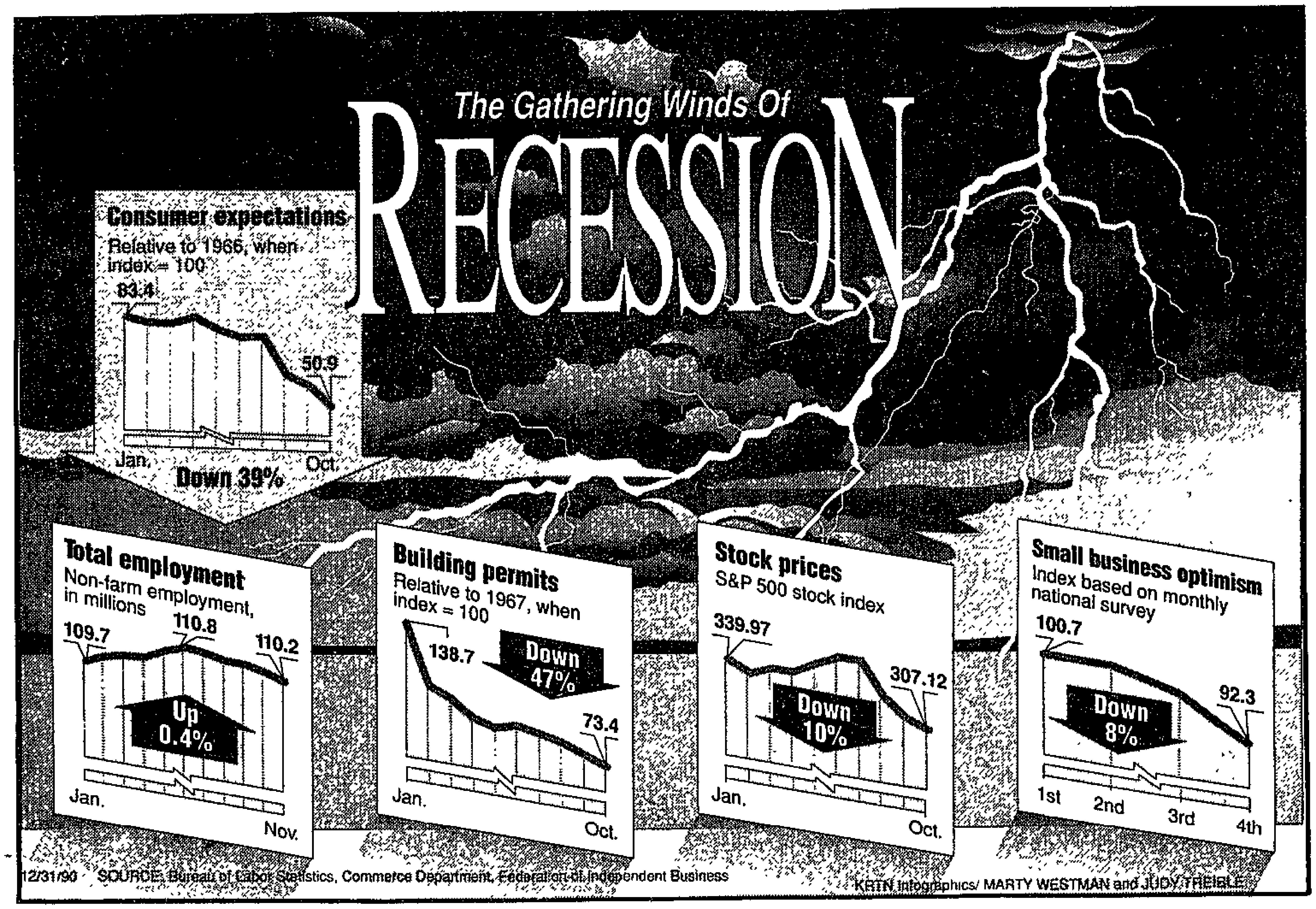
Sufrots C...

Scorned gold may yet show its mettle

79

Star 5/1/91.

JOHN SPIRA



This year's first day of trading on the Johannesburg Stock Exchange featured strong demand for gold shares.

The gold share index added a sharp 5,3 percent on the back of a bullion price which pushed through $390, prompting the bulls to describe the action as a portent for 1991.

But the preponderance of bears tells a different story, suggesting that the bang will end in the same whimper witnessed in 1990, when the year opened on a strong note only for the index to shed a substantial 38 percent over the next 12 months.

In the final analysis, of course, the market will do what it will do. Ignoring arbitrary calendar delineations, it will track a course plotted by supply and demand factors deriving from investor expectations of how the gold price will behave in the year or so that lies ahead.

Outlook

Although gold shares need not slavishly follow movements in the gold price (there tend to be brief periods when the relationship between the two alters), there's little room for doubt that the direction taken by the yellow metal determines the direction followed by the shares.

Hence the investor's appraisal of the merits or otherwise of gold shares at their present prices must revolve around his assessment of the outlook for gold.

Here, unfortunately, he runs into a minefield of confusion, with much of the relevant conventional wisdom having been seemingly overturned.

If gold is a haven in times of uncertainty, why hasn't the Gulf crisis, coupled with a threatened collapse of the American banking system, produced a strong bull market for the yellow metal?

Two ready answers have been trotted out in answer to this conundrum.

The first has it that gold has lost its historic hedge qualities as a result of global economic and political stability — an environment in which inflation and uncertainty has been squeezed out of the system.

The second is that the world is poised to enter an economic recession, one of the spin-offs of which will be reduced demand for all commodities, resulting in yet lower inflation. In the process, gold's hedge qualities will dwindle further.

On a superficial level, it is difficult to contest the validity of these arguments.

If it is accepted that the United States and Japanese economies are the engines of world prosperity (as they surely are), then the indicators emanating from these economic giants are pointing unerringly to darkening storm clouds on the near horizon.

In the US, consumer expectations and business optimism have tumbled in recent months, and although share prices haven't tumbled as far as those in Tokyo, the Dow Jones average is a significant 15 percent down on its level of six months ago.

Between the end of 1989 and October 1990 the Nikkei index crashed by 50 percent. It has since rallied marginally but behind the share price slump lies steeply lower profit estimates, a glut of office space and question marks over the stability of Japanese banks.

Serious recessionary factors are therefore clearly at work. But the economic forecasters, having got the initial stages of the unfolding scenario right, seem unable to develop the model through to its logical conlusion.

After upending history on the gold front, they are relying on history to produce an empirical business cycle whereby a slowdown in economic activity will eventually be followed by a revival, at which stage everyone can get back to buying the luxury items on which they've been splurging for the past 10 years.

To their discredit, those very same forecasters haven't questioned the nature of the looming economic recession.

US dollar

A prospective feature of the pending downturn, for instance, is a collapse in the US dollar.

The American economy, constructed in recent years on a mountain of spurious debt, is looking horribly vulnerable.

The greenback has been king for decades and its abdication could well herald a period of extreme currency instability.

The lengthy pre-eminence of the dollar has provided the world with a reasonably reliable yardstick of international value.

It has been the reference point for almost every cross-border business transaction. As such it has lubricated world trade and inspired confidence as a universal value mechanism.

What happens when the trusty anchor goes?

Eventually a substitute is bound to emerge. The Japanese yen? Perhaps. But doesn't gold have a leading candidate claim?

It has been a store of value for centuries; it is widely accepted as the ultimate lifebelt in times of financial crisis; and it constitutes a significant portion of the reserves held by the world's leading central banks.

Gold's barbaric relic label may yet come into question in the turbulent times that threaten to throw the world into financial mayhem.

Gold shares, accordingly, may evolve as investments more lucrative than the no-hopers they are perceived to be by the vast majority.

Gold looks set to test the $400 'brick wall'

W/E ARGUS 5/1/91

79

Comecon collapse to boost exports

Weekend Argus Correspondent

JOHANNESBURG. — South Africa's foreign trade opportunities will mushroom with the collapse of Comecon.

Indeed, its exports to eastern Europe seem likely to expand to significant levels within a year or two.

This is the obvious conclusion to emerge from recent reports that more South African businessmen are visiting eastern Europe than businessmen from any other country, with the sole exception of Germany.

South Africans are underestimating the considerable benefits that are likely to flow from the growing establishment of trade links with eastern Europe.

Scepticism abounds, with many economists unable to come up with logical arguments to justify the trend towards the increasing intimacy between South Africa and the Comecon countries.

Yet the reality of the situation is that South Africa is showing remarkable initiative, with an outstanding chance of reaping positive results.

See page 2

From JOHN SPIRA

JOHANNESBURG. — Optimism over gold's 1991 outlook is rising following the metal's strong post-New Year gains.

Yet the bulls would be prudent to build into their calculations the so-called brick wall thesis, which threatens — as it has done on several past occasions — to snuff out the rally once it breaches the $400 mark.

Significantly, $400 is not solely a psychological barrier. It is a brick wall constructed by the proliferation of financial derivatives in the form of gold loans, forward sales and options.

At this stage of the derivatives evolution it can be confidently concluded that if the physical market had been the only determinant of the gold price, the Gulf crisis would have triggered a more positive move, since physical demand is outstripping global production.

What's been happening over the past couple of years is that the physical market's been overshadowed by a derivatives market in which a huge increase in the amount of hedging and paper transactions has materialised.

Hence the brick wall extending from $400 to $415 — a barrier which has shown itself to be impenetrable during the past 24 months.

The wall is built on a gold loan foundation whereby existing and prospective gold producers borrow physical gold — often from central banks — in order to raise capital to finance mining development.

The mines sell the gold in the spot market to raise the required finance, in the process depressing the price. The borrowed gold is then repaid at some future date out of future production.

Estimates have it that well in excess of 200 gold loans are currently outstanding, representing more than 300 tons of gold, equivalent to more than half of South Africa's 1990 production.

Forward selling

Gold loan activity accelerates at prices above $400, effectively barring any advance which promises to develop into a sustained bull market.

The brick wall's mortar consists of forward selling by gold producers — an activity, favoured mainly by Australian and North American mines, which involves selling gold which is still in the ground.

Forward sales, too, accelerate at prices above $400, thereby further inhibiting extended strength in the gold price.

The bricks in the wall derive from the huge American volumes in gold options. These grant the option holder the right to buy or sell physical gold at some time in the future.

Once again, at gold prices above $400, traders tend to increase their exposure to "put" options, giving them the right to sell gold at a specific price in the future — a significant price depressant which has proved highly effective in the past.

Derivative activity is so dominant that many believe gold will remain in a narrow range, with a $415 ceiling, for a considerable period of time — a scenario which renders gold shares singularly unattractive.

But while this is perhaps a majority view, one should not overlook the possibility of the brick wall having developed (perhaps serious) cracks.

Indeed, there are convincing reasons for arguing that derivative business could soon taper off, in the process setting the stage for a fresh bull market in gold. Thus:

- Although gold loans will continue to provide mining companies with an attractive medium for raising capital for expansion, such activity has already started to decline.
- In a sense, the process is self-correcting. Gold loans have placed a lid on the price, in the process making new projects less attractive and thereby diminishing the need for new loans.
- Australian gold loan activity is about disappear almost entirely
- Already the number of new mines have fallen sharply, so that gold loans — along with forward selling — will not be a factor as far as Australian producers are concerned.
- A reduced level of gold loans and forward selling could quickly alter perceptions over the future course of the gold price — a development which would, in turn, abruptly change the strategies adopted by option traders.

They may well, in consequence, turn bullish and reverse their bearish postures, in which event not only would an important resistance ingredient fall away but a new upward thrust in the market could thereby emerge.

The brick wall could accordingly soon show signs of crumbling, with a Gulf war perhaps providing the catalyst.

Scramble for gold shares pushes up prices (19)

By Ann Crotty

Excitement on the gold board dominated activity on the JSE yesterday as local and overseas buying of gold shares drove the gold index up 59 points to 1312 at the close.

This followed a $4 rise in the London gold price to above $391 after weekend statements by Iraq's Saddam Hussein heightened fears that war was inevitable in the Gulf.

In New York last night gold jumped $9,10 to $394,10. It opened in Hong Kong today at $392,30, up $1,85.

Star 8/1/91

Well spread

The interest in the gold board was well spread, with local institutions and smaller investors keen to top up their gold holdings.

A weaker financial rand also helped to attract overseas investors.

The buying seemed to benefit all qualities of gold shares, with heavyweights and marginals registering good price increases.

Among the shares to benefit from the stronger sentiment were Vaal Reefs — up R12 to R225, Western Deep — up 500c to R110, South Vaal — up 400c to R94, Harties — up 125c to R20,75, and Leslie — up 80c to 560c.

Dealers said the stronger gold price sent institutions, which had earlier sold gold shares, scrambling for them yesterday.

It seems that on their first full day back from holidays, the institutions were more inclined to the view that a Gulf war was inevitable.

However, analysts (who tend to take a slightly longer-term view of events) were yesterday emphasising the volatility of sentiment over a Gulf war and the volatility of the gold price.

They took a much more cautious view of yesterday's gold board developments.

Gold price soars as war looms

CAPE TIMES 17/1/91

Financial Editor

THE gold price leapt $8 yesterday to just under the $400 level, as the threat of a Middle East war loomed closer.

With the sharp drop in the rand against the US dollar to R2,6 per dollar, its weakest since August 2, the rand gold price rose to R1 035.

World financial markets also reacted sharply.

Oil prices rose $4 to reach $30 a barrel in New York. Share prices on international markets dropped back and gold shares on the Johannesburg Stock Exchange soared by about 5%.

Market analysts expect a further rise in the oil and gold prices followed by higher gold share prices on the JSE but lower share prices on international stock exchanges and also lower industrial share prices on the JSE.

The gold price ended the day just below $398 in London — its highest level since October 1990 — pushed higher by fears of a Gulf war as well as increased tensions in the Soviet Union.

Economist Mr Leon Steenkamp says gold might move higher but this will be short-lived. Higher oil prices and a disruption in oil supplies will push industrialised economies further into recession — even depression — which will negatively affect the SA economy in the long run.

CAPE TIMES 16/1/91

London gold tops $400 mark

79

LONDON. — Gold closed firmly at $400,00/400,50 an ounce, up from its afternoon fix at $398,50 and Monday's close of $397,50/398.

Dealers said gold broke through the psychological barrier of $400 to trade around $401, its highest since the start of October last year, in nervous trade near the close.

"The market rose on the back of very good buying seen on comex, and could easily reach around the $420 level if hostilities begin in the Gulf," one dealer said.

"If peace is found even at this late date then the price could fall possibly as far as $365," he added.

Silver closed at 422/423c an ounce, up slightly on its fixing earlier at 420,50c and 4c higher than yesterday's close.

Dealers said silver remained quiet throughout the day and only rose on the back of firmer gold.

Platinum closed at $421/422 an ounce, up slightly from its afternoon fix of $420,50 and the $420/421 close on Monday. — Reuter

Shares weaken as UN deadline looms

JOHANNESBURG. — Prices of leading shares weakened in low volume business yesterday as subdued traders anxiously awaited the approaching UN deadline for Iraq to leave Kuwait.

The JSE all-gold index retreated partially to a preliminary 1 335 close after Monday's 61-point rise to 1 367 while the industrial index dropped further to 2 847 from 2 879. The all-share index eased to 2 626 from Monday's 2 659 close.

Dealers said activity appeared mainly confined to position squaring ahead of the UN deadline which expires at midnight New York time (7am today local time).

Heavyweight gold share Vaal Reefs closed R6 down at R233 following Monday's R14 gain to R239 while Freegold lost R1,35 at R31, reflecting a perceived inability of world bullion prices to breach $400 an ounce. But Ofsil gained R4,50 at R75 against the trend, they noted.

In mining financials Anglos shed R2,50 at R87,50 but GFSA advanced R2,50 to R75. Diamond share De Beers recovered slightly to R61,75 after Monday's R2 drop to R61,25.

Industrials had Barlows 75c easier at R34,25 and SA Breweries R1,50 down at R36.

An easier financial rand provided a little support.

● **Capital market rates** ended the day below their recent highs yesterday, but dealers saw no signs of any real change in the recent upward trend amid the current uncertainties.

The negative influence on inflation and interest rates if war breaks out in the Gulf remains the overriding factor, they said, noting that news of a very sharp rise in producer price inflation in November caste an added shadow over the market.

The benchmark Eskom 11% 2007/2009 closed at 16,06% after rising to 16,11% on Monday from Friday's 16,07%.

Volume on Monday totalled R1,26bn. — Reuter

Gold shares plunge by 12% on JSE

CAPE TIMES 18/1/91

79

By PIETER COETZEE
Financial Editor

GOLD shares plummeted yesterday with the gold index losing no less than 12% or 165 points as the gold price plunged more than $30 from its high of $411 earlier in the day. It closed at $376/377 in London.

In New York gold closed at $372,60/374,90.

The rest of the market generally held firm and the industrial index firmed 1,6% following the strong performance of international stock markets. The overall index was pulled down by the drop in gold shares closing the day 17 points lower.

Brokers said the two reasons for the mood swing were the indications that the war will be short and the removal of the uncertainty factor as to what was going to happen and when.

Rob Gillan, gold analyst at Frankel, Max Pollak, Vinderine, said gold had its run with the build up of tension in the Gulf before war broke out. The price of $411 recorder just after war erupted can be seen as the spike everybody was talking about, he said.

It has lost much of its safe haven status and is currently seen as just another commodity. Many producers are selling their gold at the higher prices and are also making use of the higher gold price to sell forward.

"If gold moves up to the $400 level many producers are expected to enter the market with forward sales and that would depress the gold market. Supply and demand is the overriding factor at the moment and with the present oversupply of gold I do not see a major improvement in the gold price before 1993," he said.

Gillan said it is possible that there was an overreaction in gold shares but he does not think that the gold index would pick up by more than 20 to 30 points on the present gold price.

Economist Leon Steenkamp of stock brokers Senekal, Mouton and Kitshoff said fundamentally gold is weak. Gold had its run with the pre-war build up.

Much will depend on how the war develops and how long it lasts, but overall prospects for the gold price are not too exiting. The rest of the market could, however, firm slightly but there are still many uncertainties.

Dealers on the JSE said there was no sign of panic selling on the JSE yesterday with volumes being thin.

The JSE gold index closed at 1 179 down from Wednesday's 1 343 close, but the industrial index rose to 2 875 from 2 829 after recent steady declines. The overall index eased slightly to 2 600 from 2 617.

Heavyweight gold share Vaal Reefs ended the day R35 lower while Randfontein lost R3 at R13,75 but diamond share De Beers rallied to R64,75 from Wednesday's R61,50 close.

Industrial leader Barlows gained R1,50 at R35.

● In **London precious metals** were very subdued.

Silver closed at 405/406c an ounce, against its fix earlier at 409,75c and last night's close at 420/421c.

Platinum closed at $411/412 an ounce, little changed from its afternoon fix at $413,25 but $9 lower than the close yesterday at $420/421. — Reuter

Analysts view gold with gloom

(79)

ROBERT GENTLE

ANALYSTS sounded a note of gloom about the short-term outlook for gold yesterday as the impact of the successful allied air strike sunk in and the likelihood of a long, protracted conflict became more and more distant.

They said although it was still too soon to write off Iraq as a military force, they had little hope of a drawn-out conflict that traditionally shores up gold. Bday 18/1/91.

"This war was never going to last anyway, not with the might of the world against Saddam Hussein," said Simpson McKie's Rodney Yaldwyn. He called the initial market reaction "pretty severe" and possibly an over-reaction.

Adding gloom to the falling gold price, Yaldwyn said, was the falling dollar which strengthened the rand-/dollar exchange rate,thereby reducing the rand price of gold.

On the other hand, Yaldwyn said, the likelihood of a quick kill in the Gulf appeared to be good news for non-gold shares, if the rise in industrials was anything to go by.

This in theory heralded a shorter world recession and a quicker upturn in the world economy — all of which could see gold move up again.

Edey Rogers' Keith Bright said a short, sharp war would be "disastrous" for gold and ventured it might probably trade in the $370 to $390 band.

Bright said the most recent signals from the market suggested lesser likelihood of a protracted recession.

Sounding a strong note of caution was J D Andersen's Bruce Williamson, who said there were a number of possible developments — from Iraqi-sponsored urban terrorism to civil war in the Soviet Union — which could be good or bad news for gold. He said it was pointless trying to judge the gold price.

Gold dealers hit the market right

Star 19/1/91 (79)

DEREK TOMMEY

THE $28 drop in the gold price on Thursday disappointed many investors — a fact that can be clearly seen in the 12 percent drop in the JSE gold share index on the same day.

On the other side of the coin, most of the country's professional gold dealers went home last night feeling fairly cheerful, aware of having done a good job for their companies in the past three weeks and not at all concerned about the gold price.

The reason for this cheerfulness is that in the past three weeks South African and overseas dealers have sold forward some 100 tons of gold (equal to about two months' South African production).

This gold was sold into the rising gold market that began at the start of the year and at prices some way above the $380 at which gold was trading yesterday.

This is good news for the South African gold mining industry as much of the gold sold forward was South African.

Mr Clem Sunter, head of Anglo American's gold and uranium division, told a Press briefing this week that his group had used the opportunity to sell gold forward and helped to secure the profitability of the group's operations."

Marginals

Marginal mines in particular will score. Much of the gold being sold forward will come from them. This will assure them of a good price for a substantial proportion of their production during the next three, six and possibly nine months, depending on how much and for how long they have sold forward.

Therefore investors with gold shares, and especially shares in the marginal mines, and also the tens of thousands of workers on these mines, need not feel too unhappy about this week's gold price drop.

The developments of the past few weeks serve to highlight the huge changes that have taken place in the way South Africa sells its gold these days.

Although the majority of the country's gold output is still sold in the normal way, which is directly into the market, a growing proportion is being sold forward.

This is of great benefit to gold mines, especially at a time like the present when the outlook for the gold price is uncertain. In selling forward the mines also get a premium, known as a "contango". This premium is equal to the cost of carrying the gold until it is delivered.

Therefore, while the current gold price is around R31 276 a kilogram, the mines which have been selling forward could eventually get anything between R34 000 and R38 000 a kilogram for their gold.

This premium could make the difference between a mine operating at a profit or a loss

However, gold sold forward is at a fixed price. For this reason the mining industry does not sell all its production in this way as it could lose out should the gold price suddenly spurt.

Mr Gary Maude, managing director of Gengold said this week that his group would not sell forward more than 5 percent of its production. He believed investors bought gold shares because the value of the shares was linked to the gold price. If too much gold was sold forward at a fixed price, this link would be broken and investors would loose interest in gold shares.

He said Gengold would sell gold forward only in cases say where a mine might face a difficult six months and where a fixed premium price for its gold would help it through this period, he said.

However, selling forward does have one severe side-effect. It depresses the gold price. Banks handling these sales cover their positions by immediately selling a similar quantity of gold to the market. This sharply increases the amount of gold being offered to the market which depresses the gold price.

Mr James Cross, general manager of the Reserve Bank's gold department, said last night that in view of the recent heavy forward sales, he believed the current gold price of $380 an ounce was a good one. He thought the gold price might ease further to around $370 if the war in the Gulf ended speedily, but this would still be a satisfactory price for the metal, and present a good buying opportunity.

Mr Cross's view on the gold price is supported by other dealers. They also make the point that because forward sales increase the flow of gold to the market now, there will be less gold going to the market in the future. As a result the gold price could firm rather than ease in the coming months.

A report from London stockbrokers Barclays de Zoete Wedd also points to this happening. The brokers say that at the end of the September quarter some 70 percent of estimated 1991 gold production had been sold forward.

This figure of 70 percent would have been further increased by the latest forward selling.

As a result it seems that the gold market could be tight this year — leading to a rising gold price

Profitable pour . . . Around 100 tons of gold, most of it South African, was sold forward into a rising market before the price crashed this week.

Future behaviour of gold 'anyone's guess'

(79)

Bday 22/1/91

MATTHEW CURTIN

THE future behaviour of gold is anybody's guess, as the outcome of the Gulf crisis and its effect on oil production and prices, inflation and world economies is unpredictable, says Davis Borkum Hare (DBH) investment consultant Angus Robertson.

In a recent DBH bulletin The Rand and Gold in Perspective, Robertson, a doyen among gold market analysts, said the world was "disillusioned with gold's poor performance".

Gold was in a bear market in 1990, but with the metal depressed in nearly every currency, central bankers, with their huge gold investments, were more likely to be net buyers than net sellers to limit setbacks.

Robertson asked whether the central banking system would sit indefinitely on huge international gold reserves, a declining asset.

He noted there was a tendency to overlook the size of the reserves, equal to 21 years of current mine production in the West. In May last year this amounted to 35 500 tons, worth $456bn at $400/oz, against new mine production in 1989 of 1 653 tons worth $21bn at the same price.

"With the well-known major problems facing the banking system in the world today, heightened by the Gulf crisis, particularly the US (holding 23% of world gold reserves), nothing could be gained by pushing down an already depressed element of exchange reserves.

"But the history of the 1960s and 1970s indicates sales could not be discounted at a higher sustained gold price not being justified by political and financial considerations."

Robertson said first gold futures and then options markets were the "main alternative avenues for speculating in the metal", adding to volatility and diluting the impact of any increase in physical gold demand.

It was impossible to predict the future movement of gold, just as it was impossible to predict the future of the Gulf crisis, and political and economic unrest in the Soviet Union and Eastern Europe.

Oil prices drift lower

LONDON. — Oil prices drifted lower yesterday after traders decided the Iraqi Scud missile threat to oil facilities in the Gulf had more or less been neutralised by US Patriot missiles, petroleum traders said.

"It's the continued success of the Patriot, that's why the market is down," one London oil futures broker said.

Brent Blend crude oil futures for March loadings were down $0,31 at $20,25 a barrel on London's International Petroleum Exchange.

Light crude oil futures for March delivery in New York were down by $0,24 to $21,80 a barrel.

Speculative trading has shrunk to a trickle since last Thursday's record price collapse, traders said.

"There is very little speculating. It's all hedging business now," said one trader referring to rising use of risk-management techniques. — Sapa-Reuter

Sharp drop in gold price

79

Cape Times 25/1/91

THE volatility on international markets continued yesterday with gold and platinum prices dropping sharply while the oil price again resumed its downward trend.

Bullion came under selling pressure throughout the day and dropped nearly $7 to $372,50/$373 bouncing off a low of $370 against Wednesday's close of $379/$379,50.

Trading was described as nervous as gold appeared to fail to derive support from the Middle East conflict.

"It looks like gold has absorbed the Gulf war and I would not like to bet on its next move, possibly down," said a London trader.

But dealers added that the $370/$372 area represented strong support, with any successful breach indicating a very sharp fall in gold.

Both silver and platinum were hit by sell-offs, as the US Federal Reserve's latest survey of regional economic conditions revealed declining economic activity in most parts of the US.

Silver closed around a 15-year low at $3,80/$3,81 an ounce, down $0,16 from Wednesday. This reflected the recent lack of investor interest and oversupply, in addition to the bearish economic fundamentals, dealers said.

Platinum closed around $10 down at $391,25/$392,25 an ounce, recovering slightly from its afternoon setting of $390,50, its lowest level for three months.

The drop in the gold price was too late to have a marked effect on the JSE and the gold index lost 17 points while the industrial index gained five points.

"There are not many sellers in the market but quality industrial stocks are picked up as they become available," said a broker. — Financial Staff and Reuter

Fundis like the look of SA gold shares

S/Times 27/1/91

79

MORE than half of the world's mining analysts surveyed by the Mining Journal Gold Service believe that South African gold shares will be the best-performing market in 1991.

Fundi favourite is marginal producer Western Areas, followed by the American Echo Bay.

The Mining Journal notes with irony that Echo Bay "strangely appeared as frequently in the best-performing stock selection as in the section of stocks to be avoided". This sector also includes SA's marginal mines and juniors.

Brokers' notes are mixed about the prospects for both gold and shares. Carr Kitcat & Aitken believes investors in gold shares are likely to prove unforgiving towards those companies with short-comings.

Warburg Securities says that the froth generated in the abortive gold-market rallies in 1989 has been blown away and share prices are at much more sustainable levels in historic terms.

James Capel believes gold will rise in 1991. Companies with high earnings and highly leveraged to the gold price will do best. Defensive issues will be the worst.

Barclays de Zoete Wedd says hedging and protection have changed the leverage of a wide range of equities to movements in gold.

Fully hedged production implies locked-in margins and may lead to gold shares being valued in a way comparable to the valuation of other equity. This would result in the premium of golds falling, a point which the broking firm believes has contributed to the recent drop in the gold sector.

It reminds investors that the SA market continues to offer the highest leverage to the gold price. But accelerating social unrest has increased the market and currency risks.

A high inflation rate remains a concern because yields are dwindling. It says that a large and sustained increase in the gold price will be required if the SA market is to become attractive, except for short-term and speculative dealing.

The total amount of gold hedged at the end of the third quarter of 1990 amounted to 70% of estimated 1991 production — the most extensive hedge position producers have ever established.

James Capel is also bullish about platinum. It says that \$400 an ounce is the absolute floor price and the JSE's platinum index is at its low. It tips Impala as a buy, putting me in good company. Impala is one of my portfolio selections for 1991.

James Capel believes that gold continues to represent the highest quality of financial insurance. It should be bought, not in the hope that it will soar in price, but in the expectation that it will not collapse in the event that everything else does.

Metals & Minerals Research Services (MMRS) says precious metals have performed with less and less conviction to any external stimulus in recent years.

It expects persistently low gold prices to curtail rises in mine production. Output might fall in 1993 "owing to significant mine closures in South Africa".

MMRS says gold could add 12% to \$430 this year, but much of it will be due to a falling dollar.

Findings of a study by Deutsche Bank are alarming. It believes gold is heading in a declining long-term price trend to a target range of \$200 to \$300 an ounce. It suggests that official gold reserves will continue to drop, partly because of the disappointing price performance.

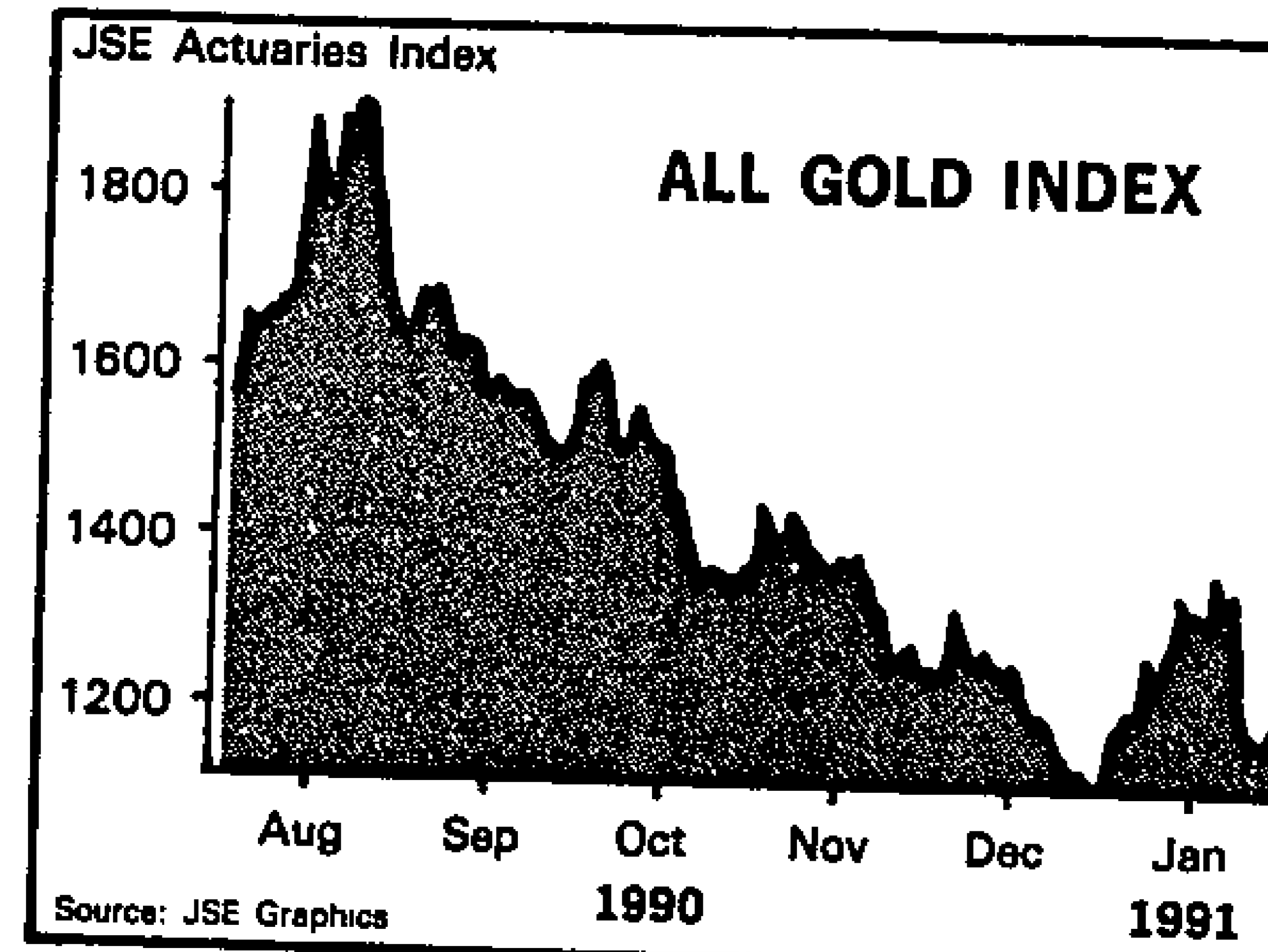
The value of gold in the reserves of International Monetary Fund members dropped from \$382-billion in 1983 to \$350-billion in the middle of last year. The dollar shed 25% or more of its value against the major members' currencies in that time. The dollar component fell from 70% to 60% of those reserves.

Deutsche Bank argues that if the past decades have confirmed gold's demonetisation, the final phase of its demise as an investment will be seen in the private sector as faith is lost in its usefulness as a shield against political or economic misfortune.

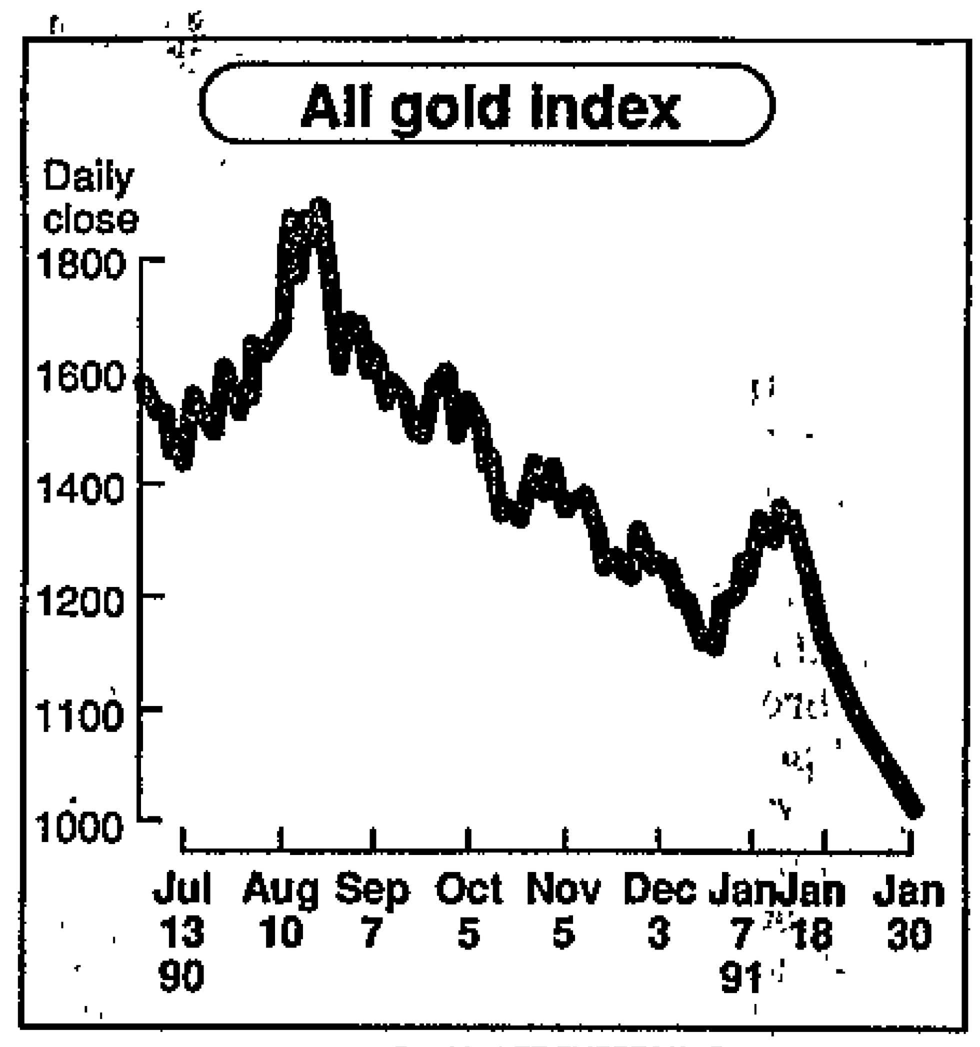
The cost of opportunity is also rising. Gold is a sterile asset with large carrying costs at a time of high interest rates and declining price.

The Mining Journal says the study might explain a recent report from Telerate that the German central bank is prepared to mint and sell about 1-billion marks worth (57 tons) of gold coins to finance the high cost of rebuilding Eastern Germany. The Bundesbank is thought to be keen to reduce its gold holding before a European central bank is set up.

This could require members to deposit gold, crediting them with a currency equivalent to the gold valuation on their books. This could be as low as \$90 an ounce.



ALL-GOLD INDEX — a sorry tale since the Iraqi invasion of Kuwait



Graphic: LEE EMERTON Source: JSE

Industrials buoyed before FW speech

MERVYN HARRIS and JOHN CAVILL

EXPECTATIONS of positive proposals by President F W de Klerk in his address at the opening of Parliament tomorrow helped buoy leading industrial shares on Diagonal Street yesterday in the face of a sliding gold price. (79)

Gold slumped almost $9 on a wave of selling to close in London yesterday at $367,35, its lowest level since October 17 last year. But the metal was off a session low of $364. B Day 31/1/91

But dealers said gold shares held up surprisingly well with the JSE all gold index coming off its low to close 3,7% or 42 points off to 1 066. The downtrend did not impinge on industrials, which remained steady to limit the decline in the overall index to 11 points to 2 527.

Gold and other precious metals were buffeted by chart selling, reports of a new US-Soviet peace initiative in the Gulf war and rumours of Moscow bullion sales.

Platinum, which had bounced off five-year lows to $393,75/oz, sagged to $388,50. But palladium surprised traders by slumping $5, or nearly 6%, to $82,50/oz.

Market sources said Middle Eastern sales through Switzerland were suspected.

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Industrials B Day 31/1/91

(79) ☐ From Page 1

By contrast silver was at $3,8250, only 3,25c below the overnight level.

Traders and analysts said the fall was started by light selling in the US and the Far East which followed through when London opened.

"When gold dropped under $371 it triggered a chart point and a lot of stale holders got out," said Ted Arnold of Merrill Lynch in London. "Then we had rumours of more Soviet selling.

"That also affected platinum and most people are now talking gold down to a $350-360 range. Everyone is confident $350 is the floor because they believe the SA Reserve Bank will support gold there," he said.

Andrew Smith, analyst with UBS Phillips and Drew, said: "Gold is a bored and thin market especially now that the oil price seems to have been capped by the International Energy Agency decision to release crude from strategic stockpiles.

"There has been talk of more Russian selling of gold and supplies are a lot less tight than they were three or four months ago. The cost of borrowing bullion has fallen from 2,25% to 1,75%."

At Williams de Broe Chaplin, David Ridley commented: "It is clear that other derivatives are taking over from the precious metals as hedges against disaster. Gold and platinum are being moved by short term professional operators and what is interesting is that mining shares seem to be ignoring fluctuations."

Gold index up despite a weaker bullion price

79 B/Day 1/2/91

LIZ ROUSE

THE rise in the JSE gold index yesterday against a weak gold price was described by most analysts as mainly a short-term upturn in a bear market for gold shares.

Gold closed at $366,75 in London yesterday, slightly off Wednesday's $367,35 close.

Some operators could be short covering, said an analyst, hence the rise in the JSE all gold index yesterday by 22 points to 1 088. But he conceded that some brave investors could be looking at a turnaround at this low level of the index.

The index peaked at 2 005 when gold was trading at the $410/$420 level last year, an index fall of 45,7%.

Some investors could be taking a more optimistic view of the gold sector with leading golds at attractively low price levels, said a broker. He attributed yesterday's fairly strong index recovery to a realisation that gold shares were oversold.

Wednesday's sell-off came as gold appeared to be heading for the $360 level, but the metal's recovery put new heart into gold shares, he said.

However, the metal is technically in a bear trend and gold share investors face further dividend cuts. The gold sector's dividend yield is currently 5,2% — hardly sufficient to attract buyers when money can yield so much more in the short-term money market, said an analyst.

Historically, the dividend yield has been 6,57%, falling as low as 3% in boom times when yields hardly count for gold share investors.

On the charts the metal's price appeared to be stuck between $365 and $370 and the index had been following the gold price quite closely in recent days, the analyst said.

Gold price movements have been reflected the index's moves from 1 115 on Friday, to 1 096 on Monday, 1 107 on Tuesday, 1 066 on Wednesday and 1 088 yesterday. In sum, the all gold index is weak.

Economists differ on gold's direction

Cape Times 7/2/91 (79)

Own Correspondent

JOHANNESBURG. — Gold plummeted $6 to an afternoon fix of $360,75 in London yesterday, raising the spectre of operational losses for 16 SA gold mines by year-end if the price remained at current low levels.

The metal later strengthened to close at $363,75.

Trust Bank economist, Nick Barnardt predicted gold could hit a 10-year low of $290/oz by the end of the year.

However, his view was rejected by another analyst as "irresponsible".

Chamber of Mines senior economist David Kennedy said if yesterday's gold price of R29 228/kg was sustained, five mines now in a marginal position would "be in an increasingly difficult position" as margins were squeezed further. Their current working profit, excluding capital expenditure, was less than 6% of revenue.

Last year the chamber said that with the gold price at R31 976/kg, 11 mines affiliated to the chamber were operating at a loss.

Kennedy was optimistic that the growing international demand for jewellery would support a bottom-line price of $340-360/oz during 1991, but the market remained fundamentally unpredictable.

Davis Borkum Hare analyst David Giese said yesterday it was impossible to predict the short-term price of gold because "it is not behaving according to fundamental parameters".

Anglo American gold and uranium division chairman Clem Sunter did not want to be drawn into speculation on the short-term movement of the gold price because of the variety of factors influencing the market.

Platinum ended the day up on its early five-year lows in London yesterday, closing at $383,50/$384,50, against its morning $379,75 fixing and Tuesday's $383/$384 close.

Silver finished quietly at $3,83/$3,84, little changed from its $3,82/$3,84 opening and Tuesday's $3,84/$3,86 close.

BDay 8/2/91 79

Call to scrap Krugerrand for new coin

ROBERT LAING

SA Gold Coin Exchange chairman Elias Levine has called on government to replace the Krugerrand with a new gold coin.

"The Krugerrand has become politically and socially unacceptable. An SA bullion coin could reach the sales levels of the American Eagle or the Canadian Maple Leaf after sanctions have been lifted."

However, Chamber of Mines figures show SA's re-entry into the gold coin market could simply add to the stockpile of nearly 4-million unsold one-ounce bullion coins on the international market, irrespective of name or emblem.

Out of the 2 000 tons of gold coins produced worldwide since 1970, 70% — 42-million — are Krugerrands.

The SA Mint's response to the call for a new coin has been less than enthusiastic.

"The Krugerrand has established a name for itself. It is more physically durable than the Eagle or the Maple Leaf because we use a stronger alloy. None of those coins have done as well as the Krugerrand," the spokesman said.

SA exported 2,5-million Krugerrands in 1986. Overseas sales then stopped because of sanctions, according to Rand Refineries which makes the gold blanks from which the SA Mint strikes the coins.

For the past five years, local Krugerrand sales have been held at 6 000 a week.

In overseas markets, the Krugerrand trades at a premium of less than 1% (between \$1 and \$3) above its intrinsic value of an ounce of gold, while the Eagle and Maple Leaf trade at a premium of up to 4% (\$15).

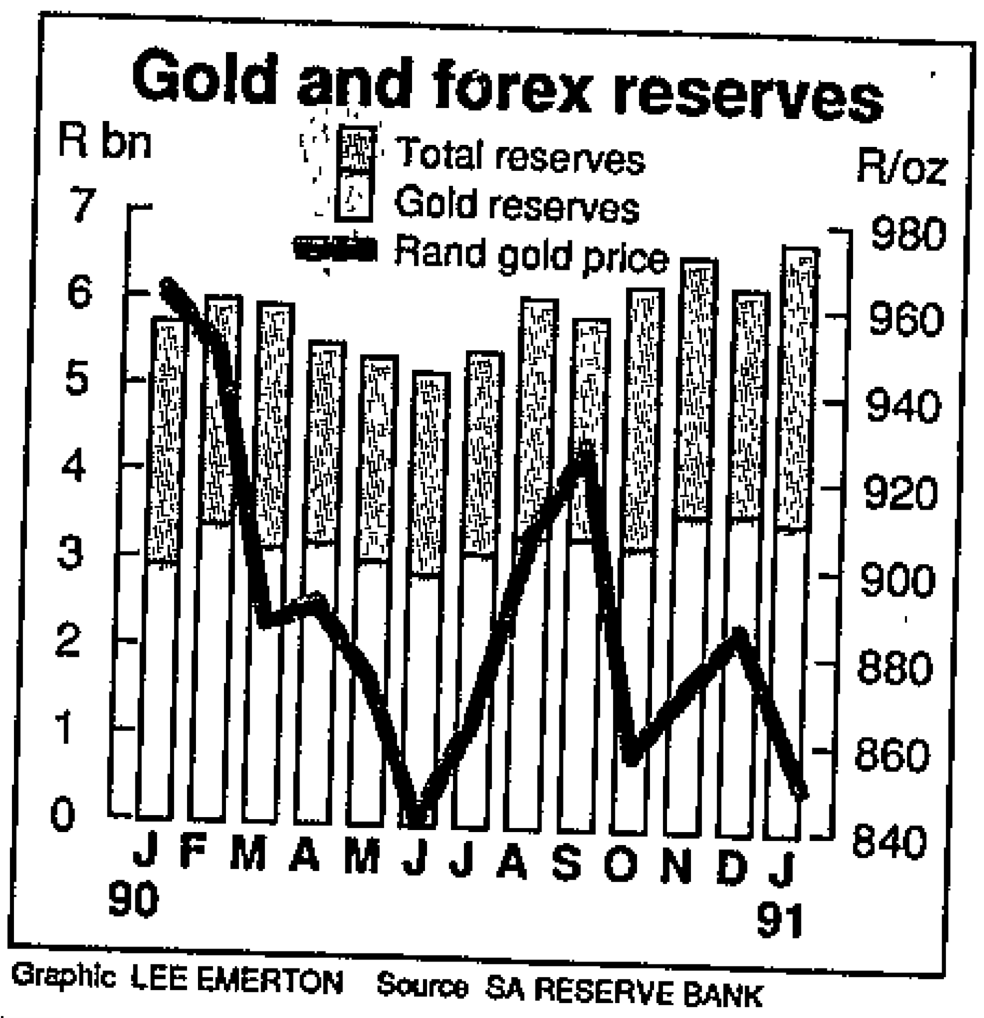
Reserves rise to R6,72bn

BDay 11/2/91

ANDREW GILL

THE Reserve Bank's holding of gold and foreign exchange reserves soared to its highest level since October 1987 in January, thanks to a buoyant current account and a lack of foreign debt commitments in the month.

79



Graphic LEE EMERTON Source SA RESERVE BANK

Reserves climbed R510m to R6,72bn from December's R6,2bn despite a significantly lower gold price.

February's figures, however, may not be as encouraging as a $253m (R640m) debt commitment inside the net has to be met.

The settlement dates have been changed to February and August in 1991 and 1992 from the previous June and December payments.

Nedbank chief economist Edward Osborn calculated another $296m (R745m) outside the net would fall due in the first quarter of the year but part of this was likely to be rolled over.

He said the rise in the reserves was most likely the result of a continuation of the "fairly substantial" current account surplus and the stemming of capital outflows because of reduced debt commitments.

□ To Page 2

Reserves

BDay 11/2/91

79

□ From Page 1

Rand Merchant Bank chief economist Rudolf Gouws said it was now only a matter of time before there was an easing in monetary policy after the big rise in net reserves.

Osborn said the current level of reserves tended to be understated because of the lower gold price.

A calculation that took into account the average gold price for the month — and not the last ten London fixings of the month as the Reserve Bank does it — would see reserves up at R6,89bn.

This rise in gold reserves was due largely to an increase of 292 562oz of gold in physical holdings to 4,38-million oz with the Bank's rand/gold price being registered at R852,96/oz from December's R886,42.

The gold component of the reserves climbed R112,7m to R5,74bn while foreign exchange holdings soared R397m to R2,98bn.

Reserve Bank governor Chris Stals said on Friday a current account surplus of about R5,5bn to R6bn had been achieved in 1990 but this was likely to be reduced to about R3bn this year.

Osborn said this was likely to be sufficient to cover debt repayments after portions had been rolled over.

Producers putting cap on gold price

Star Bureau (79) Star 20/2/91

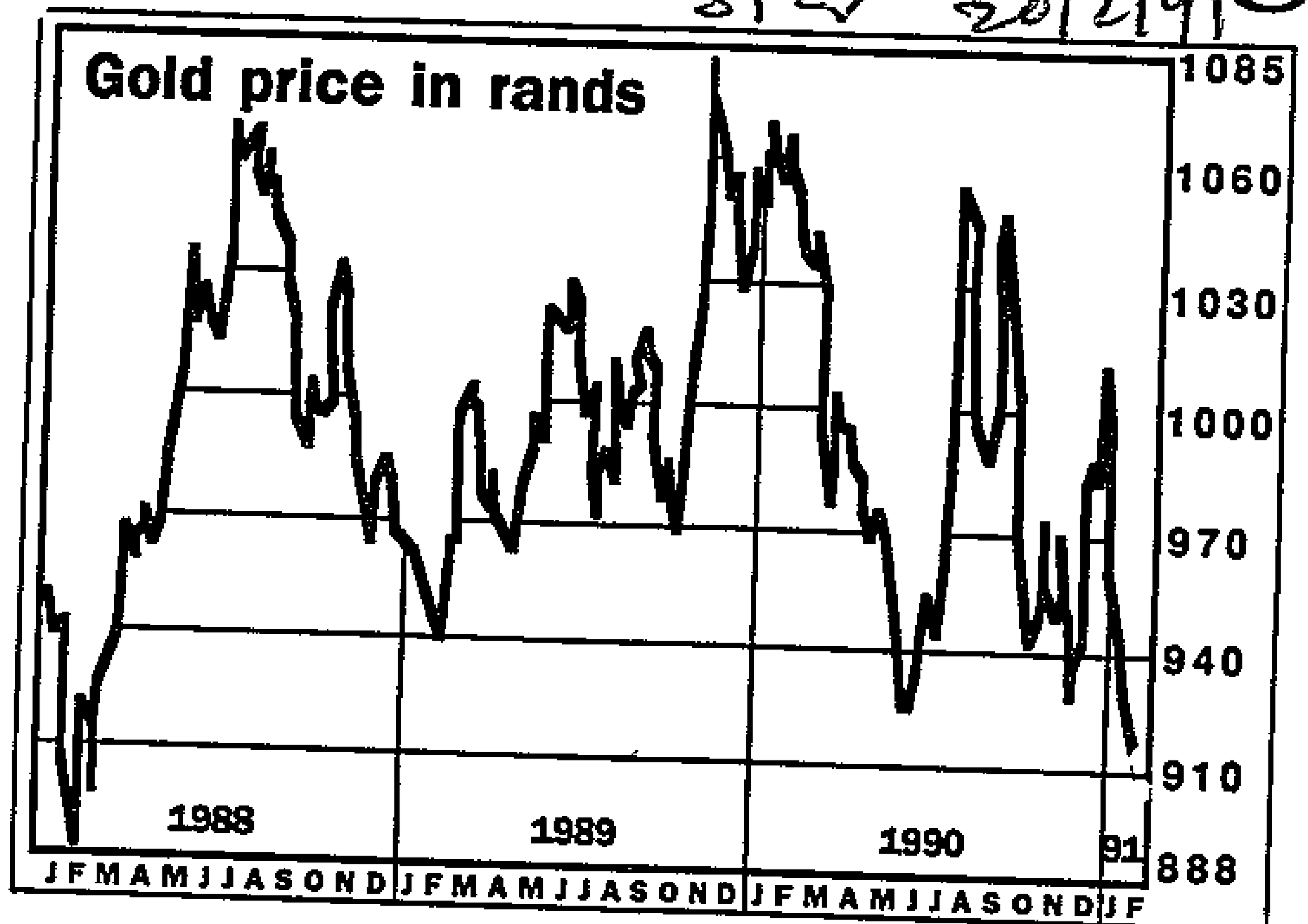
LONDON — Despite war in the Gulf, political turmoil in South Africa and the Soviet Union and a banking system "close to melt-down", the performance of gold, silver and platinum has been spectacular only in its dullness, says Kenneth Gooding, mining correspondent of the Financial Times.

Gold reacted to the first bombing of Iraq by falling more than $26 an ounce — and has remained well below its level just before Iraq invaded Kuwait. The price of platinum has plunged to a five-year low, while silver prices are at depths not touched for 17 years.

The indifference of gold — its value has been falling in real terms over the past 10 years — to the Gulf crisis has further tarnished its reputation as a safe haven for wealth, Gooding remarks.

He quotes Ted Arnold of Merrill Lynch as saying: "Why should anyone want gold? You lose money on it, year in and year out."

Precious metals today are behaving more like base metals, reacting to normal laws



of supply and demand, Gooding adds. "The signs are that the market's dullness is not a short-term aberration but a reflection of structural changes."

In the past decade, a host of gold-backed financial instruments, including gold options, has eroded the importance of the physical gold market and helped curb the price volatility which used to attract short-term speculators.

Moreover, the market is being dampened by the behaviour of the gold-producers themselves, who seem to have little faith that the price will recover substantially.

"Every time the price rallies, there is a rush by producers to sell forward — that is, fix future delivery at a determined price and 'lock in' a profit."

Richard Kornman, analyst at Barclays de Zoete Wedd, estimates that nearly 20 percent of total estimated 1991 gold production from South Africa, Australia and North America was sold forward or hedged in the third quarter of 1990.

"The degree of producer influence on bullion markets has steadily increased and now has a marked influence on rallies in the gold price," he says.

Producers acknowledge they are in effect putting a cap on the price by selling forward, but claim they are also putting a floor under their profits.

Not everybody rules out the possibility of gold becoming attractive to investors again, Gooding says.

Andy Smith, analyst with the Union Bank of Switzerland, told him: "A charitable interpretation of its lack of sparkle is that it is waiting for the right sort of shock to come along — say the failure of a major US bank or two."

Nevertheless, Gooding concludes, investor confidence has for the time being been devastated by the non-events of the past month.

"On the first day of the war, one Zurich dealer said: 'Investors have been calling all day to say they're abandoning the market ... there's no special gold magic anymore. It's just another commodity'."

R6-bn sword of Damocles

Star 24/2/91 (79

That's the loss if SA gold output continues to drop

David Cumming

IF SOUTH Africa's gold production continues to drop at current rates, the country could face a R6-billion annual "loss" at current gold prices, says South Wits managing director Nic Stavrakis.

This warning comes at a time when gold has dipped below the psychological $360 an ounce level, placing tremendous pressure on the country's embattled mining industry.

The exploration company chief said this week that South Africa's share of world production had dropped from 70 percent (670 tons) in 1980 to 38 percent (630 tons) in 1989.

"If production dropped to 450 tons we would face an extremely serious situation because, at current prices we would have to find R6 billion a year to make up the shortfall.

"We have lost market share through complacency and it is impossible to compensate in the short term. We must keep up the search for new deposits since, statistically, we have the best chance in the world of making significant discoveries," he said.

One means of raising production, he said, was through co-operation and pooling of exploration data in contiguous areas.

"For example, if Anglo, GFSA and Genmin pooled their historical data in the 30 km north of the Freegold Erfdeel section, they could form a new supermine.

"The same would apply to the area between Unisel and Beatrix where most of the big companies are involved as well as Lydex, Randex and South Wits."

He estimated the mineral rights in both areas were worth between R200 000 and R300 000 per hectare.

Dr Stavrakis said if South Africa was unable to replace its gold mines with new successors, the only way to make up for lost revenue would be beneficiation of prime minerals.

He cited chrome ore and ferrochrome as an example. It took two tons of chrome ore to produce a ton of ferrochrome. The price of ferrochrome was currently US47c/lb.

The price of the chrome ore to produce it was US6,25c/lb. This meant beneficiation had added 7,5 times the value.

Overseas investors would be eager to participate in such ventures but only if the "sterilisation" of mineral rights — the holding of mineral rights for long periods before development — ceased.

Such projects would have many subsidiary benefits. They were big users of services and big employers and had the potential significantly to raise GDP, to the benefit of all in the country.

People would enjoy much higher levels of satisfaction in general and the drop in unemployment would see a drop in the crime rate.

Future nationalisation was a real threat and it was up to the

● To Page 3

R6-bn Damocles sword

Sta 24/2/91 - ● From Page 1 (79)

industry to prove the benefits which flowed from the efficiencies of private enterprise.

"For instance, if you compare Palabora with Zambia's nationalised ZCCM, the head grade at Palabora is 0,5 percent copper.

"That is the equivalent of ZCCM's tail grade and since Palabora is a successful operation, it illustrates the efficiencies of private enterprise. The choice is clear."

Dr Stavrakis said South Africa was one of the few countries in which "big elephant" mines could still be developed.

In the gold sphere, Australia's Bonnington mine produced 13 tons a year while Papua New Guinea's Porgerra produced 28 tons a year.

This compared unfavourably with Freegold (107 tons), Vaal Reefs (67), Dries (51) and Kloof (26).

The total production of those mines was higher than that of the entire United States — South Africa's nearest gold-producing rival.

Gold takes it on the chin

(79)

Star 25/2/91

By Neil Behrmann

LONDON — Sales by South American central banks, the Soviet Union and other producers have driven gold towards its lowest level in seven months.

Gold opened in Hong Kong today at $358,70, after hitting a seven-months low of $356,35 in New York on Friday.

The slump occurred despite the start to the Allied ground offensive in the Gulf and some large buyers, rumoured to include the South African Reserve Bank, Middle and Far Eastern investors.

A £500 million (R2,5 billion) purchase of sterling by the National Commercial Bank of Jiddah also jolted the market last week.

Dealers recalled that the Saudis sold gold to finance sterling purchases in several massive deals last year.

This time round, however, there was no evidence of large-scale Saudi selling, although the market was very active.

Uruguay has confirmed it sold 150 000 ounces from its monetary reserves, now consisting of 2,46 million ounces, while dealers said Argentina and Peru were also sellers.

Hardly surprising, the majority of dealers were cautious about gold's prospects in coming months.

"The price could easily slide towards $340," a London bullion manager said.

A German dealer disputed the theory that easier monetary policies of the US Federal Reserve Board would lead to large-scale investment purchases of gold.

"We are in the Nineties, not the Seventies," he said, recalling that rampant inflation, negative real interest rates and extremely low gold prices were evident fifteen to twenty years ago.

The market has also learnt from bitter experiences that political crises and conflicts such as the Gulf war bring about forced sales from the sparring nations, companies and individuals.

Investors and speculators, on the other hand, merely have the opportunity to buy, if they so wish. So their actions have not succeeded in buoying the market.

Producers were thus advised to sell whenever gold rallies, while gold fabricators should delay purchases until the price declined, the bullion manager said.

World jewellery demand, particularly from Italy, a major manufacturer, slowed down in the third and fourth quarters of last year, said Tony Warwick-Ching, of Commodities Research Unit.

There appeared to be sufficient stocks, he said. So these key consumers were not rushing to buy.

But mining companies should not panic, said Jeffrey Nichols, managing director of American Precious Metals Advisers.

Any sharp decline in the price of gold, silver and platinum was likely to be short-lived, he said.

"A breakdown should be considered a buying opportunity,' said Mr Nichols.

The eventual end to the Gulf war would bolster consumer and business confidence and a stimulative US monetary policy and declining world interest rates would underpin demand, he said.

Contrary to what the market expected, peace in the Gulf would encourage buying of gold in the Middle East, said Rhona O'Connell of Lehman Brothers International.

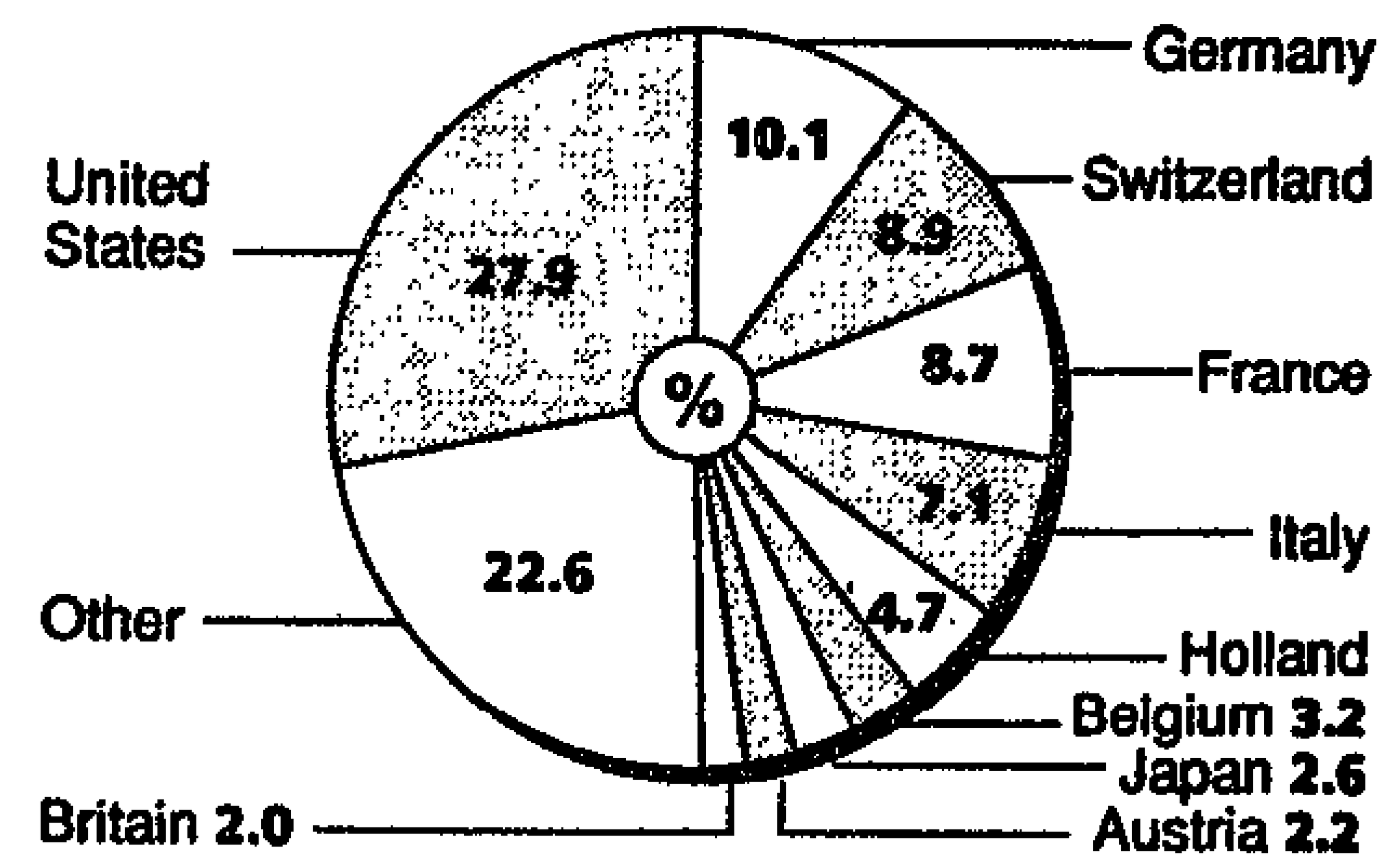
The flow of gold to the Gulf region declined sharply in the weeks following the Iraqi invasion of Kuwait.

Once foreign workers returned to the area, they were likely to buy gold, she said.

Yet any rally would be limited, another analyst warned.

Gold

Total reserves: 938m oz, Oct 1990



Central banks emerged as major sellers of gold over the last few months, driving gold to seven-months lows. Central banks are the biggest holders of gold and official gold reserves are estimated at about $350 billion. The graph, which appeared in The Economist recently, shows that the US Federal Reserve Board is the biggest hoarder of the metal, with 27,9 percent of reserves, followed by the Bundesbank with 10,1 percent.

GOLD FM 1|3|91

DEMAND DENT

In recent years, exports to Italy have made a major contribution to SA's trade account. In the first half of 1990, Italy bought $1,3bn worth of goods, making it the largest importer of SA goods in that period. (79)

Much of this was gold for the manufacture of jewellery.

So news that the approaching international recession could reduce demand for gold jewellery, which analysts estimate now accounts for about 60% of gold consumption, has serious implications for SA.

Italian trade commissioner in SA, Aldo Castellari, argues that this will not necessarily depress his country's gold imports because there is not always a direct link between consumer demand and demand by jewellery producers. The manufacturer may take advantage of lower prices to buy for future output.

However, the London *Financial Times* reports that, at the latest *Financial Times* gold conference, Vittorio Gori, MD of Gori & Zucchi, one of the largest gold jewellery manufacturing businesses in the world, estimated that the pipeline from the bullion market to the jewellery buyer contained about 2 500 tons of gold.

Despite the current low price of gold, this destocking potential will buffer demand for future gold production. Moreover, demand for the metal is likely to get less price elastic as the recession continues. Andy Smith, precious metals analyst at the Union Bank of Switzerland, points out: "Data for the Eighties suggest that low prices can sustain demand as income growth slows, but not for too long." (79)

Smith adds that, throughout the Eighties, "jewellery demand was the sponge which soaked up the flood of gold from new mines." He estimates that, excluding gold scrap, jewellery producers boosted their offtake of the precious metal from 284 tons in 1980 to probably more than 1 500 tons last year.

Recent signs are ominous. Growth in gold jewellery fabrication stopped last year. Exports from Italy, the world's biggest gold jewellery producer, may have fallen by 10%. The US market, which accounts for about a third of Italian exports, is in bad shape and sales to the Gulf area, which takes about 20% of its exports, have no doubt suffered. Japanese gold jewellery consumption last year was better than expected but down from 130 tons in 1989 to 118 tons. ■

THE WEEK AHEAD by William Richards

Lower reserves no reason for gloomy expectations

B/Day 4/3/91. (79)

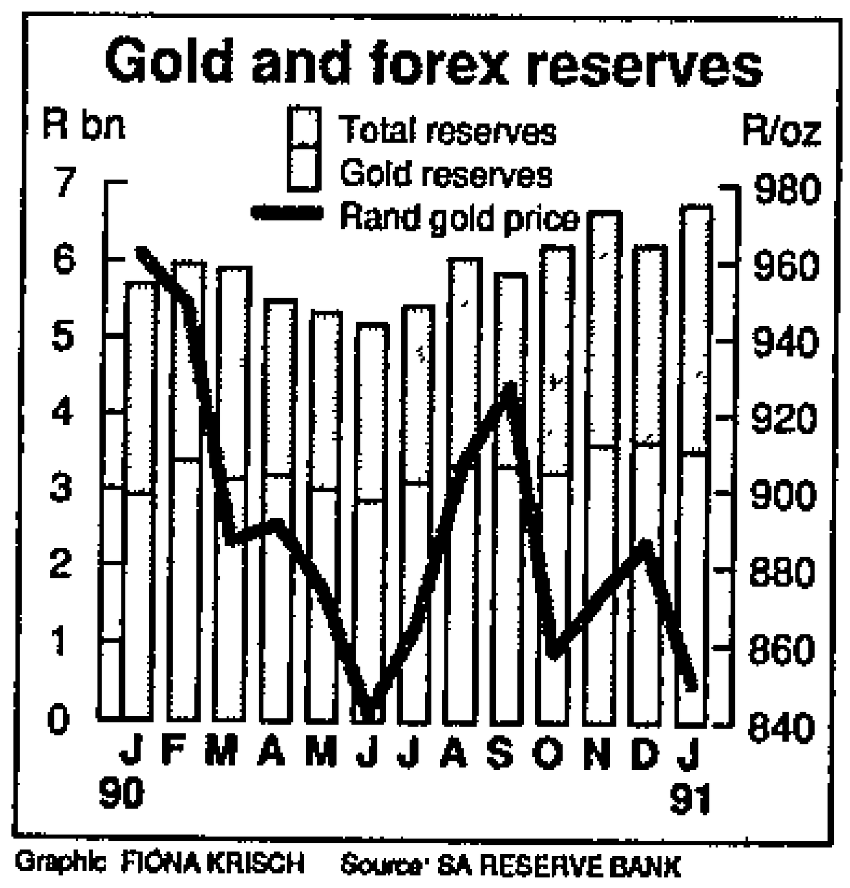
DISAPPOINTMENT about what could be a lower SA reserves figure due this week should be tempered by the realisation that the figure will be a one-off, affected by special circumstances.

The level of SA's gold and foreign exchange reserves for February is due for release around Friday, and is set to fall from the impressive outturn posted for January. Although the reserves figure follows hard on the heels of last week's unimpressive inflation figure for January, there will be less reason to be gloomy about the outlook for reserves than about inflation prospects.

The February reserves readout is going to be hit by a sizable debt repayment — posibly over \$250m — from within the debt standstill net. The effect of the repayment, together with that of the lacklustre gold price last month, is set to erode the level of February reserves from the three-year high of R6,7bn recorded for January.

Because this is a special factor affecting only February, with no further debt repayments due until the second half of the year, the reaction in the markets and among the monetary authorities should be fairly muted. Improved perceptions of SA's political prospects should eventually translate into more debt rollovers outside the net. The reserves picture for the rest of the year also looks broadly favourable.

Internationally, the key event of the week is the release of the US employment report for February, scheduled for Friday. In the recent past, it is the employment report above anything else that has galvanised the US Federal Reserve into cutting American interst rates; Friday's figure holds the same potential to trigger a policy change in the US.



Graphic FIONA KRISCH Source: SA RESERVE BANK

It was the grim details of the last set of US employment figures — January's, released a month ago — that spurred the Fed into uncharacteristic haste in cutting half a point from US discount rate to 6%, and from the overnight interbank Fed funds rate, to 6,25%. The urgency of the US monetary authorities' action was underlined by the half-point downward move in rates: the Fed had hitherto moved in quarter-point stages in cutting the Fed funds rate.

The breakdown of the January US jobs figures that obliged the Fed to cut interest rates so hastily showed non-farm payrolls — that is, recruitment outside the seasonally-volatile agricultural sector — fall by 232 000. Moreover, the overall unemployment rate rose to 6,2% from 6,1%. The number of hours worked also fell.

Peering through the superficial euphoria of the Gulf war victory there have, nevertheless, been signs that the next set of figures could be just as bad. If non-farm payrolls are shown still to be falling by around 200 000 a month, the Fed may again be obliged to ease credit conditions.

Any fresh US credit easing has the potential to affect the foreign exchange markets by changing the callar's yield characteristics. The dollar fell last week on the Gulf ceasefire, and the US currency is once again vulnerable to the state of America's economic fundamentals.

Sterling's fortunes could be shaped by a British by-election on Thursday in which Prime Minister John Major and his post-Thatcher administration face their first test of electoral opinion since Thatcher resigned last November.

One of the factors continuing to underpin the pound, despite the erosion of its yield through falling British interest rates, is the prospect that Major's Conservative government could call an early general election. Foreign confidence in British economic policy would certainly rise at another defeat of the interventionist, leftwing Labour opposition.

Market confidence that the Conservatives would win an early poll should give an appreciable boost to sterling.

Gold rush will make US an exporter

B Day 5/3/91.

ROBERT LAING

US GOLD production overtook domestic demand last year and the nation was set to export surplus metal, the Washington-based Gold Institute said in its brochure, America's Gold.

In 1980 US gold imports were worth $6,7bn. Last year its domestic gold industry's production exceeded manufacturing demand and the Gold Institute estimates $8bn of US gold will be available for export between 1990 and 1994.

In what it described as "the biggest gold boom since the Alaskan gold rush", the institute said production increased from 30 tons in 1980 to 300 tons last year.

At the same time, SA gold production fell from 672 tons to 601 tons.

The US expects to overtake the Soviet Union's position behind SA soon.

Employment relating to US gold mining grew from 9 000 in 1980 to 76 000 in 1989.

Gengold MD Gary Maude said the gold rush of the 1980s was caused by the introduction of a new technology — the heap leaching process for oxidised ores.

"Deposits that the old prospectors had stood on in California and Nevada, not realising they contained any gold, were brought into operation in 12 months using modern techniques of exploration, computer modelling, and assaying to complement the evolving heap leach process."

'ANIES

Gold and the dollar are 'still safe investments'

(79) SHARON WOOD (68)

THE traditional safe-haven status of gold and the dollar has by no means been eliminated, says Bank of Lisbon in its February Economic Focus.

The dollar's qualities as a safe haven may in fact be strengthened by political, social and economic chaos in the Soviet Union which will threaten the value of the German mark, it says.

The US was now the only superpower, and its status would be enhanced by the military victory against Iraq.

Sharp falls in the dollar's value, as a result of substantial US foreign trade and budget deficits, had been stemmed by strong economic co-operation among industrial countries in the form of central bank foreign exchange intervention.

Gold's status for private investors as an insurance against chaos might have been reduced, but the role of gold for central banks had increased.

B/Day 7/3/91.

Temporary

Gold's role as a "war chest" for central banks had been emphasised by the Gulf Crisis, which demonstrated the value of gold as an independent asset which "cannot be tampered with by foreign powers".

Developing countries' problems with debt servicing, and the possible seizure of their foreign assets, had highlighted the merits of keeping gold reserves.

The reduction in private investor interest in gold may only be a temporary phenomenon, says the Bank of Lisbon.

Once economic fundamentals for gold improved as a result of declines in real interest rates, and gold production in non-communist countries reached a plateau, the attractions of gold as a hedge instrument could be enhanced.

Both the dollar and gold fell in value after the outbreak of the Gulf war, instead of surging as usually happened in times of international political crisis.

The bank feels the surprising weakness of the dollar can be attributed to the weakness of the American banking system and the end of the Cold War.

It says gold's value as a hedge instrument is being undermined by the continuing high positive real interest rates in most Western countries.

'War chest' of gold proves its worth

By Sven Lünsche Star 7/3/91

79

While gold has undoubtedly lost its appeal to private investors since the start of the Gulf crisis, the role of the metal as a hedge asset for central banks has increased, argues the Bank of Lisbon it its latest Economic Focus.

"In one respect the recent crisis in the Middle East has emphasised once again the virtues of gold as an asset which reresents no liability of any other country or international institution," the Bank says.

The safe haven status of gold has been challenged by its disappointing performance over the last six months, but the Bank of Lisbon argues that its poor showing is not altogether surprising in a historical context.

Firstly, the danger of a sharp fall in the US dollar has been reduced by central bank intervention and secondly, the number and variety of other investment outlets have vastly multiplied over the past decade.

"At the same time, though, gold's role as a 'war chest' has been emphasised by the Gulf crisis in the sense that the freezing of foreign assets of Iraq and Kuwait has demonstrated the value of gold as an independent asset which cannot be tampered with by foreign powers," the Bank states.

This is reflected by the virtually unchanged level of gold reserves held by the central banks since 1968.

The world's central banks together with the IMF still hold more than 1,1 billion ounces of gold in their vaults and, according to the Bank of Lisbon, this position may not alter much in future years.

The struggle to service foreign debts has also highlighted the merits of countries keeping gold reserves.

"Fears that unilateral rescheduling of foreign debts by developing countries might induce commercial bank creditors to seize foreign bank assets of developing countries could have strengthened the resolve of some countries at least to retain their holdings.

"It can therefore be argued that the role of gold as a hedge asset for central banks has increased, especially when account is taken of current developments in international financial affairs," says the Bank.

"This has reinforced the need by Western monetary authorities to possess usable reserves of gold, while the developing countries, faced with their access to international capital markets seriously impaired, have become more dependent upon 'owned' reserves such as gold," the Bank of Lisbon concludes.

Gold price poses R4-bn threat

Star 8/3/91

By Sven Lünsche

South Africa could lose well over R4 billion in foreign exchange earnings a year over the next two years if the lower gold price forces the closure of marginal mining operations.

In a paper presented at a gold conference in Sydney yesterday, Mike Brown, economist at Frankel Max Pollak Vinderine said that at a gold price of $350 per ounce 150 tons of SA gold production, or 25 percent of the industry, was vulnerable to closure (see graph).

If the mines, however, revert to survival tactics, as Mr Brown expects, this would suggest the closure of 12 to 15 mines, entailing a loss of around 30 tons, with a further 60 tons being lost as a result of partial curtailment of other mining operations.

Based on these two scenarios — a worst case 150-ton loss and a mid-case 90-ton loss — Mr Brown has analysed the "knock-on" effect on the South African economy if gold averages $350 until the end of 1992.

"The first implication is a drop in foreign exchange earnings, which in the case of the 150-ton loss, would reduce the South African annual current production by some R4,25 billion or by R2,55 billion in the 90-ton gold loss scenario," he says.

Foreign debt

At a current account surplus of some R6 billion last year, such a drop would significantly reduce the current account cushion required to meet foreign debt commitments of between R3 billion to R4 billion per annum.

"Losing a large chunk of gold revenue would, therefore, probably force the reimposition of restrictive demand management policies in order to protect the current account," Mr Brown says.

Star 8/3/91

The envisaged contraction in gold production would also reduce growth in the Gross Domestic Product in South Africa by some 0,5 percent to 0,7 percent, while job losses could total 75 000 (90-ton loss) and 110 000 (150-ton loss).

Mr Brown adds that given the demands for employment creation and wealth distribution, such a loss can be ill afforded.

But he does not advocate continued gold production at losses to the mining group; he argues rather that the loss of production could be partially offset should South Africa have access to foreign loans.

"The continued imposition of sanctions on South Africa blocks any access to foreign loans, other than very short-term trade finance.

"Capital inflows, preferably of a medium- to long-term nature, would be required to make up any shortfall in foreign currency earnings arising from gold mine shut-downs."

Mr Brown says that this raised the prospect of an international gold mining lobby emerging to call for an ending of sanctions.

He explains: "If the global gold mining industry believes it would be beneficial for the gold price to see a reduction in South African gold mining output, then it must be realised that a continued imposition of sanctions tends to be counter productive."

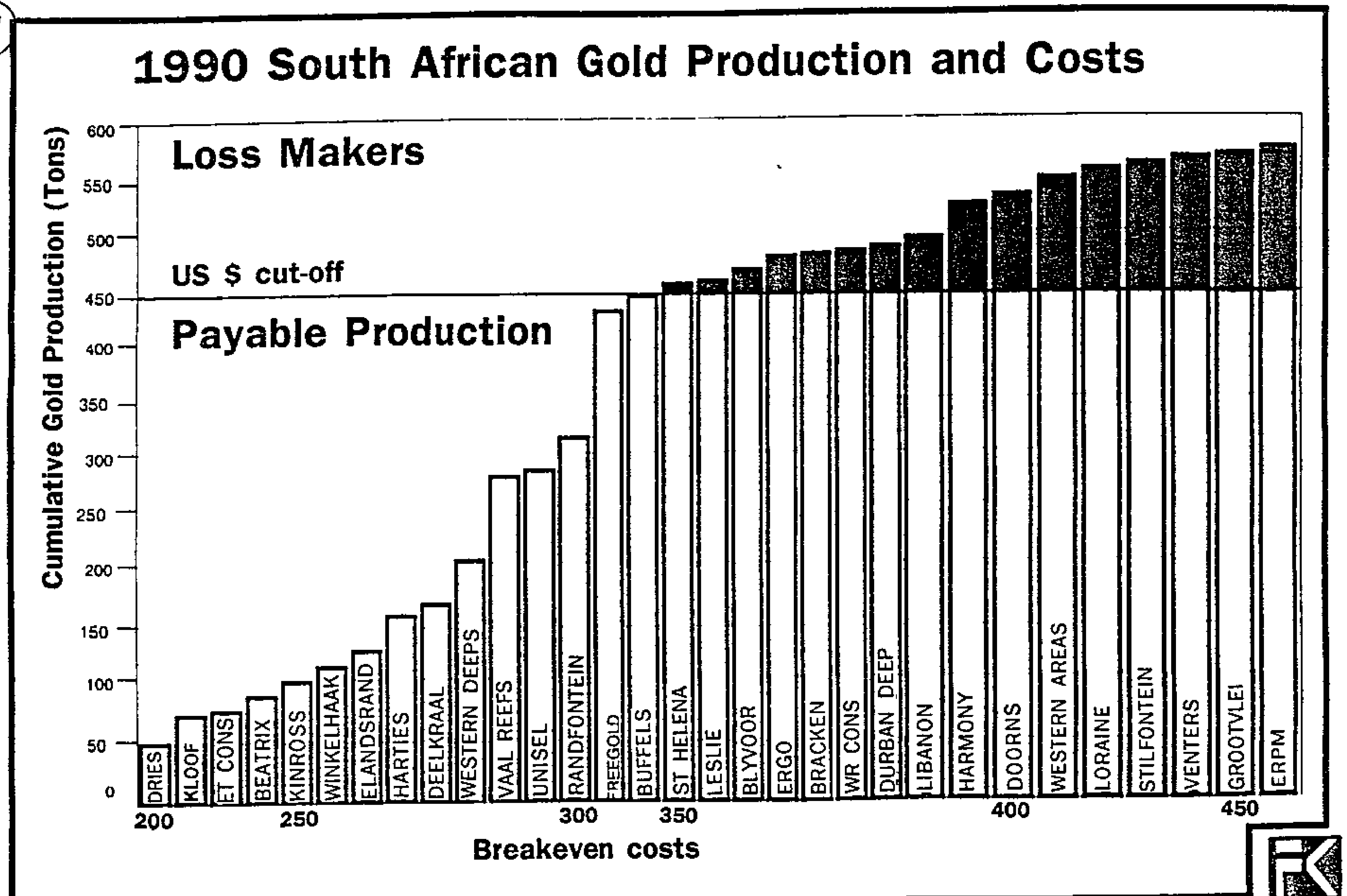
(79)

Furthermore, he adds, the International Monetary Fund could provide compensatory financing through the Contingency Financing Scheme, which is designed to cover part of the effect on a member's balance of payments as a result of commodity price variations.

At present loans by the IMF are blocked by a US Congressional veto on any assistance.

"To fully compensate for a 150-ton decline in output, the average gold price would need to rise from $350 to $465 per ounce; in the case of a 90-ton loss a rise to $410 would suffice, if the dollar rand exchange rate remains at present levels.

"I leave it to the gold market experts to deliberate whether a 90 ton or 150-ton decline in South African production would be sufficient to push up the gold price by the required amount to compensate the hard-pressed economy," Mr Brown concludes.



Fm 8/3/91. (79)

GOLD Fm 8/3/91 (79)

DISCOUNTING

On Wednesday February 27, when it was becoming clear that Iraqi President Saddam Hussein's armies were facing a rout, gold opened at US$359,29/oz in Hong Kong and $360 in Zurich — where it remained for the London morning fix. By Friday, when the Allies were entrenched in Kuwait, it had risen to $367, though the dollar rose from Y131 to Y134.

This may have been a case of the market's discounting function — an overreaction before the event followed by a correction when the event takes place. (It is also one of the few occasions since the Gulf crisis began on August 2 that gold has reacted more favourably than expected. After an initial surge to almost $417 in August, the price proved disappointing, even when oil surged to nearly $40 a barrel in October.)

There are other explanations.

Says Mathison & Hollidge gold analyst Tony Rogers: "Gold could have strengthened on the back of a firmer platinum price, which has moved upwards from its oversold position."

Davis Borkum's Dave Giese says the Middle East has always been a big market for gold. Not only has war prevented trade, Saudi and Kuwaiti gold (with large amounts looted by Iraq) has been dumped to pay for arms and other expenses.

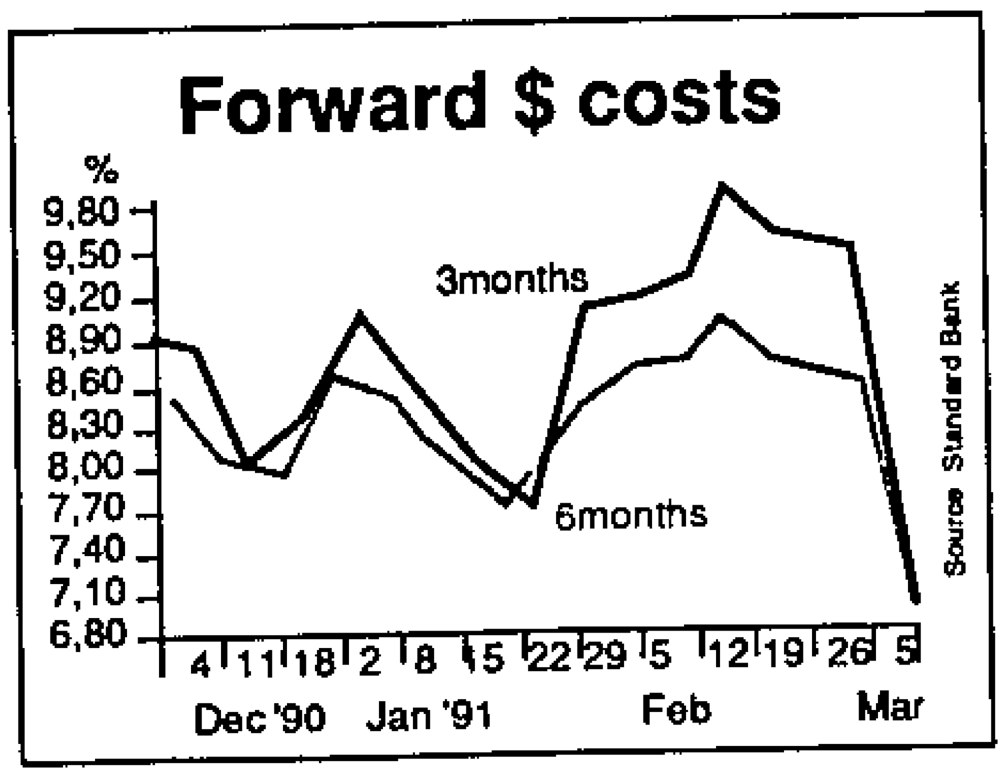
He adds: "When Kuwait begins to export oil again, it should take the pressure off gold."

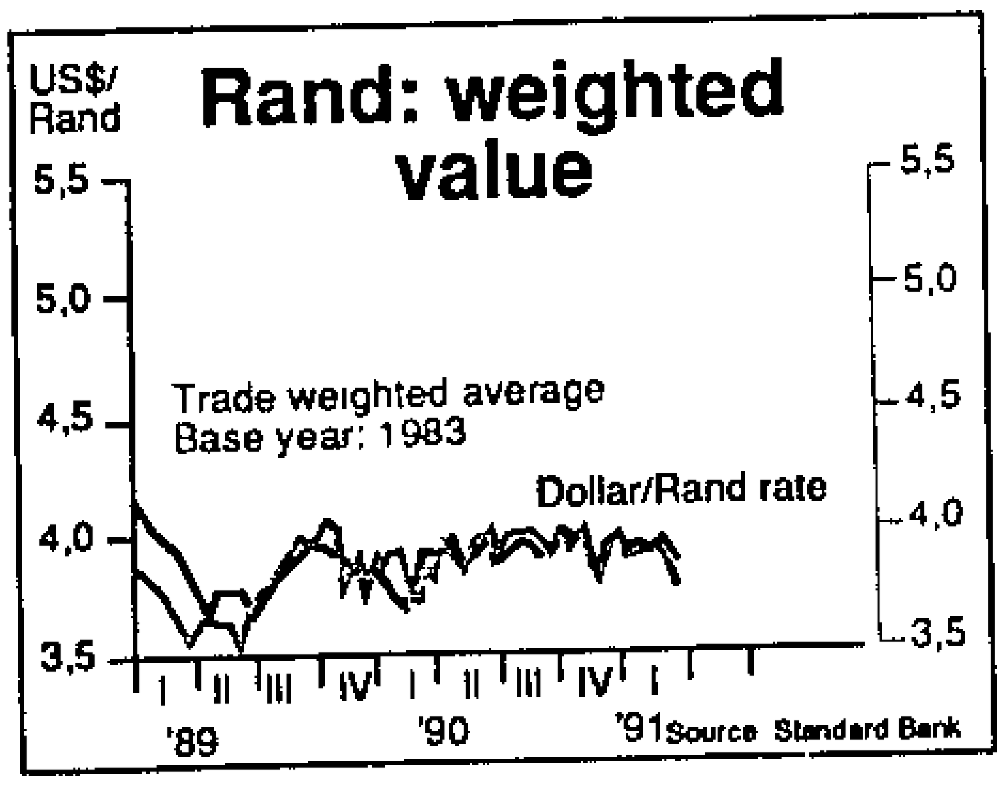
But that could be a while. Rogers points out that until then Kuwait could continue to sell gold to pay for reconstruction.

Despite the uptick, no one expects any miracles from gold just yet. Says Rogers: "Gold will remain unexciting. A fairly optimistic view would be an average price of between $390 and $405 till the end of the year.

Giese agrees: "We are moving back into a more orderly market. I think we've seen the bottom but I don't expect big gains in the next few months. There is strong pressure to prevent gold rising above $390-$410." ■

MARKET INDICATORS

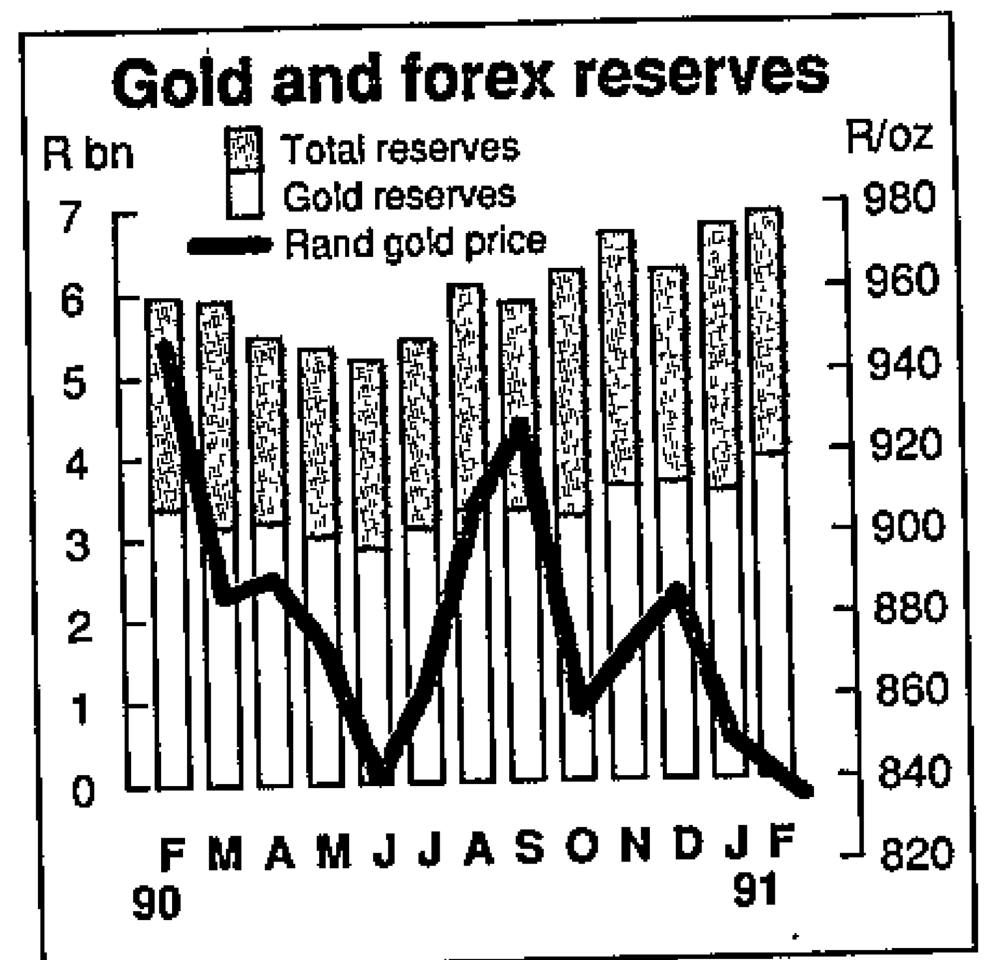




RAND'S PRICE

Mar 5 1991	R1 equals	One foreign unit equals (R)
SDR	**0,274**	**3,652**
	0,296	3,377
ECU	**0,289**	**3,460**
	0,323	3,100
UK £	**0,202**	**4,953**
	0,236	4,244
US $	**0,387**	**2,585**
	0,388	2,578
Canada $	**0,445**	**2,247**
	0,460	2,174
Switzerland Fr	**0,512**	**1,953**
	0,579	1,727
France Fr	**2,002**	**0,500**
	2,220	0,450
Germany DM	**0,588**	**1,701**
	0,656	1,524
Japan Yen	**51,850**	**0,019**
	57,890	0.017
Italy Lira	**438,740**	**0,002**
	484,395	0,002
Zimbabwe $	**1,050**	**0,952**
	0,905	1,105
Austria Schil	**4,130**	**0,242**
	4,625	0,216
Holland Guilder	**0,662**	**1,511**
	0,740	1,351
US $ value of SDR	1,312	**1,408**
US $ value of ECU	1,202	**1,345**
Financial Rand		
Cost per US $	3,815	**3,186**
Discount (%)	32,474	**18,870**

Year ago figures in light print
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only



Graphic: LEE EMERTON Source: SA RESERVE BANK

Debt makes no dent in healthy reserves

BDay 11/3/91

(79)

SHARON WOOD

THE Reserve Bank sailed through debt repayments in February with total gross gold and foreign exchange reserves still rising by about 3% to R6,9bn, figures released on Friday show.

Government repaid about $160m of debt within the standstill net. Foreign debt now falls due in February and August, instead of June and December. This failed to depress foreign reserves, and the gold and currency components rose in February.

Gold reserves improved by 4% to R3,89bn in February, despite a reduction in the average valuation for gold to R829,37 from R852,96 in January. Physical holdings of gold rose 7% to R4,69bn.

Nedbank economist Edward Osborn said the Reserve Bank had obviously held back on gold sales in a weak market.

The currency component of reserves improved marginally, rising 1% to R3,01bn.

Reserve Bank Governor Chris Stals said that improved net gold and other foreign reserves had been one favourable economic development contributing to more stable financial conditions in the last year, and the consequent reduction in Bank rate by one percentage point to 17% on Friday.

Stals said net gold and other foreign reserves had increased by R1,8bn in January and February. These exclude short-term liabilities.

Economists said the rise in the reserves to their highest level since October 1987

☐ To Page 2

Reserves

BDay 11/3/91

(79)

☐ From Page 1

showed a firm upward trend entrenched in the second half of 1990.

The improvement in February was achieved despite a lower gold price.

Standard Bank chief economist Nico Czypionka said the higher levelindicated the capital account was improving.

The debt repaid in February could have been financed by a current account surplus and further leads and lags in trade finance, said Osborn.

The Bank's balance sheet also showed that "other" liabilities surged by 18,7% to R7,8bn. This could indicate an increase in the Bank's use of foreign bridging finance.

The implementation of the Deposit-Taking Institutions Act in February pushed banks' and building societies' deposits with the Bank up by 16,7% to R2,07bn. Banks and building societies were required by the Act to bring previous off-balance sheet financing back on balance sheet.

Government deposits with the Reserve Bank fell by 68,7% to R4,42bn. Osborn attributed this to government's half yearly payment of interest.

Krugerrands: 'no SA surge'

79

Bday 11/3/91

MARC HASENFUSS

THE Krugerrand was not on the comeback trail in the local gold coin market, despite recent increases in volumes of Krugerrands traded, experts said at the weekend.

Volumes peaked at 2 879 coins sold on February 27, and last week 5 392 coins were traded. Krugerrand coins traded at around R960 last week. 11/3/91.

An Investec spokesman said although it was difficult to pinpoint the exact cause of the rise in Krugerrand sales volumes, the fall in the gold price from December levels might have led to a perception of the coin price, at under R1 000, as cheap.

SA Gold Coin Exchange chairman Elias Levine said selling by local institutions had boosted Krugerrand sales volumes.

Levine said there had been a marked international improvement in Krugerrand buying since the start of the Gulf war.

'Frank' meeting on education

BDay 11/3/91. 89

LESLEY LAMBERT

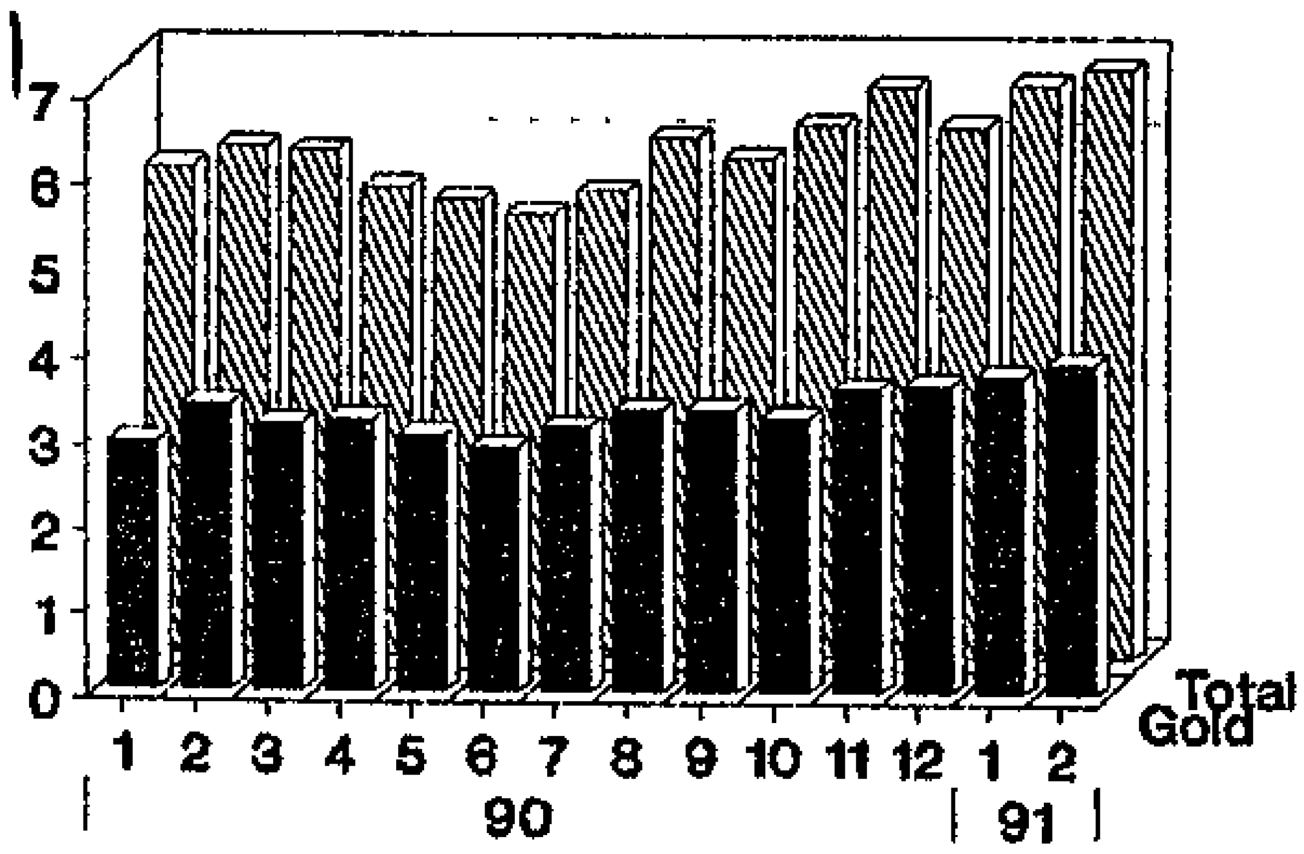
CAPE TOWN — The joint working group on education — formed after talks between President F W de Klerk and ANC leader Nelson Mandela two weeks ago — had set the parameters for talks at its first meeting on Saturday, National Education Minister Louis Pienaar said yesterday.

The group, formed to investigate a non-racial education system, had held "frank" discussions.

Gold and forex reserves continue to increase

(79)

By Sven Lünsche Star 11/3/91



South Africa's gold and foreign exchange reserves in February rose to their highest level since October 1987 despite foreign debt repayments of $250 million during the month.

Figures released by the Reserve Bank on Friday show that the reserves rose by 2,7 percent from R6,715 billion in January to R6,895 billion last month.

The continued rise in the Bank's holdings of gold and foreign exchange is a strong indication that the surplus on the current account of the balance of payments was high enough to offset the debt payments.

Reserve Bank Governor Dr Chris Stals said last week that South Africa had repaid up to $400 million of debt inside the standstill net during the first two months of 1991.

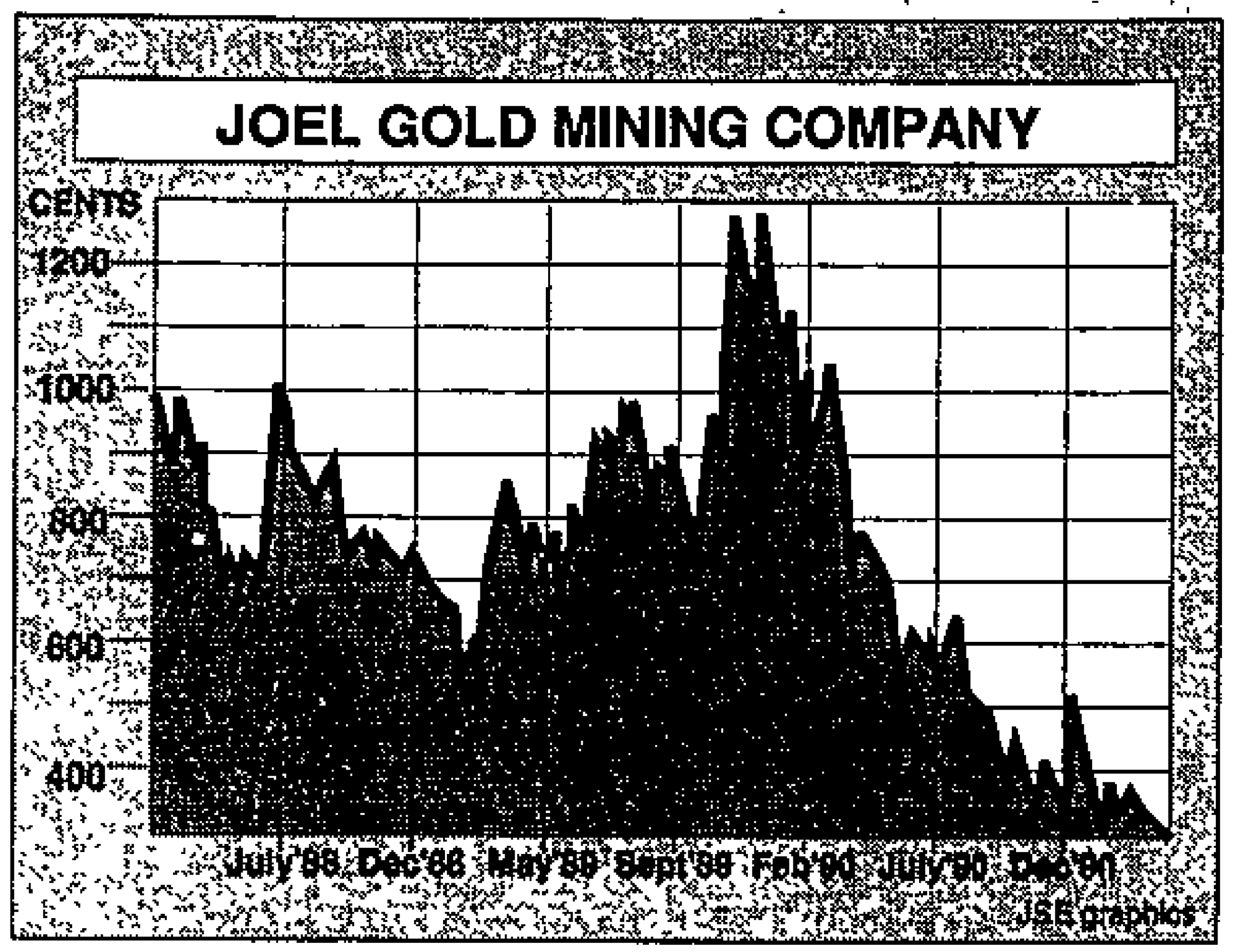
Economists also estimate that up to $300 million of foreign debt outside the standstill net was due for repayment last month, but, given the rise in the reserves, much of this could have been rolled over into longer term debt.

The capital account of the balance of payments could have been further strengthened by net capital inflows following the improved political perceptions.

However, these figures will only be available when the Reserve Bank releases its statistics for the first quarter of this year.

According to the bank's statement, gold holdings in February were up by 4,1 percent at R3,889 billion (R3,738 billion), while the foreign exchange content of the reserves was up by one percent to R3,006 billion, compared with R2,976 billion in January.

In February gold was valued at R829,37 an ounce (R852,96 in January), while the physical stock of bullion rose slighty from 4,382 million ounces to 4,869 million ounces.



Gold (79) — the 10% safety provider

SI Times 24/3/91

DIAGONAL STREET

By JULIE WALKER

GOLD's exteremly idiosyncratic behaviour is exactly what ought to attract the prudent investor.

This view from the World Gold Council's David Gulley and Roger Murphy is reported in Mining Journal's March newsletter. The two say one ought never neglect assets which can help diversify away from unnecessary market volatility.

"This leaves little recourse for the prudent investor other than to undertake the effort to understand gold as it behaves today."

Gold does not have to move to permanently higher levels to perform effectively as a portfolio hedge and a store of value. It acted as a valuable hedge by displaying total disregard for the calamities in equity markets in October 1987 and again in 1989.

It did the same in the equity bear market of 1973 and 1974.

In addition to times when gold is stable while other markets are collapsing, there are others when gold shows volatility unconnected with other investments.

Such factors were behind the the price rally in late 1989 which reflected a concern not manifest in stock markets about rising instability in democratising Eastern Europe.

"The detached nature of gold's reactions can be due to any of the factors which influence the gold price but do not influence capital markets to the same degree: gold's demand as money; demand for gold as a hedge against uncertainty; technical trading factors; fundamental supply-demand factors and so on.

"It is precisely these factors which determine gold's uncorrelated nature and differentiate it from the majority of assets which rise and fall in value with the ebb and flow of aggregate demand.

"Platinum and silver are cases in point — the recent plunges in price have shown them both to be purely industrial metals and not stores of value."

Gold's reaction to China's Tiananmen Square massacre was initially bullish. But the fall in Far Eastern gold offtake undermined the price.

Families of Chinese stopped buying gold after the crisis because they were unsure about how to continue getting gold to their relatives.

Ditto in the Persian Gulf crisis, which proved bearish for gold imports. In the weeks immediately after the invasion of Kuwait, net gold imports by Saudi Arabia are believed to have fallen by at least 25% and in the Dubai transshipment market the decline was greater than 40%.

The declines were due to problems of the trade and not to sudden disenchantment by investors there. In fact, the price in Dubai reached a premium over the world gold quote — this in a market so sensitive that in normal times $US10 either way can flood the souks with buyers and sellers or cause them to vanish.

The trade's problems included reluctance by distributors to bear the financial risks of consignment stocks and the increase in business costs such as insurance and credit.

Moreover, jewellery production in the troubled area ceased. New sources of gold were needed. Dubai's import statistics show countries of origin which rarely feature and the fall from normal sources was severe.

But gold flows into the United Arab Emirates and Saudi Arabia returned strongly in November and December. Dubai's 1990 imports were only 4% below 1989's. Demand in Dubai is strong.

Several factors suggest that in the post-war northern Gulf environment the prospects for gold are also good. Expatriate workers who traditionally save by buying gold, will remember the runs on Gulf banks last August and some richer citizens may think their wealth is threatened by calls for democracy.

It can even be argued that gold's performance throughout the Gulf war anticipated the control of oil's price to the benefit of consumers. Gold's movements have been entirely consistent with its role as a counter-cyclical asset.

Studies always conclude that gold is negatively correlated with other financial assets.

So, through diversification, portfolios can be set up which have an aggregate level of risk far below that of component assets, while returns are undiluted.

The consensus of academic opinion is that 10% of an investment portfolio should be in gold.

It is a modern myth that gold will remain a failure unless it tops $800/oz. In fact, it did so on only two days, and spent only 11 days above $700.

The most persistent myth is that gold is a sterile asset which actually costs money to hold, say the writers. Gold's role in preserving portfolio values makes it no more sterile than any insurance policy.

Unlike more modern portfolio hedges, such as futures and options, gold is not a wasting asset that expires and has to be renewed. Nor does it entail expensive commission costs and management fees.

Gold remains what it has always been — the 10% solution for someone who is 90% sure things are all right with the world.

It's precious hard to get a fix on the future

WMail 28/3-4/4/91.

79

The Gulf war came and went but the gold price, far from taking off like a Patriot missile, just scudded along. What are the prospects for gold now?

REG RUMNEY and PHILLIP VAN NIEKERK report

WHICH of the following is true?

Gold is:

- A store of value;
- An investment;
- A form of insurance;
- A safe haven in times `trouble;
- An ornament;
- A commodity;
- A gambling chip.

The truth is that it is all of the above, ıd herein lies the difficulty of preıcting the future price of gold and in ırn the future of the gold mining inustry.

What, then, are the salient facts?

Most disturbing for South Africa is ıat gold did not show the expected ar turn with either the onset of the ulf war, or the rise in the oil price.

Gold rose by nearly $45 an ounce to ·ound $415 in the immediate afterıath of the Iraqi invasion of Kuwait ı August last year, before dropping ıck to around $370. By the end of st year the price was around $390 an ınce. On January 17, the day the alled forces attacked Iraq, gold fell to 374.

Midweek the gold price was 359,25, or R972,59.

Compare that level to January 1980 'hen gold was $850 an ounce.

The latest issue of the Bank of Lison's *Economic Focus* points out: Ten years ago ... tensions in the Gulf 'ould most probably have sent the old price soaring, especially since ıe crisis has been accompanied by ressures on the American banking ystem, which is now in a parlous .ate, and the Soviet Union is facing otential political, social and econom: chaos."

So it's tempting to say gold's fate is ealed. This too would be a mistake.

The *Review* also remarks: "It is a ıistake to believe that gold is an autoıatic beneficiary from the outbreak of onflicts in the world." The invasion ıf Panama by United States forces in 989, for example, had no discernible mpact on the gold price.

Gengold managing director Gary Maude points out there was a lot of selling from Iraq during the Gulf war, and also from the Russians who appear to have been selling from their reserves.

Maude blames an unprecedented gold rush — an oversupply of gold on world markets — for the fall of the metal in real terms during the 1980s.

Maude believes that "abnormal gold rush" is dying out now and that during this decade the price will rise.

Maude says the one fact outweighing all others is that the real output of gold doubled in the last 10 years. "There's been an explosion from 960 tons in 1980 to 1 700 tons in 1990 — close to a doubling of quantity of gold sold on the world market. It's quite surprising that the price hasn't dropped a lot further."

> *Time will run back and fetch the age of gold*
> **— Milton**

While gold production in South Africa remained static, new technology involving the leaching of oxidised deposits has led to a huge gold rush in Canada, the United States, Australia and on the Pacific Rim.

Much of this new type of gold is going to be mined out in two to three years, Maude says. "Canada and Australia are already falling off, while the US is going sideways.

"Last year the rate of growth started to slow down — and it looks like next year the quantity of newly mined gold will start to fall for the first time."

This is all well and good, but James Capel analyst Robert Weinberg thinks that the simple supply/demand equation isn't sufficient to cope with gold.

Weinberg suggested only half jokingly in a penetrating paper, delivered at the Frankel Max Pollak Investment Conference last month, that the answer to movements in the gold price might lie in the mathematics of the new scientific paradigm of chaos theory.

Weinberg deftly demolished a few cherished myths about gold, such as that its price is linked to the oil price.

"Gold means different things to different people. At different times they will react to different motives. And they will have different time horizons. It should be clear that the gold price is not a simple matter of supply and demand. Nor can we expect it to bear a simple linear relationship to any other time series such as the price of oil, to use a topical example, or the level of the dollar, other than briefly.

"The gold price is the result of an enormously complex interaction of a huge number of separate and often unrelated factors. Their relative importance varies over time and they generally obscure one another."

Weinberg's opinion on gold's future was sobering. He predicted there would in the 1990s be less speculative demand for gold — gold as a gambling chip.

"Gold's dominant role in the 1990s is likely to be that of a commodity. You may argue that other commodities have all experienced enormous increases in price from time to time. But no other commodity has 50 years of inventory hidden away."

That Weinberg could bravely puncture the hopes of gold bulls shows how far down gold has sunk in South African estimations. It simply has not lived up to the expectations of SA investors; in currencies other than the rand it has performed even worse.

Why has this happened? High "real" interest rates — ie adjusted for inflation — in the Western world are part of the answer. They have contributed to the strength of the dollar, a competitor in the safe haven stakes with gold. Traditionally, the equation has been dollar up, gold down. An underlying weakness in the dollar has not been reflected in a rising gold price.

Weinberg had this to say about the relationship: "Of course, there are times when gold benefits from a weaker dollar and suffers from its strength, but it is not always the case. And even when it is, the effect is less than might be expected." Nor has inflation as much impact on gold as it is credited with.

Most telling is the shakiness of the relationship between oil and gold.

Weinberg has pointed out that people remember that gold and oil appeared to move in tandem in the 1970s. "But they tend to forget that the second oil shock effectively coincided with the top of the gold bull market in 1980. Nor did the collapse in the oil price at the end of 1985 prevent gold from rising, if only in dollar terms, by another 50 percent at the end of 1987.

"It is worth remembering too that if one wished to benefit directly from the rising oil price in the 1970s, one had to buy the stuff by the tanker load or look for a proxy such as gold. Today, one buys call options or futures contracts on oil rather than tankers."

Similarly, there are other avenues for diversifying against risk, such as currencies, futures and options.

While the role of gold as a safe haven, and insurance, for private investors is being questioned, central banks show no sign of ditching gold. Central banks around the world still hold more than 1 100-million ounces of gold in their reserves, more or less the same as 1968.

> *The Golden Rule is that there are no golden rules*
> **— GB Shaw**

As gold's safe haven status diminishes, the importance of gold for jewellery use increases.

Maude maintains that consumption of gold for jewellery is almost equal to the total of newly mined gold. Markets such as the Japanese boomed during the 1980s. "As long as you've got wealthy countries, gold will sell."

This is borne out by the Chamber of Mines. In its latest newsletter the Chamber notes: "Provisional estimates suggest that 1990 gold sales to jewellery manufacturers worldwide were some two to three percent higher, rising from 1 811 tons in 1989 to 1 880 tons in 1990.

"This strong physical demand for gold underpins the market and is believed to provide a floor price around $360 an ounce."

THE ECONOMY (79) FM 5|4|91

MAKING DO WITHOUT GOLD

There's no denying the tribulations of the gold mining industry (see *Leaders*), nor minimising the impact of the present price and cost structure on its future (see *Fox*). Gold has been the mainstay of the economy for a century and in the past repeated gloomy predictions of its demise have always been premature.

But if the metal has indeed at last lost its safe-haven status, and the authorities are no longer going to allow a steady depreciation of the currency to protect exporting industries, life after gold is no longer a distant prospect.

The consequences this will have on employment, export revenues and the fiscus are substantial. But it's pointless jobbing backwards, we must rather plan for what lies ahead.

In this regard, it's worth bearing in mind that we have already made considerable progress. The Eighties saw a structural shift in the economy whose extent barely seems to have penetrated the popular consciousness.

The gold mines are expected to contribute only R630m in tax and lease payments in the new fiscal year, just under 1% of total tax revenue. As recently as 1987-1988, they contributed R2,65bn of total revenue of R34,3bn, or almost 8% — and that already represented a steep drop on previous years.

Equally, gold is a falling contributor to exports. The slack has partly been taken up by other mineral exports — such as diamonds and the new granite industry — but even more by manufactured goods, and that despite the generally wrong-headed policies followed towards secondary industry.

Ten years ago it would have been inconceivable that we could run the sort of balance of payments surplus we achieved last year, and should achieve this year, with such a low contribution from gold.

Of course, this is not to say that we must write gold off. The mines are looking for more effective ways of exploiting their resources, and while the number of mines and jobs at risk is high, relative to total gold production it's less significant. Most of the big producers are still highly profitable, and should remain so.

And it is to be hoped that the international gold market will recover at some stage — an event from which we will benefit considerably.

But the point remains that, in the face of international trade and financial sanctions, we have already taken major steps in diversifying the economy away from gold. There is a long way still to go, but what we have achieved so far is a substantial plus factor. We are entitled — for once — to give ourselves quite a large pat on the back for it. ■

FM 5/4/91

GOLD HEDGES

(79)

MARGINAL NEEDS

Though banks that hold foreign exchange licences have been given permission to hedge gold on behalf of SA mines, it is unlikely larger mining houses will use their services. Local banks that have developed hedging products have to go through an overseas counterpart anyway and large mining houses prefer to deal direct with a party that is physically active in international markets.

"We would prefer to deal with someone who is close to the New York, London, Frankfurt or Tokyo-Hong Kong markets," a spokesman of one of the larger mining houses says "However, we would change for products which we can't get elsewhere." So large mining houses that have, over the years, developed relationships with foreign banks, are unlikely to switch to local counterparts unless they offer better service and price.

But smaller, independent mines, which sometimes struggle to get credit lines from overseas banks, will welcome the Reserve Bank's decision to let them hedge their product with local banks instead of foreign banks.

The Bank's decision was prompted by the increase in the number of mines which have become marginal and the rise in the number of smaller, independent mines which "find it difficult to access foreign banks," says Bank GM John Postmus.

In view of competitive pressures, local banks will take credit assessment to the limit in dealing with marginal mines. Some mines are lobbying government to guarantee credit to encourage domestic banks to accept their risks. "Option hedge techniques can extend the life of even the worst-off marginal mine

continue →

FM 5/4/91 (79)

by around three years," says Rand Merchant Bank (RMB) consultant Sean Llewelyn.

One major benefit a local bank may be able to offer is products priced in rand terms. If option hedging is done via overseas banks, mines may secure a minimum price, thereby eliminating the downside in the gold price. But because the pay-off of the option is unknown in advance, the mines do not know how many dollars (if any) to sell forward for rands to complete the hedge. They therefore have a residual risk.

But Anglovaal divisional manager Ian Benfield says: "There is nothing to stop us doing an option hedge in dollars and covering the currency risk ourselves." The cover can be only approximate in such a case.

Llewelyn says RMB has developed three classes of products based on: cash-based strategies — which give immediate cash benefits by paying more for the gold at the beginning than the current spot or forward prices, or by paying a lump sum in advance for future obligations; option-based strategies which give a minimum guaranteed price for the product; and budget-hedge strategies which link the working cost component of the mine (electricity or wages for example) to the gold price.

"Risks can be controlled with sophisticated technology," Llewelyn says, "which means banks with the better technology can afford to price more competitively."

Local banks are putting the finishing touches to hedging products which they will market to mines. Once approved banks have an interested party, they can transact the gold-hedge provided the mine does not exceed its limit, or apply to the Bank for permission if it does. ■

THE WEEK AHEAD by William Richards

Reserves are likely to keep on growing

B Day 8/4/91

(79)

DESPITE the lacklustre gold price last month, the level of SA reserves for March should show another increase when it is published — probably tomorrow. Indeed, another rise in reserves from the February level of R6,9bn is set to take the total above R7bn for the first time in four years.

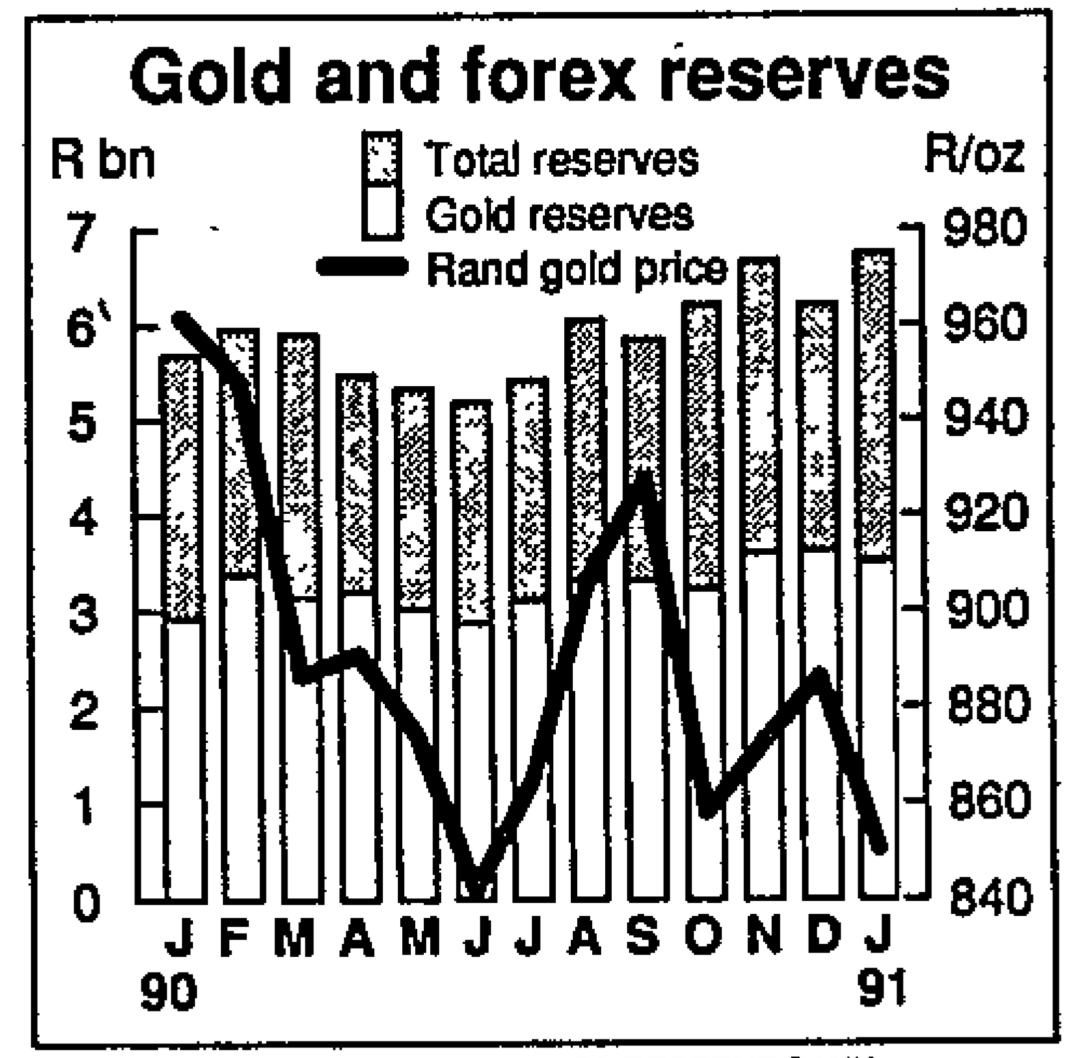
The underlying strength of the reserves position was highlighted in the impressive February figure, which rose from the January level of R6,7bn despite a substantial foreign debt repayment. Reserves levels in the first quarter of this year will probably continue to reflect the near-record current account surplus in the fourth quarter of last year. At almost R10bn the surplus was the second-largest ever posted, bettered only by the almost R12bn recorded in the fourth quarter of 1986.

The reserves performance so far this year indicates an improvement in the capital account, which recorded a net outflow in the third quarter. The reversion to capital outflow was, however, attributable to debt repayment and to fewer trade credits rather than to capital flight. The opening of Parliament speech and the acceleration in the reform process seen in the first quarter should restore a net inflow of capital, and an improving reserves level should be the telltale sign of renewed inflow.

Militating against an improvement in reserves is the performance of the gold price. Since the coalition victory in the Gulf war at the end of February and the reduction of international tension, gold has looked understandably weak. The gold element of the reserves, valued at 90% of the month's last 10 London fixings, is likely to have been lower last month than in February. But higher physical gold holdings may still offset a lower valuation.

SA's trade balance for March is due for publication at the end of the week, probably Friday, and should show little deviation from February's comfortable surplus of R1,7bn. Volatility in the oil price during the lead-up to the Gulf war and during the campaign itself led to shadowy oil deals and to one-off distortions on the unclassified trade accounts in recent months. Oil's relative stability since the end of the war at levels below $20 has restricted profit opportunities and means volumes in the unclassified sectors should stabilise at lower levels.

The March trade figures will be too early to reflect any uptick in consumer spending arising from the cut in SA interest rates anounced early in the month. Imports, therefore, are likely to remain subdued, as befits the trading pattern of an economy in its sixth consecutive quarter of contraction. Similarly, the cut in the import surcharge announced in the Budget will have come too late to show up in the figures.



Graphic: LEE EMERTON Source: SA RESERVE BANK

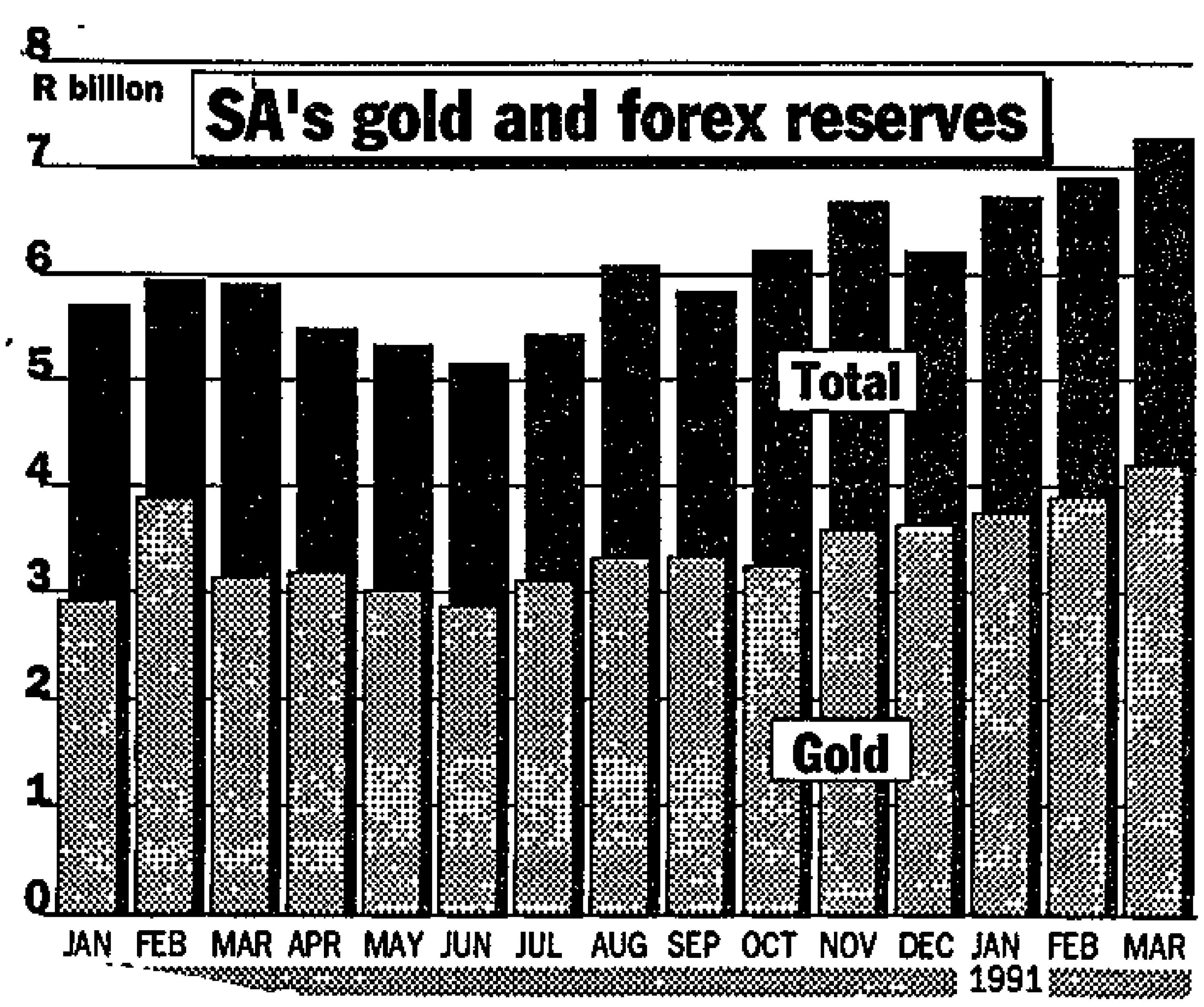
Internationally, the statistical highlights also come late in the week in the form of the UK and US inflation figures for March — both due out on Friday. Of the two, the British figure is the more influential as it will probably lead to another cut in UK interest rates. The last half-point cut in UK base rate, to 12,5% last month, was made in the context of a very small fall in the annual inflation rate, to 8,9% in February from 9% in the year to March.

A bigger fall in the UK inflation rate — to, say, below 8,5% — on Friday would enable the Treasury to cut base rate to 12%. This would have political and economic repercussions, as another half-point cut in base rate soon after the inflation figure would prompt building societies to trim mortgage rates from May 1.

Lower mortgage rates would be announced in time to benefit the Conservative government in the local elections due a week later.

Capital inflow helps boost reserves to four-year high

Star 10/4/91 (79)



By Sven Lünsche

Gold and foreign exchange reserves rose to their highest level in four years in March as capital inflows continued in the wake of improved political sentiment.

However, the threat posed to the negotiation process by the latest ANC ultimatum could jolt foreign investor confidence and slow down or even reverse the inflow of foreign capital over the next three months.

The Reserve Bank reported yesterday that the gold and forex reserves in March rose by 5,6 percent to R7,28 billion from R6,9 billion in February, the first time they had exceeded R7 billion in four years.

Reflecting the weaker rand-dollar exchange rate over the month, the reserves in dollar terms increased by only 1,3 percent from $2,72 billion in February to $2,75 billion.

The gold content of the reserves soared by R312,1 million to R4,21 billion, boosted by a R52 rise in the average rand gold price from R829,37 to R881,09 per ounce and a 1,7 percent increase in the gold holdings to 4,77 million ounces.

The foreign exchange content of the reserves increased marginally by R75 million to R3,08 billion.

Reserves have shown a steady rise since they hit a temporary low of R5,16 billion in June last year.

Part of this can be ascribed to the successful rollover of foreign debt caught in the standstill net, but most of all it is a reflection of an improvement in the capital account of the balance of payments.

The capital account reflects the net inflow or outflow of capital.

It has shown an improvement ever since President FW de Klerk embarked on his reform programme.

It was first mirrored in the halt to the capital flight evident in the second half of the 1980s, but in the third quarter of last year it led to a net inflow of R1,5 billion for the first time since 1987.

It reversed to a net outflow of R1,8 billion in the fourth quarter, but this was largely attributed to debt repayments and lower trade credits, rather than to capital outflow.

The strong level of the reserves suggests that a net inflow will again be recorded in the first quarter 1991, despite debt payments of about $200 million in February.

Bankorp economist Emile van Zyl estimates that a net inflow of just under R100 million occurred in March, judging from the R1 billion of capital assets held by the Reserve Bank.

However, the situation is likely to be reversed in the current quarter, which could see a decline in the level of the reserves in the period.

While the dividend payouts are set to be fairly low, given recent poor corporate results, the strong investments by foreigners in the capital market — Mr van Zyl estimates that about 50 percent of Eskom stock is held by non-residents — will keep interest payments at their recent strong levels.

But most of all economists fear that the deteriorating political environment could halt foreign investments.

The continuing high level of violence, the social and economic backlash from rising unemployment and, in particular, last week's ultimatum by the ANC to the Government are set seriously to dent foreign investor confidence.

SA's reserves soar to record levels

BDay 10/4/91. 79

SHARON WOOD

SA's gold and foreign reserves soared to a record high in March as the effect of a weaker rand boosted the value of the Reserve Bank's gold holdings.

Reserve Bank gold and foreign reserves climbed to R7,3bn, up R387m from February, figures released yesterday show. The last time foreign reserves neared this level was in July 1987 when they reached R7,1bn.

Gold reserves were the major movers in March, rising substantially by 8% to R4,2bn from R3,9bn in February. The rand gold price increased by more than R50 to R881,09 in March — a result of a weaker rand and a recovery from the low rand gold price in February.

A surging dollar in March, based on optimism that the US economy would see a near-term turnaround from recession, pulled the rand down after two years of relative rand stability.

Gold holdings remained relatively stable, rising by only 1,7% to 4,8-million ounces in March from 4,7-million ounces. Comparable Reserve Bank gold holdings in July 1987 were about 50% higher at 6,2-million ounces.

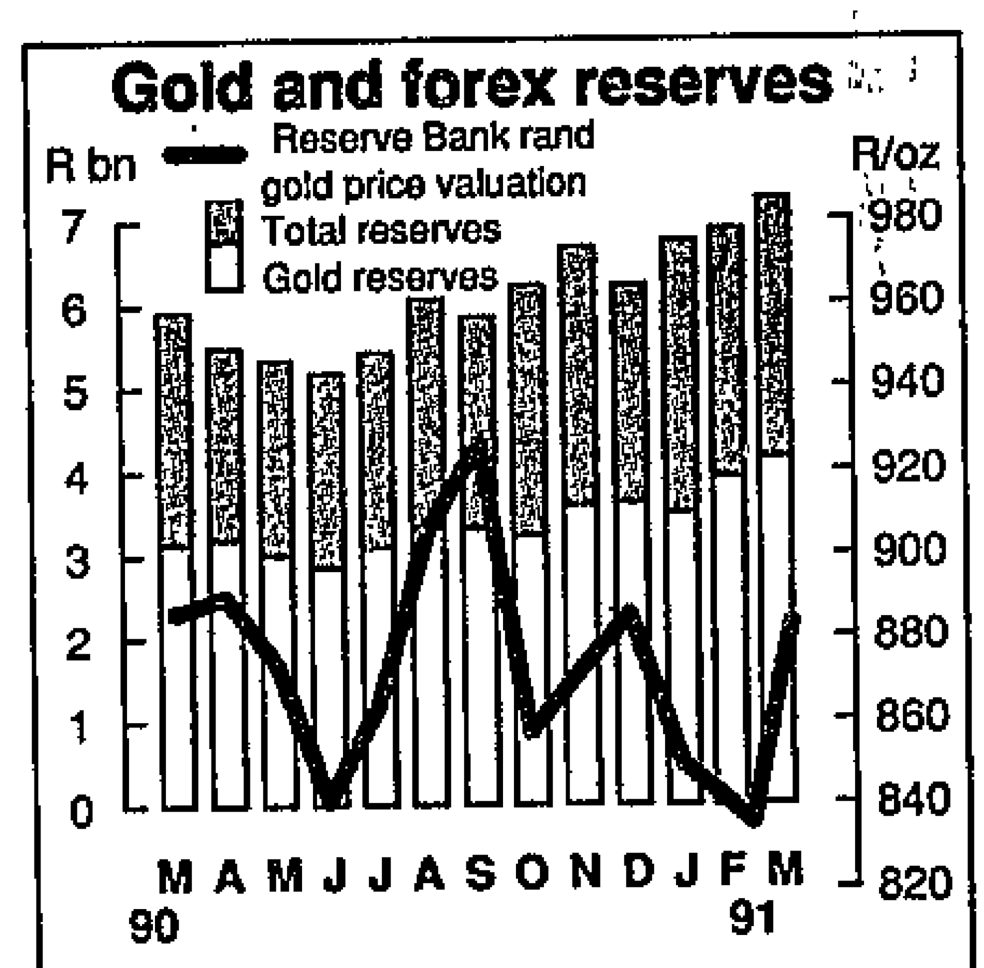
Foreign currency holdings rose by 2,5% to R3,1bn from R3,0bn, probably as a result of a healthy trade surplus.

The level of foreign reserves in March was still well below the level needed to provide the optimal three months' import cover — they only provide about one-and-a-half month's cover at present.

The Reserve Bank's forward cover losses diminished in March, with "other assets" falling by R286m to R12,3bn. "Other liabilities" of the Reserve Bank rose from R7,8bn by 6,4% to R7,9bn in March.

"The change in the foreign reserves in

□ To Page 2



Graphic LEE EMERTON Source: SA RESERVE BANK

Gold prospects look distinctly brighter, says market analyst

79

By Des Parker Star 15/4/91

Prospects look brighter than they have for some time for an improvement in the gold price — and in turn for the shares of companies which mine the precious metal, according to a Johannesburg market analyst.

On a technical level, the gold price is ripe for a move out of the consolidation phase it has been in since the early 1980s, says Clive Fox, managing director of Consolidated Fund Managers.

At the same time, factors affecting production worldwide have changed in recent months.

These include Australian mine taxes, financial problems in the US gold development programmes, the reduction of production in South Africa and renewed jewelelery demand.

Long-term chart

Mr Fox says in his company's Hotline newsletter for the first quarter of 1991 that a long-term chart of dollar gold prices illustrates how gold has settled into a range from $350 to $400 in the past 27 months.

From the beginning of 1985 to the latter part of 1987, the metal ranged between $300 and close to $500, while it shot up in 1979 from about $200 to peak around $800 before careering down to below $350 in 1982.

Its progress since has been marked by a series of gradually diminishing oscillations until now.

According to Mr Fox, gold is nearing the end of its consolidation period and should record some price movement this year.

Could that movement be downward?

"We believe that any further setback would be temporary, for the simple reason that several mines around the world would be forced to close, thus limiting supplies to the market," says Mr Fox.

Gold production, which rose about 76 percent in the eighties, has kept the lid on the price of the metal.

Mr Fox believes gold buffs can take solace from the resilience the gold price showed to strong Middle East gold sales to fund Gulf War spending and the decline in the oil price, with its implications of lower inflation and hence less demand for gold as a hedge.

Gold shares on the Johannesburg Stock Exchange are tipped to benefit both from the cost-cutting exercises of the mining houses and from the expected return of international investors who have reduced their holding from almost 40 percent of shares in issue to less than half that.

"The potential demand for gold shares and the acute shortage of quality scrip could precipitate strong gains in this sector," he says.

VAT proposal takes the shine off Krugerrands

79

BDay 16/4/91.

ROBERT LAING

DEMAND for new Krugerrands has plummeted since Vatcom's proposal to tax new gold coins, with barely 2% of the Reserve Bank's allocation being tendered for at Rand Refinery's weekly tenders since the beginning of March.

The Chamber of Mines and the Merchant Bankers' Association have made representations to government, asking it to reverse the decision to impose VAT on Krugerrands.

Accused

Merchant bankers fear VAT could kill SA's gold coin industry as it did in the UK.

Some coin dealers have accused government of wanting the local Krugerrand industry to die.

One dealer said gold coins could potentially be smuggled and they also diverted investors' money from industry, and therefore government would like to "sterilise" the local gold coin market.

A Reserve Bank spokesman said the annual sales of 300 000oz of gold coins in the past were far too high.

"It was not logical that the local market should buy so many coins."

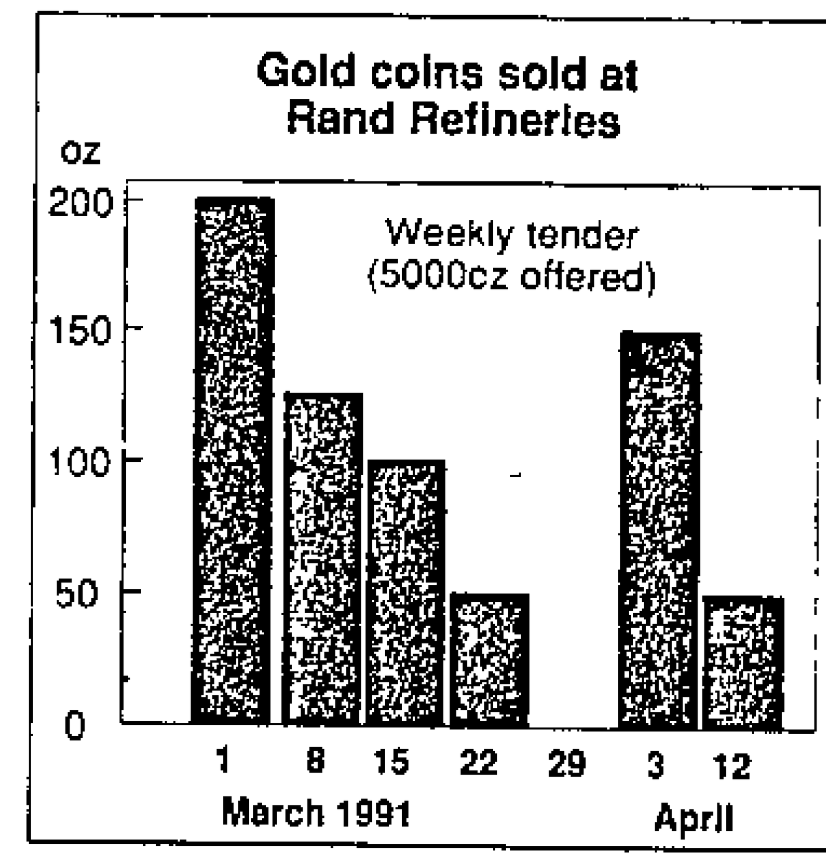
However, he denied government was out to kill the industry.

Rand Refinery, which puts 5 000oz of gold coins struck by the SA Mint out to tender every Friday has seen sales dropping since February.

A Rand Refinery spokesman said commercial banks had lost interest in Krugerrands because of the 12% premium VAT would place on them.

Since Vatcom had recommended that older coins be classified as second-hand goods, nobody was likely to buy new coins until the thousands of coins life insurers and other financial institutions had stored were absorbed by the market, he said.

SA Gold Coin Exchange chairman Eli Levine said: "VAT on gold coins will yield a minuscule amount of tax and will make it impossible for SA gold coins to re-enter the world market with any degree of success, even if they are zero rated for export purposes."



Levine said the largest seller of US Eagle gold coins, Shearson Lehman Hutton, no longer handled Britannias because the UK charged VAT on them at home.

Canada and the US did not tax their own bullion coins while Switzerland scrapped indirect tax on coins in 1986.

Austria, which had a VAT rate of up to 32% on coins, made its new Philharmonic gold coin VAT-free, "with positive results", Levine said.

(3) whether consideration has been given to having the parent community vote for the management board members by mail; if not, why not; if so, (a) what has been decided in this regard and (b) why?

B783E

†The MINISTER OF EDUCATION AND CULTURE: Hansard 23/4/91

(1) Yes, because it is considered that in terms of section 2(4) of the Regulations relating to Management Councils of Public Schools, excluding Industrial and Reform Schools, promulgated under the Education Affairs Act (House of Assembly), 1988 (Act 70 of 1988), it is not feasible to hold an election according to the ordinary procedures;

(2) yes, in accordance with section 2(4) of the aforesaid regulations promulgated under the Education Affairs Act (House of Assembly), 1988 (Act 70 of 1988);

(3) no, please refer to my answer to (1) and (2).

Agricultural colleges open to all races

*4. Mr M A TARR asked the Minister of Agricultural Development:

(1) Whether it is the intention to open agricultural colleges to members of all races; if not, why not; if so, what are the relevant details; Hansard 22/4/91

(2) whether he will make a statement on the matter?

B812E

The MINISTER OF AGRICULTURAL DEVELOPMENT:

(1) Yes; selection for full-time admission to the six agricultural colleges under the control of the Department of Agricultural Development was made on a non-discriminatory basis since the beginning of this year. In future this policy of selection on merit and on a non-discriminatory basis for full-time admission, will be continued.

(2) A Press statement was issued on 29 January 1991.

Section of farm Panorama: rezoning

*5. Mr J VAN ECK asked the Minister of Local Government: Hansard 23/4/91.

(1) Whether his Department was approached by the (a) developers of Myburgh Park Phase 2 (and Extension) and (b) Municipality of Langebaan regarding the rezoning of a section of the farm Panorama, Langebaan, from a nature area and/or land for agricultural use to land for residential use; if so, (i) when and (ii) what was the (aa) nature of and (bb) response to these approaches;

(2) whether he will make a statement on the matter?

B821E

†The MINISTER OF LOCAL GOVERNMENT: Hansard 23/4/91

This question relates to question 14 in the House of Assembly (General Affairs)

(1) (a) and (b) No.

The reference to the farm Panorama in fact refers to the Remaining Extent of the farm Oostewal 292 and the Remaining Extent of Portion 1 of the farm Meeuklip 293, Langebaan. The property is locally generally known as Panorama.

On 25 February 1988 the property was suitably rezoned by the Cape Provincial Administration as a subdivisional area. It was therefor not necessary that the Department of Local Government, Housing and Works be approached for an application for rezoning.

During 1989 an application was received by the said Department for the amendment of the conditions of rezoning as was initially approved. This application was approved on 9 November 1990.

(2) Yes.

The Langebaan Municipality has recently granted subdivisions in Myburgh Park Phase 2 in order to make housing development possible. This subdivisions was granted by the Local Authority in terms of delegated powers.

I am not aware of any opposition of a certain Prof Retief As a matter of fact I was advised that he is satisfied with the amended outlay as approved on 9 November 1990 by the Department of Local Government, Housing and Works.

According to the aforesaid Department's records the property was indeed zoned to make development for housing purposes possible. Hansard 23/4/91

Development takes place according to Plan 1 069 and no erven up to the high water mark are proposed according to the plan. Any marketing which therefore refers to erven below the high water mark shall therefore be incorrect.

Business interrupted in accordance with Rule 180C (3) of the Standing Rules of Parliament.

Pre-primary education: policy

*6. Mr R M BURROWS asked the Minister of Education and Culture:

(1) Whether his Department has a policy in respect of the provision of pre-primary education to children of the pre-school year; if not, why not; if so, what is this policy; Hansard 23/4/91

(2) whether this policy is uniformly applied throughout South Africa; if not, why not;

(3) whether his Department has made this policy public; if not, why not; if so, (a) when and (b) in what manner?

B823E

The MINISTER OF EDUCATION AND CULTURE:

(1) Yes, although pre-primary education is non-compulsory education it is still provided within the bounds of affordability. In departmentally controlled and/or departmental pre-primary schools and/or classes, preference is given to applicants who in the ensuing year will be of compulsory school-going age;

(2) yes, in respect of departmentally controlled and departmental pre-primary schools; Hansard 23/4/91

(3) (a) and (b) yes, on different occasions in speeches and by means of directions to the principals of departmentally controlled and departmental pre-primary schools.

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Gold made available

211. Mr R R HULLEY asked the Minister of Finance: Hansard 23/4/91

What quantity of gold was made available in the Republic in 1989 and 1990, respectively, to (a) jewellers and (b) other concerns for manufacturing purposes? (79)

B559E

The MINISTER OF FINANCE:

	1989	1990
(a) Jewellers	112 268,939 ounces	122 852,446 ounces
(b) Other concerns	372,205 ounces	678,224 ounces

Persons with legal qualifications

236. Mr D J DALLING asked the Minister of Justice:

(a) How many persons with legal qualifications were employed by his Department in professional capacities in the Republic, excluding the self-governing territories, (b) how many such persons were (i) White, (ii) Black, (iii) Coloured and (iv) Indian, and (c) (i) in which positions and (ii) where were these (aa) Black, (bb) Coloured and (cc) Indian persons employed, as at 31 December 1990? Hansard 23/4/91

B602E

The MINISTER OF JUSTICE:

(a) (i) 2 631

(b) (i) 2 475

(ii) 43

(iii) 70

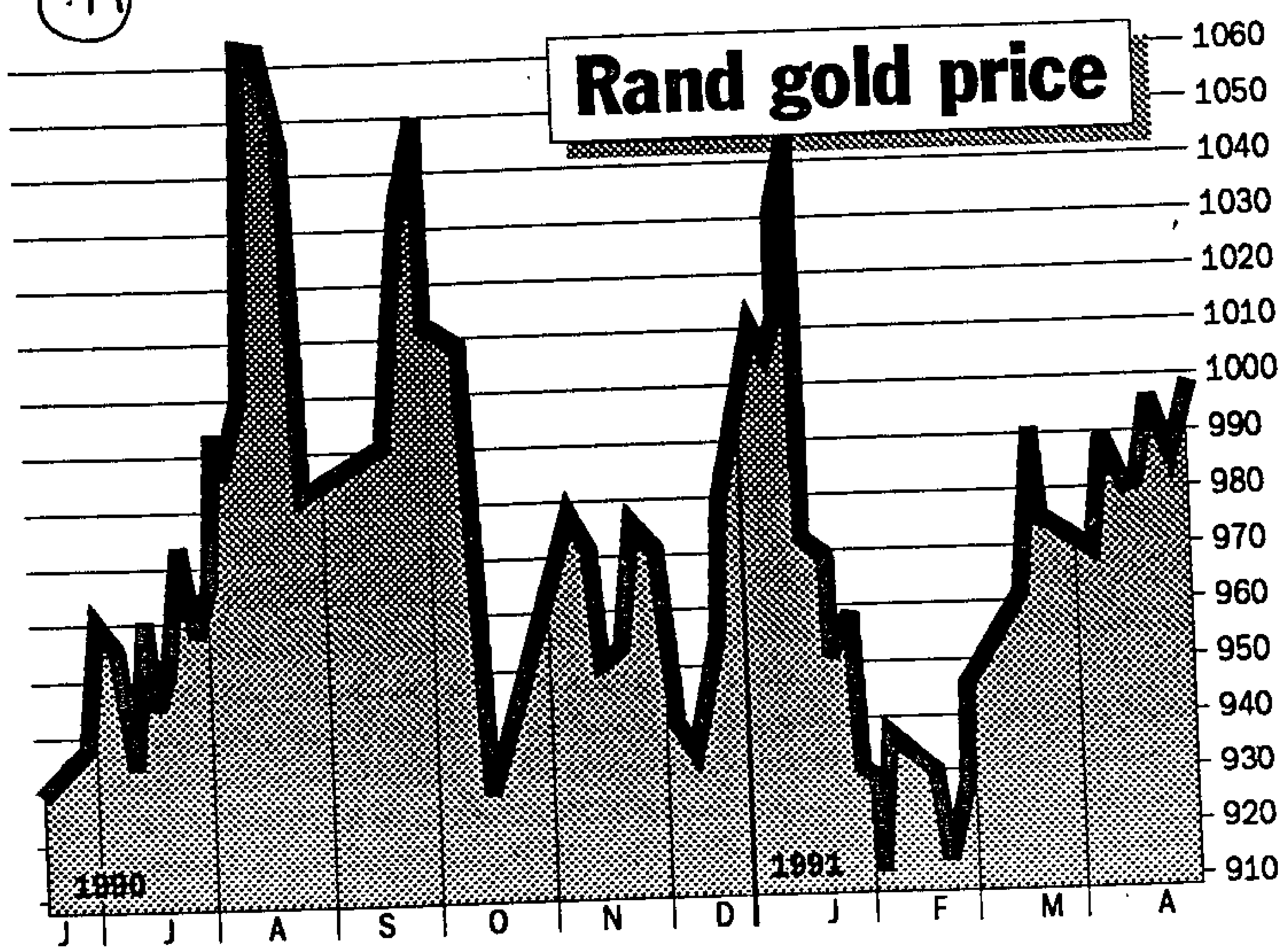
(iv) 43

Weaker dollar sees gold price strengthen

Star 1|5|91

(79)

By Derek Tommey



The South African gold price rose more than R10 an ounce yesterday afternoon to reach around R998 an ounce, or just over R32 000 a kilogram — its highest price since January.

This followed an almost $7 jump in the gold price to $357,75 at yesterday afternoon's fixing in London from $351,10 on Monday afternoon.

The rise was not fully reflected in the SA gold price because of a firmer rand.

The South African gold price has now risen by about R90 an ounce, or R2 900 a kilogram, since the last week in February.

This nine percent rise in the SA gold price will not end the problems of marginal gold mines, which were receiving as much as R34 000 a kilogram on some occasions last year.

But officials at mines that are in trouble should feel under rather less pressure and a little easier about being able to keep their mines going until the gold price shows a major improvement.

Windfall

Last night's gold price is about R1 000 a kilogram more than most mines received in the March quarter.

This is a most welcome windfall for those mines whose costs are above R29 000 a kilogram.

Among the larger of these are Stilfontein, West Rand Cons, Buffelsfontein, St Helena, Grootvlei, Leslie, Freegold, Sallies, Loraine, Durban Deep, ERPM and Harmony.

The rise in the dollar gold price followed the announcement by the US Federal Reserve Board yesterday that it was cutting its discount rate from six percent to 5,5 percent — which should lower the cost of borrowing money by more than eight percent. (When South Africa cut its Bank rate at the beginning of March, the cost of borrowing money fell by just over five percent).

The move by the Fed resulted in the dollar weakening against most currencies — and against gold.

The German mark rose two percent against the dollar, the French franc by 1,9 percent, the Swiss franc by 1,4 percent, the pound by 2,1 percent, the yen by 0,6 percent, and the dollar gold price by 1,9 percent.

The events of the past day or so suggest that for the immediate future the outlook for the gold price will be linked to the fate of the dollar.

It seems that a further fall in the dollar could lead to another spurt in the gold price.

But a lot depends on how much bad news about the US economy is forthcoming, says Simon Willson, Treasury economist with First National Bank.

Figures to be released later this week are expected to show an increase in US unemployment.

Markets are also waiting for the reaction of the German central bank to the US appeal for lower interest rates.

German monetary authorities will decide their policy tomorrow.

So far they have made no public response to the US request and this is seen as ominous in some circles.

A refusal by Germany to lower interest rates could put further pressure on the dollar — and lead to a further increase in the dollar gold price.

Gold bugs will have to wait a day or so to see whether there really is a rising gold price in their future.

W/t Argus 4/5/91 79

'Bullion bottoming out'

GOLD is in the lower third of a 10-year price range of $300 to $500, suggesting that the end of the price decline of the past year or so is perhaps in sight. That's the view of Fritz Plass, director of Deutsche Bank AG and one of the world's leading precious metals experts. JOHN SPIRA spoke to him in Frankfurt this week.

SPIRA: Where do you think the gold price is going from here?

PLASS: There's no reward for being right if you envisage a lower gold price. It's an exercise which simply confirms you're a pessimist and have no imagination.

In all other areas of economic forecasting — as uncertain as they may be — poor predictions will discredit the forecaster. Not so in the gold market, where you will always be forgiven for predicting higher prices no matter how wrong you may be.

Be that as it may, it is worth noting that gold is in the lower third of a 10-year price range of $300 to $500, so that perhaps the end of the price decline of the past year so is in sight.

The average price for this year will be lower than last year, with gold trading more predominantly in the $330 to $380 price range than in the $370 to $420 band.

SPIRA: A growing number of analysts are writing off gold as a metal which no longer contains any investment attractions. Would you agree?

PLASS: Only partially. True, the quality, frequency and scope of fundamental analyses of the gold market are tending to decrease — an observation also reflected in the "availablity" of formerly highly-esteemed analysts.

It is also conspicuous that in day-to-day business the market tends to be locked between lengthy periods of inactivity and short periods of frantic activity. This lack of continuity often leads to prices being formed by chance, so that the ensuing technical analyses produce the wrong conclusions.

But on the other hand, demand is good, the outlook not uninteresting, prices are low and the questions being asked are increasing steadily.

Bear in mind that since its very beginnings the gold market has had to live with alternating periods where it either features as a commodity or a financial instrument — depending on the environment and fundamental situation at any given time.

One of gold's major problems is that for years now production plus recycling has exceeded original industrial demand.

Participants not fundamentally involved in the market had tended in the past — and also right now — to take up differing amounts of the metal.

Over a period of years (even decades) this has

pend largely on the willingness of these "outside" market participants to take up additional gold or hang on to what they have.

SPIRA: From what you have just said, the level of general liquidity in the gold market is crucial to the evolution of the price.

PLASS: Correct, and in this respect the market is moving in the wrong direction. The number of speculators and other investors willing to participate in the gold market has been falling recently and it looks as though their participation will continue to decline.

Why? Because market participants interested in speculative gains seem to have realised that the many new developments shaping up on the financial markets (especially financial futures) offer better profit opportunities than the precious metal markets, which are usually more difficult to fathom.

As a rule, investors will take a close look at the markets in which they are interested in investing. In the case of the gold market, this involves not only a knowledge of the specific financial environment and its development but also the information necessary to assess the situation in a commodity market.

This involves twice as much time and effort and explains why investors are increasingly shying away from gold.

Further, there is often a lack of liquidity, making precious metal markets much less attractive than the more transparent and liquid financial markets, especially when weighing up opportunities and risks.

And by lack of liquidity I don't mean the very short-lived liquidity of the professional market participants. This form of liquidity has remained

ments in this market but also to see them through.

SPIRA: You mentioned earlier gold's financial demand on the one hand and its demand as a commodity on the other. Which of the two is the dominant influence at present?

PLASS: The trend is toward viewing gold as a commodity. However, this development is not entirely negative. I believe we must now give up any hope — at least for the foreseeable future — that the financial side of the gold market has the potential to push the price meaningfully higher.

SPIRA: What are the major demand and supply factors for gold for 1991?

PLASS: Production will be slightly below that of last year — 1880 tons against 1990's 1900 tons (including the USSR's 240 tons). Add scrap of 350 tons, plus central bank sales and instituional dishoarding of 70 tons and total supply will be of the order of 2300 tons.

Australian production will fall less than expected, for large amounts are hedged and will be used.

Other areas like Ghana, Papua New Guinea and South America will definitely increase production — by, in total, at least 1,5 million ounces.

South African production will probably fall by only 0,5 million ounces if current prices prevail. The slowdown in the European economies might reduce industrial demand for jewellery.

THE WEEK AHEAD by William Richards

Reserves likely to stand at historical high

BDay 6/5/91.

SA RESERVES should again stand at a historically high level when the figure for April is published this week, probably tomorrow. The level of gold and foreign exchange reserves last month is likely at least to match, if not better, the March outturn of R7,3bn.

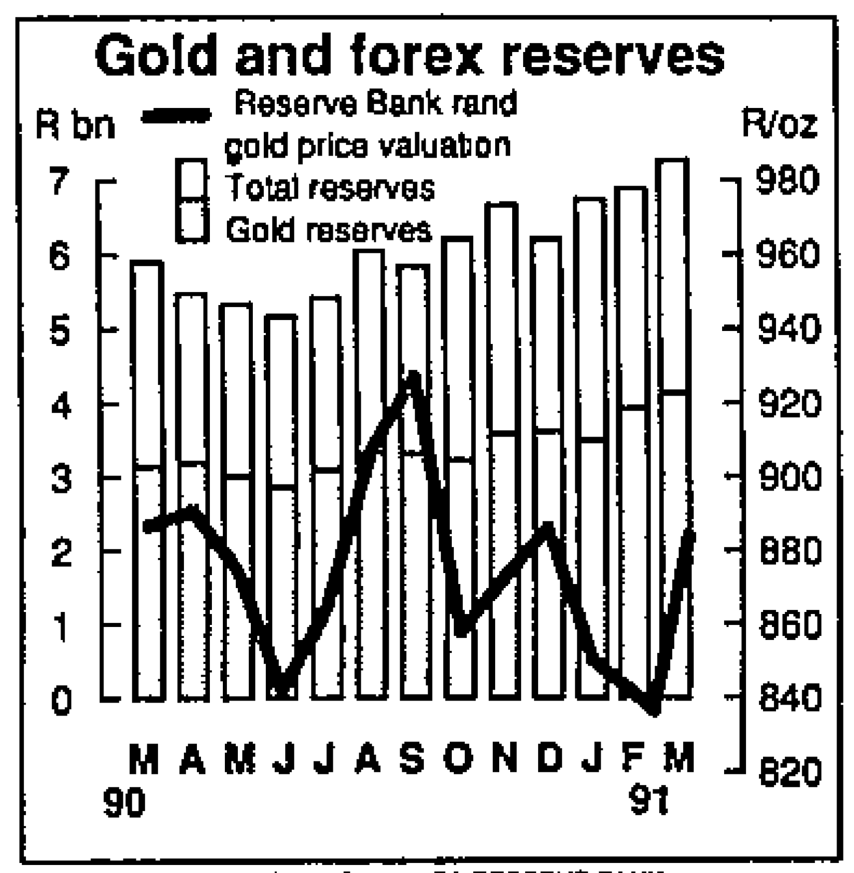
Indeed, the level of total nominal reserves is likely to be, in plain rand terms, the highest recorded at something not far short of R7,5bn. But the headline reserves total is not the important part of this figure: of primary concern to the monetary authorities is the import cover afforded by the reserves total.

The common benchmark adopted internationally is that any self-respecting country's reserves should be high enough to pay for at least three months' imports. Even at over R7bn, SA's reserves cover imports for barely half that period. One of the authorities' most important economic policy objectives is to reach three months' import cover on reserves, and then to avoid running reserves down again below that level.

Restored health

A reserves total of around R7,5bn for April would, therefore, be historically high in nominal terms. It will certainly seem so compared to, for example, the R5bn-odd reserves totals recorded during the gold boom year of 1980. But reserves have to be seen against the background of the imports bill. While the level of 1980's reserves covered many months' imports, 1991's are only halfway towards even the most basic level of economic respectability.

The reserves picture is improving following an improvement on the capital account during the first quarter, which could make good the R1,8bn outflow recorded in the fourth quarter of last year. Senior figures have been unanimous in recent days about the restored health of the capital flows position: the Reserve Bank Governor has gone public with his confidence that last year's capital outflows have been reversed, and the President has also told influential foreign audiences of hundreds of millions of rands in risk capital entering the country.



Graphic LEE EMERTON Source SA RESERVE BANK

These inflows may be dampened by fresh doubts about progress in the political reform process as the negotiating parties' various deadlines come and go in the coming weeks. In addition, there are sizeable dividend and interest payments due to overseas investors at the end of the current quarter. But, for now, the picture looks rosy — even though there is a lot further to go.

On the foreign exchanges, the wild volatility of last week — which saw the rand bounce between R2,76 and R2,82 against the dollar — should be over. Relative interest rate levels are now more clear and more settled than they were last week, and it was uncertainty about currency yields that prompted most of the swings in dollar support.

(79)

The move by the US central bank, the Federal Reserve, to cut discount rate by half a point to 5,5% ended speculation on one side of the Atlantic. On the other side of the ocean, the decision by the German central bank, the Bundesbank, to hold rates steady for at least another fortnight, also settled uncertain markets and should contribute to less volatile trading.

Another factor that should help to calm markets after last week's rollercoaster trading is the continuing incidence of public holidays in several markets. The British and Japanese financial markets are both closed today, which should trim volumes in the foreign exchange markets. The rand market will be closed on Thursday's public holiday in SA.

Performance

The week's statistical highlight is the release, probably on Wednesday, of the German trade and current account figures. These are of interest because the German external surpluses have been falling sharply of late. The current account swung into structural deficit for the first time in 10 years due to surging imports as a result of the unification process. The swing has been a drag on the performance of the Deutschmark and continues to provide a reason for expecting higher German interest rates in the near future.

Elsewhere, the US Treasury holds its quarterly refunding this week, starting tomorrow, in which foreign investors are invited to take out US securities to finance the American twin deficits.

Gold shares 'are not bargains'

B Day 7/5/91

LINDA ENSOR

CAPE TOWN — Gold shares are still not on a high enough dividend yield to be thought of as bargains, the May issue of Board of Executors newsletter Investment Outlook says.

It says the rise in the rand price of gold in recent months from R930/oz at end-February to about R1 000 at end-April, due to the depreciation of the rand against a strengthening dollar, has not been sufficient to improve the price of gold shares as future dividends will still have to be reduced even at the higher rand gold price.

"At the same time they are now so deeply oversold that caution is indicated in terms of possible selling of gold shares at this level," the newsletter notes.

The heights gained by the industrial index have justified the strategy to accumulate industrial shares.

"In recent days there have been increasing indications of significant foreign interest in our industrial market, which, if substantiated, will provide further fuel to this particular fire," the newsletter says.

It says the industrial index has risen almost uninterrupted since mid-January and is now about 23% higher than the level that prevailed at that time. A slackening off in the industrial market is anticipated, but due to the short supply of scrip and improved economic prospects, the downside is likely to be limited.

Index

The newsletter is bullish about property investments, saying that property trusts and well-managed property syndications offer prospective returns which are significantly better than those on cash on a two- to three-year horizon.

"The property trust index stands on a dividend yield of 9,9%, compared to 3,2% on the industrial index.

"Apart from a brief period in 1986 this is the highest ever dividend yield ratio between the two indices and suggests that a further re-rating of the trusts is likely to occur in coming months."

B 10/4/15/5/91

Japanese firm on sanctions

TOKYO — Japan said yesterday it was not time to lift sanctions against SA despite pressure from its business community.

Foreign Ministry spokesman Taizo Watanabe said SA government reforms had not gone far enough.

SA progress and international co-operation would be factors in a review of sanctions. — Sapa-Reuter.

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World oversupply of gold 'is a myth'

B10/4/15/5/91

(79)

MATTHEW CURTIN

THE belief that an oversupply of gold is destined to hold the gold price down for years is a myth and long-term buyers in the Far East have turned the region into the foremost market for Western production.

In two reports published at the end of last month, the US-based Gold Institute painted a bullish outlook for gold. American Precious Metals Adviser president Jeffrey Nichols said at least three myths continued to cause undue pessimism.

He said far from increased mine production and gold sales dooming the metal's price to the $350 to $450 range, the supply of gold from current mine production, gold borrowings by mining companies and forward sales peaked in 1988.

Current mine production would "top out this year or in 1992". He said the net contribution of forward sales and bullion loans, used by the industry as financing and hedging techniques, dropped from 15-million ounces in 1988 to 5,5-million ounces in 1990.

Nichols discounted the threat of ever-increasing Soviet sales of gold, and said that in the last 20 years there was "no discernable trend in East Bloc sales". The Soviet Union was unlikely to boost gold sales to the West in 1991. He cited growing domestic Soviet demand for gold jewellery, the likelihood of difficulties in gold mine production, and preservation of official reserves as the main reasons.

Despite reports that central banks were selling more gold than they were buying, Nichols said statistics showed the "official sector was a net buyer of gold during the 1980s, adding 27,7-million ounces to its holdings over the decade".

Nichols said the fundamentals for the gold market were solid with fabrication demand increasing while the trend was "flat to down" for gold supply in the 1990s, suggesting higher gold prices.

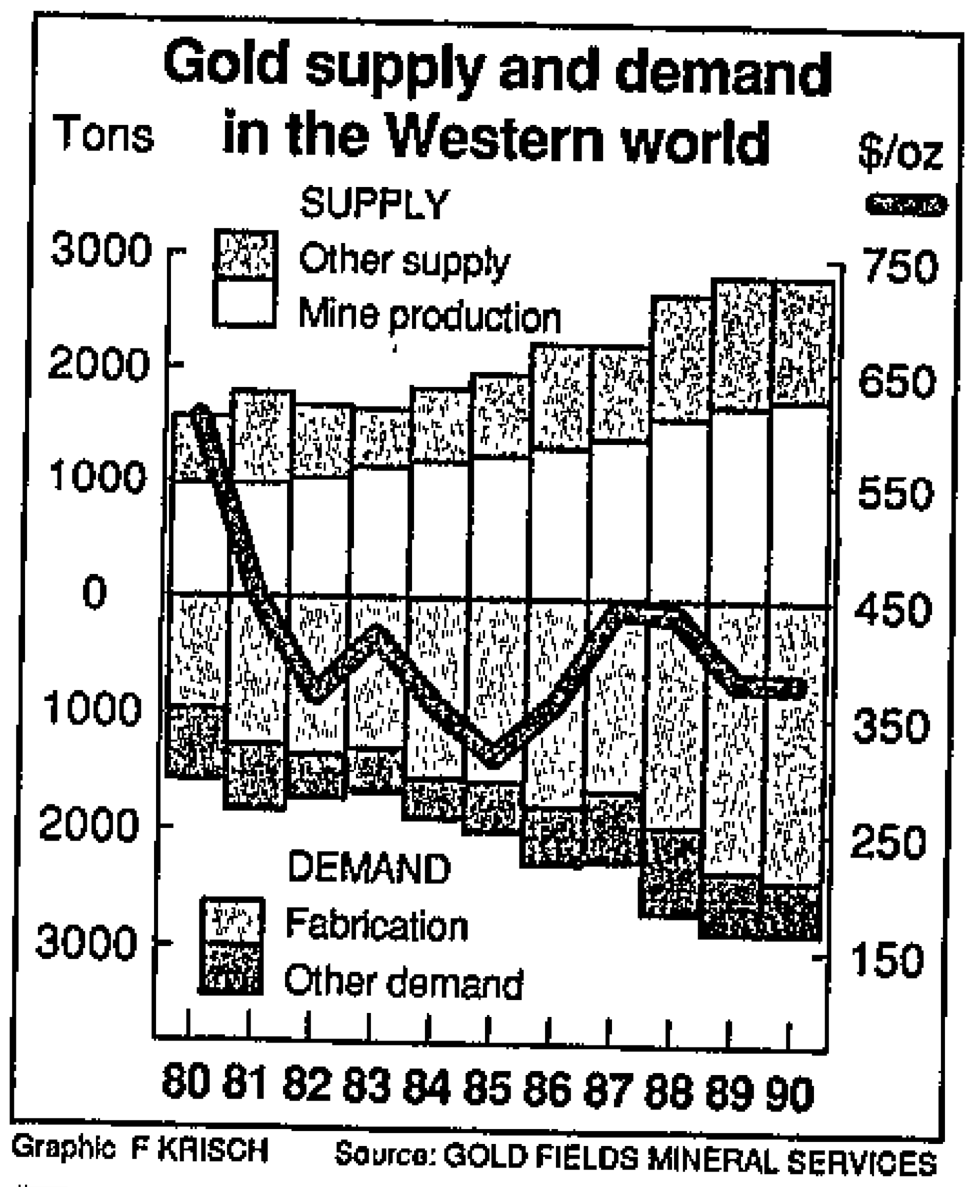
Frankel Max Pollak Vinderine analyst Rob Gillan said yesterday such sentiment was over-optimistic in the short-term. Australian and SA production was falling slower than expected, while US gold production was still on the increase.

He said the gold price was probably near the bottom of the trough, matching a peak in production, but a recovery in the price was at least 18 months away.

The World Gold Council's Far East investment division manager Itsuo Toshima said in the second report Japanese imports of gold had increased 10-fold between 1980 and 1990 to about 300 tons a year.

He said Japanese no longer bought gold for short-term speculation but the number of long-term buyers was growing.

Mase Westpac Hong Kong MD Robert Sitt said there was burgeoning demand in the Far East, including China, for gold bars, gold coins and "chuk kam" — heavy pieces of pure gold jewellery.



Graphic F KRISCH Source: GOLD FIELDS MINERAL SERVICES

Forward sales hit outlook for gold

214

79 ANDREW GILL and JOHN CAVILL

THE near-term outlook for the gold price remains clouded by the threat of accelerated supply from producers selling forward on any significant price rise, Gold Fields Mineral Services (GFMS) says in its Gold 1991 survey. BIDay 22|5|91.

It said 1990 was another year producers and traders of gold might prefer to forget, at least in terms of price.

"The growing awareness around the globe that producers may collectively cap the price has had a strong psychological effect upon the market."

GFMS estimated that forward sales last year, especially when the bullion price rose above $400 an ounce after Iraq invaded Kuwait, shot up by 269% to a record 240 tons, putting pressure on supplies swollen by a 36% increase in recycled jewellery and a 28,4% jump in exports from the Soviet Union, China and North Korea.

Robin Plumbridge, chairman of Gold Fields of SA (the chief shareholder in GFMS), yesterday blamed "a negative mindset" which overtook the mining industry during 1990 for the forward sales.

According to GFMS about 200 tons were sold forward in August and September last year and SA producers, who had been out of the market previously, disposed of 15% of 1990 output or nearly 91 tons. SA was expected to increase the proportion although scope for more forward sales would narrow if the price weakened.

In the longer term the survey was less

☐ To Page 2

Gold

BIDay 22|5|91.

bearish about fundamentals.

Growth in mine production had slowed dramatically and output was likely to peak in the next year or so. The Gold 1991 survey also said low gold prices had led to a reduction in exploration, implying that mine production would respond with a significant lag to any future increase in the gold price.

Growth in fabrication was expected to show little increase in 1991, assuming continued weakness in consumer spending.

Fabrication in the Far East was likely to be maintained by growing demand from China. This, combined with continued bar hoarding in the Far East, should provide a floor for the price.

Not all sectors were surrounded by gloom in 1990. For the third year in a row, growth in fabrication demand exceeded the increase in mine production.

Gold fabrication demand climbed 6% to

79

☐ From Page 1

2 380 tons despite predictions of a decline after the tremendous growth of the previous two years.

On the supply side of the market, Western world mine production increased by only 3%, the lowest increase since 1981, with SA production maintained despite ore production cutbacks as mines concentrated on mining higher grade ore.

SA continued as the world's largest producer with 605,4 tons in 1990 but the US pipped the Soviet Union with 295 tons. The Soviet Union fell to third place with a 25-ton drop to 260 tons because of production problems.

With the growing deficit of supply relative to fabrication demand, the survey said investors might perceive the price as a buying opportunity at some point, although it might require a further period of lower prices for the metal's outlook to improve.

● See Page 4

Supply, demand 'to dictate gold price'

Bloay 22|5|91

(79)

MATTHEW CURTIN

PRODUCERS and traders in gold may do their best to forget the metal's poor performance in 1990, but Gold Fields Mineral Services' (GFMS') 1991 gold survey, released yesterday, suggests that 1990 may turn out to be the year when gold demand began inexorably to overhaul supply.

Gold analysts agree, supported by industry leaders and Anglo American gold division chairman Clem Sunter, that now as never before the laws of supply and demand will dictate the price of gold and the health of SA's high-cost mining industry.

The survey said that the momentum of the increases in gold production in the last decade, which analysts have blamed for the demise in the gold price, looked set to continue for years, at first sight.

Gold mine production in the US and Australia rose by 11% and 19% in 1990 to reach record levels of 295 tons and 241 tons respectively. Gold sales from the communist bloc — up by almost a third from Soviet, Chinese and North Korean sources — and the supply from old gold scrap reached their highest levels for five years.

However, figures suggested that although western mine production had reached record levels, it was levelling off.

In SA, some mines had successfully rationalised operations, but "the scope for further improvement is limited". Stilfontein's closure was the first deep level Witwatersrand gold mine to be shut down by a major mining group for years. Prospects for future expansion were poor given that in the last two years capital expenditure had fallen 30% in real terms.

"It therefore remains to be seen how much of the industry will emerge unscathed, and how far output will fall." Against the sustained drop in the gold price in real terms, SA gold mines showed the highest cost increases in 1990, with Rand Mines' ERPM coming in as the highest cost major gold mine with cash costs of US$462 an ounce, against Papua New Guinea's Porgera project with costs of $87 an ounce.

Whereas supply was subsiding, the survey said fabrication demand for gold — 85% of total demand for gold — reached a new high in 1990.

Carat jewellery accounted for 83% of fabrication demand. The survey said that 1990, in defiance of the worsening economic climate and the Gulf War, was "an excellent year" for the European jewellery industry, while demand in the Middle East climbed more than 20%.

Investment

Observers were confident that in North America the upswing expected in 1992 and low stocks of finished items would fuel demand in the future. Also larger amounts of new gold rather than scrap were being used in world jewellery production.

The survey said that the 144 tons of "implied investment" in gold in 1990 — the informal offtake of the metal for investment purposes — "may be a positive development", in the face of the sustained weakness of the gold price.

"It suggests that contrary to conventional wisdom (that gold is losing its appeal as a store of investment), European and North American investors may now be beginning to purchase on price lows."

Lebowa Bakeries thrives in tough year

Bloay 22|5|91

MARCIA KLEIN

LEBOWA Bakeries, which recently announced that Sasko had taken a 45,2% stake in the company for R14,7m and would be making a similar offer to minorities, increased its earnings by 10,2% to R5,76m (R5,23m) in the year to end-March.

Turnover increased by 23,9% to R91,1m (R73,6m) and operating income was 12% up at R12,1m (R10,8m). Directors said the decrease in operating margins was due to increases in depreciation and initial costs of Tubatse Bakery which came on stream during the year.

They said despite a difficult year due to irregular school attendances, strikes, stayaways and general consumer boycotts which affected sales, turnover was still up by 23,9% and earnings by 10,2% to 23c (20,9c) a share.

Net income before minorities was 15,4% up at R6,35m (R5,5m), but bottom line earnings were 10,2% up after an amount of R591 000 (R275 000) attributable to outside shareholders.

A final dividend of 6,25c a share was declared, bringing the full-year dividend up by 19,4% to 9,25c (7,75c) a share.

Capex of R7,1m has been approved for building a head office, refurbishing plant, a new bakery and vehicles.

Healthy hike in profits for Clinic Holdings

Bloay 22|5|91.

SEAN VAN ZYL

SURGICAL and private hospital group Clinic Holdings achieved a real return for its shareholders by disclosing a 24% rise in attributable profits to R12,2m for the six months ended March.

The growth in earnings equated to 12,3c (10c) a share from which a 17% higher dividend of 5,2c (4,5c) a share has been declared. The dividend cover has increased to 2,3 times.

Financial director Stan Berger said last night that "we previously forecast growth exceeding the rate of inflation, and the increase in profit for the past six months is satisfactory".

Clinic Holdings, regarded as the largest private hospital group, has clinics like the Garden City Clinic, Park Lane Clinic and Milpark Hospital in its fold. Berger said the group had just completed a major capital expansion programme. "We now plan to enter a period of consolidation, without any additional expansion plans in the pipeline."

Clinic Holdings has not disclosed turnover for the period. However, a supplement index showed a 34% growth on the previous period. Berger said long-term liabilities remained at R25m.

He conceded, however, that operating margin had come under slight pressure, due to tight trading conditions, but that "the margins are quite acceptable in relation to the rest of the clinic industry".

He said the group's clinics had achieved a satisfactory growth in occupancy levels during the six months.

Gold price has potential to surprise

Star 22/5/91. (79)

By Neil Behrmann

LONDON — Robin Plumbridge, chairman and chief executive of Gold Fields of South Africa believes that the gold price is bottoming out and could take the market by surprise.

"I am much more confident than the researchers of Gold Fields Mineral Services," Mr Plumbridge said yesterday at the London conference on "Gold 1991".

"They are cautious," he said. "But sentiment could change in the market unexpectedly and producers might well decide to stop selling forward.

"Jewellery fabrication reached a record 1986 tons last year, and part of the supply came from 240 tons of forward gold sales.

"Consider what would have happened in the market had there not been those sales," said Mr Plumbridge.

Stewart Murray, author of "Gold 1991", estimated that 890 tons of future gold production in the next few years were covered by gold loans and forward transactions. This projection excludes options.

Mr Murray contended that there would be more forward sales by producers, particularly South African, if the price rallied.

But Mr Plumbridge said if the price jumped, and sentiment became more optimistic, producers might refrain from selling at the top of the present trading band of \$360-\$380. They would then wait for a higher price.

The present market was similar to the one pertaining in the late Sixties and early Seventies, said Mr Plumbridge.

Supply/demand factor brightens outlook for gold

Star 22/3/91

By Derek Tommey

79

The depressed gold price shouldn't be taken as a signal to get out of gold.

The time to sell gold shares has passed — a fact that stands out sharply in "Gold 1991", a comprehensive review of market developments published by Gold Fields Mineral Services.

"Gold 1991" makes no forecasts about the price. Its function is to analyse what happened to the market in 1990 and the first quarter of this year.

But the work strongly indicates that the gold price is bumping along the bottom and that the next move could be sharply upwards.

The report helps confirm the growing suspicion that bad news is no longer good news for gold.

The Gulf crisis did not boost the price, as many people expected, but depressed it.

It reduced jewellery sales, lifted sales of scrap gold and caused no increase in hoarding demand.

In fact, gold is probably still suffering from the effects of the war.

The report says that while gold has not succeeded in breaching \$425 in the past year, the floor of \$350 has also proved unbreachable.

At prices below \$350, physical offtake grows. Producers have increasingly taken the opportunity to close out forward sales, creating a demand for spot gold.

Central banks, which job in gold, also buy at the bottom for sale at the top of their trading ranges.

The same can be said for professional and private investors and speculators, says the report.

However, it is the supply and demand statistics in the report that provide the greatest hope for a higher price.

Supply rose by only six tons in 1990 to 2 799 tons, despite a 175-ton jump to 240 tons in forward sales.

Mine production rose 51 tons to 1 734 tons, and most encouragingly for SA gold producers, the report says Australian output has probably peaked and that US production is near its peak.

Net communist sales rose 84 tons to 380 tons, of which 285 tons came from Russia, which is expected to sell a similar amount this year.

There were no "official" sales in 1990, or any "disinvestment" sales. But sales of scrap, helped by the Gulf crisis, jumped by 117 tons to 441 tons.

These figures suggest the amount of gold coming to the market this year could fall sharply.

With the end to the war, scrap sales should reduce. If the mining industry starts expecting a sustained improvement in the price, forward sales could also decline significantly.

Demand for gold in 1990 rose in line with supply. Jewellery usage rose by 112 tons to 1986 tons, even though jewellery sales were hit in the second half-year by the Gulf war.

Together the jewellery, electronics and "other" industries bought 2 380 tons last year — 101 tons more than in 1989.

Bar hoarding and "investment demand" absorbed 380 tons — down from 515 tons the previous year.

The report says jewellery demand should increase only slightly this year. But an economic recovery towards the end of the year would produce an early resumption in the growth of jewellery demand.

On the evidence in the report, gold could be heading for a much tighter supply-demand situation — and boost the price.

Gold jewellery industry blossoms

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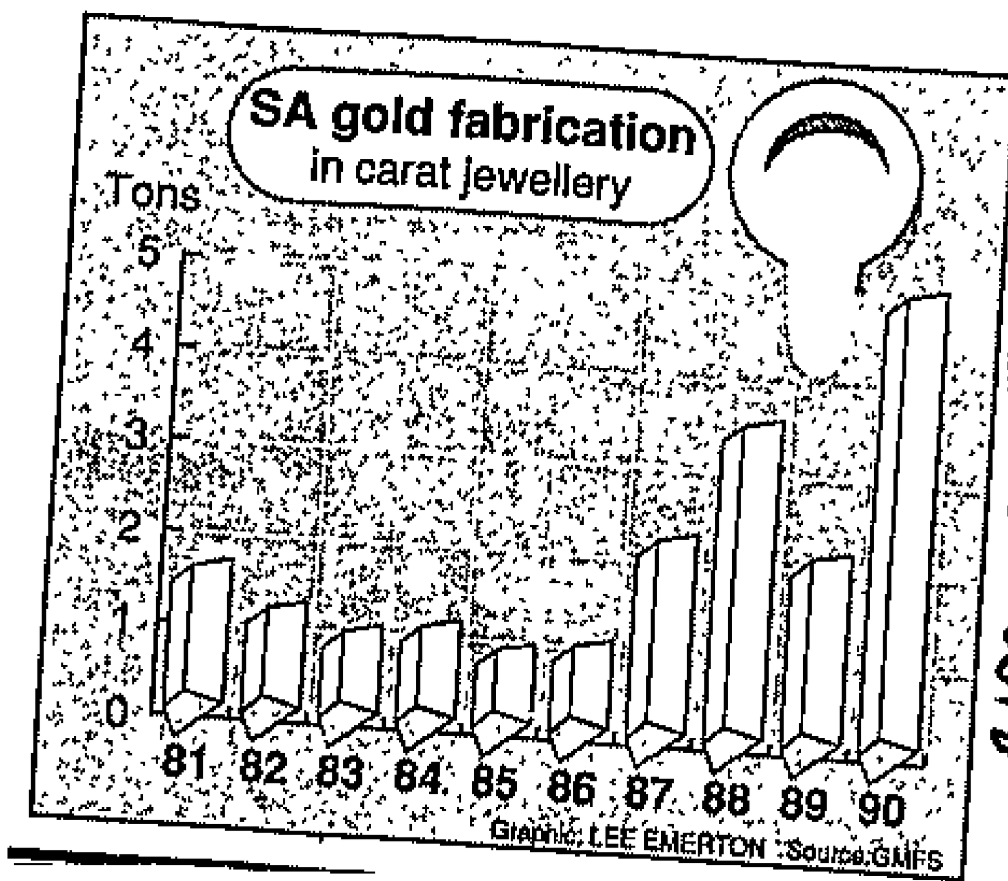
SA's gold jewellery industry blossomed in 1990, according to Gold Fields Mineral Services (GFMS), apparently because of government moves to give the industry and exports a boost.



BIDay 23/5/91

ANDREW GILL

According to GFMS's Gold 1991 survey, gold fabrication in carat jewellery in SA soared 138% to five tons.

Finance Minister Barend du Plessis scrapped the 20% ad valorem duty in his 1990 Budget speech, a move lauded by jewellery manufacturers as one that would unshackle the industry.

SA is still a minor player in the market, with only 0,25% of world carat jewellery fabrication (including scrap) at five tons out of 1 985,6 tons.

This compares with SA's share of the Western world's newly mined production of 34,9% in 1990 (605,4 tons out of 1 734 tons).

Jewellery Council executive director Michael Goch said the industry showed

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Jewellery

BIDay 23/5/91

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☐ From Page 1

enormous growth in 1990 as a result of the scrapping of the duty.

He said the local market was reaching saturation point which was 10 tons at the most and moves to export would have to be made in the next year or two.

The value-added component of sales ranged from as low as 15% to between 150% and 200%, he said, with an industry average of about 35% to 40%.

One of the industry's major problems was the lack of skilled labour. However, specialised training programmes were in operation and this problem should be overcome in time.

Another sector which showed strong growth, albeit from a relatively low base, was official coin fabrication. It almost doubled to 12,7 tons from 6,5 tons. GFMS said the announced removal of the ban on EC imports of the Krugerrand might herald a resurgence in interest for the coin in the international market.

A spokesman for mining reasearch company Mintek said many in the jewellery industry were looking at markets in the US, Australia and the Far East.

Mintek president Aidan Edwards has spoken recently of 100 tons of jewellery fabrication in the country by the year 2000, an easily attainable goal at the current rate of increase.

Gold share rally surprises analysts

(79) Star 23/5/91.

By Derek Tommey

After many months in the doldrums, gold shares are again starting to make the running on the Johannesburg Stock Exchange.

They rose strongly again yesterday for the second day in succession.

By the close of trading the gold index was showing a gain of 2,2 percent to bring the rise in the index in the two days of trading to 5,3 percent.

Other gold share groups showed even bigger gains.

The index for "Rand and other" gold mines has risen 10,5 percent over the past two days.

Nature

This reflects the marginal nature of most of the gold mines in this sector and the large gearing effect a rise in the gold price has on their profits.

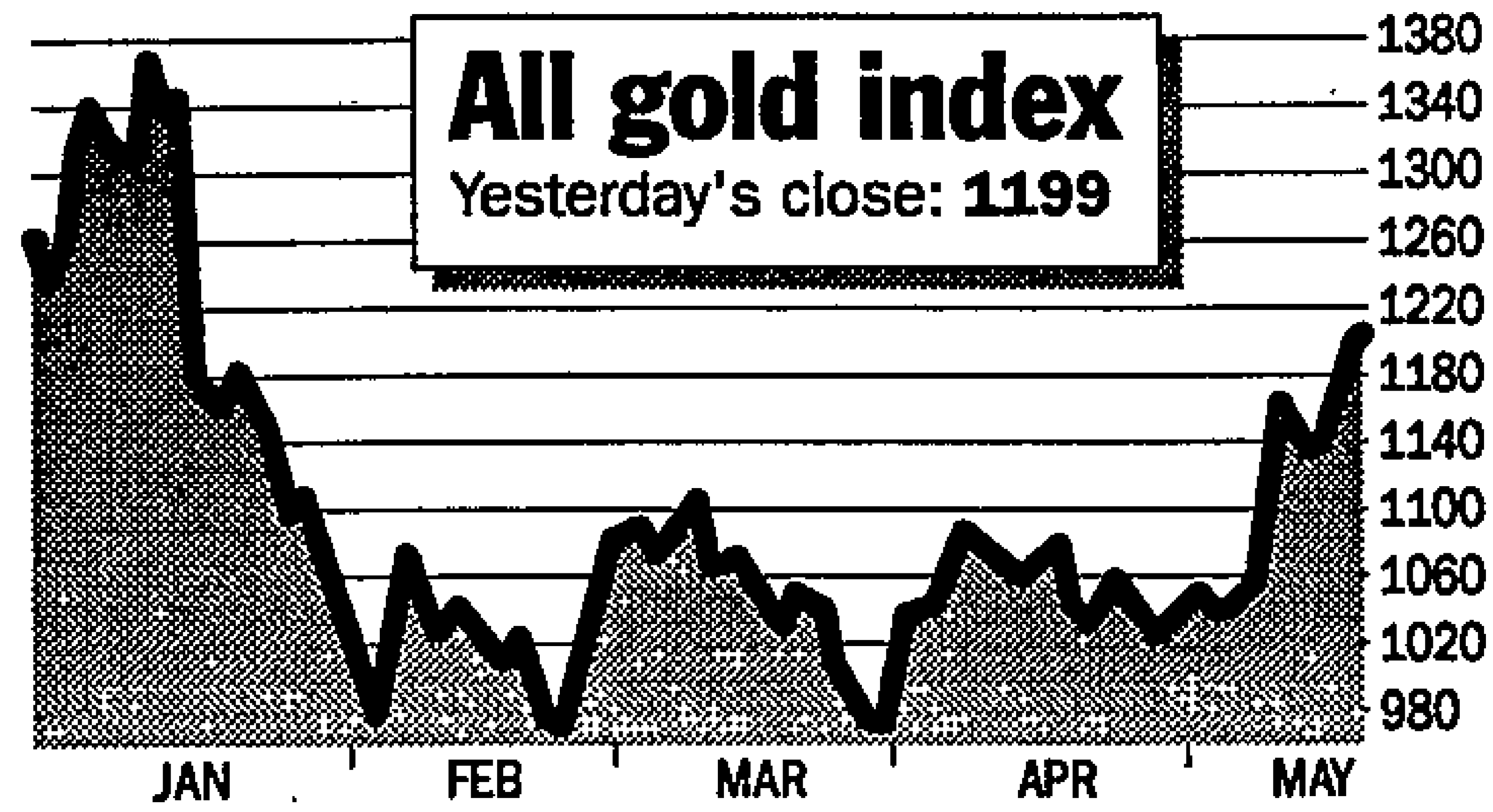
Gold shares in the Free State sector showed an overall gain of 8,9 percent in these two days, while Evander group shares rose 5,8 prcent.

Klerksdorp group shares and West Wits shares both rose 4,1 percent.

Mining finance shares rose 3,8 percent.

Tuesday's rise produced some short-covering yesterday by speculators in London, which gave added impetus to the rise in share prices.

Brokers believe the improvement in gold shares is linked to the publication on Tuesday of "Gold 1991".



This is an up-to-date and comprehensive survey of the international gold market prepared by Gold Fields Mineral Services.

It indicates that the gold supply/demand position could tighten considerable towards the end of the year if the West starts pulling out of the current recession.

This could result in a higher gold price.

However, analysts warned yesterday that investors should be cautious about reading too much in the rally.

Many said that with the gold price still close to its long-term low, the rally could be premature and did not warrant the present buying interest.

Mark Madeyski of Fergusson Brothers Hall and Stewart said the current level of gold shares was not supported by the gold price. Analysts at other firms echoed this view.

It seems that some investors are looking a long way ahead.

Mr Madeyski also pointed out that with the mining companies increasingly selling gold forward, the price could have some difficulty rising much above its current level.

Last week when the gold price rose above $360, it was immediately pushed down to $356 by large-scale forward selling.

This means that most gold investors will be keeping a sharp eye in the next few days on the activity of the American bullion market.

If it shows signs of being impressed by the findings of "Gold 1991", then some reduction in selling pressure on gold seems possible.

If the Americans are not impressed, the gold price and gold shares could fall back to their recent depressed levels.

Options market behind gold's rise

Star 30/5/91.

By Derek Tommey (79)

The $7 jump in the gold price on Tuesday to $363 was probably the result of activity in the options market, Dr Stewart Murray, a leading expert on the gold market, said in Johannesburg last night.

Dr Murray, editor of the detailed and well-researched survey of the gold market "Gold 1991", said that he did not know the precise reason.

But certain gold options expired yesterday and it appeared as though option-holders were attempting to move the gold price ahead of the expiry date.

Gold's subsequent retreat to $361 last night suggests that Dr Murray's explanation is the correct one.

Analysing the outlook for gold, Dr Murray said the market was looking for a peak in mining production.

No downturn

He did not think there would be a downturn in South African production this year.

But Australian and Canadian production was slipping and some downturn in American production was likely in the not too distant future, he said.

The market was also waiting to see for how long gold producers would continue selling forward.

Hedging has been a major component of supply and demand in recent times, accounting for some 900 tons of supply in the past seven years.

If the price rose to $380, there would probably be more selling, he said.

But in the long term, forward selling was likely to become a neutral factor.

He said sales by the communist block were unlikely to decline this year.

Problems in the Soviet Union would see to that.

Bank holdings

Dr Murray said he did not belong to the school that believed that central banks were ready to flood the market and destroy the price of a large part of their reserves.

The official sector had been amassing currencies in recent years, with the result that their gold holdings amounted to only 33 percent of their reserves — the lowest level since 1968.

There was a school of thought which maintained that the central banks might act to change that ratio in the near future, he said.

Dr Murray referred to two encouraging developments in the present gold market.

The first was the jump in sales through Dubai, Singapore and Hong Komg earlier this year when the gold price fell.

This showed that there was a strong underlying physical support for the metal whenever the price fell.

The second was that the United States and Europe were net investors in gold.

Though some of this gold had probably gone to the computer industry, it was nonetheless a reversal of the previous trend.

It also contradicted the contention that people in these areas bought gold only when the price was rising.

Investment

While gold fabrication rose last year, gold investment overall fell because of a decline in bar hoarding.

In Japan and the Taiwan, two of the largest bar-gold hoarders, there was a sudden downturn.

Overall, bar gold hoarding fell by a half last year.

Some people thought this was the beginning of a new trend, he said. But it was too early to say that.

The fall in the Japanese stock market last year had caused many investors to sell.

In Taiwan, the opening up of investment opportunities had allowed people to invest abroad. A lot of gold went to Hong Kong, but did not stay there; it went to China.

Dr Murray said fabrication and jewellery were going to be important in the future of gold.

But the metal's long-term future depended on its re-establishing the perception that it was a store of value, he said.

NEWS FOCUS

Banks' gold loans a fillip for jewellers

(79)

Bday 3/6/91

MATTHEW CURTIN

GOLD jewellers are borrowing record amounts of gold, worth R10m a year, from commercial banks, banking and industry sources said last week.

They said gold loan facilities were helping manufacturers to capitalise on Finance Minister Barend du Plessis' decision to scrap the 20% ad valorem duty on jewellery in the 1990 Budget, the 60% surcharge on jewellery imports imposed two years ago, and burgeoning international jewellery demand.

These factors boosted carat jewellery production by 138% to five tons last year.

Transvaal Jewellery Manufacturers' Association chairman Alan Mair said last week that gold loans released capital, no longer tied up in gold stocks, which manufacturers could use to plough back into their businesses.

Manufacturers needed cash to buy gold stocks to cover them for at least four weeks, the time taken to convert the melted gold into the paid-for finished product.

He said this had been "dead money, handcuffed to the gold price" until loans had become available.

Mair said Mintek's suggestions that gold jewellery production could reach 100 tons by the end of the decade were realistic.

Jack Botha, chief dealer in First National Bank's financial engineering department, said FNB had done the feasibility study which had prompted the Reserve Bank to give commercial banks permission to extend gold loan facilities in November 1989. The move put SA on the same footing as international markets.

Gold loans, drawn from Reserve Bank reserves and extended only by commercial banks, were a much cheaper option for the jewellery manufacturer, as they were repayable at a rate of only 6%. Jewellers could repay the loan at any time within the loan period, at the then current gold price, with the option of rolling over the loan when it matured.

Botha said FNB had 90% of the market which was currently worth about R10m a year. Jewellers were at first reluctant to take out loans, given the absence of hedging cover, especially in the wake of the Gulf crisis and the threat of a soaring gold price. As gold subsided below the $400 mark, jewellers had become "more confident in taking out open positions".

He said the decision to extend gold loans reflected government's awareness that "gold has lost its lustre".

It was vital for SA to beneficiate its mineral production. Taiwan, relying solely on gold imports, had seen gold jewellery production leap from two tons 10 years ago to 280 tons last year.

Mair said jewellers would benefit further from being able to hedge on their gold loans, in order to cover themselves against the fluctuating value of the rand against the dollar.

At the moment, they had to repay loans in rands. They were also concerned that gold loan rates from SA's commercial banks were about 3% higher than those abroad.

THE WEEK AHEAD by William Richards

Reserves may offer some consolation

BDay 3/6/91

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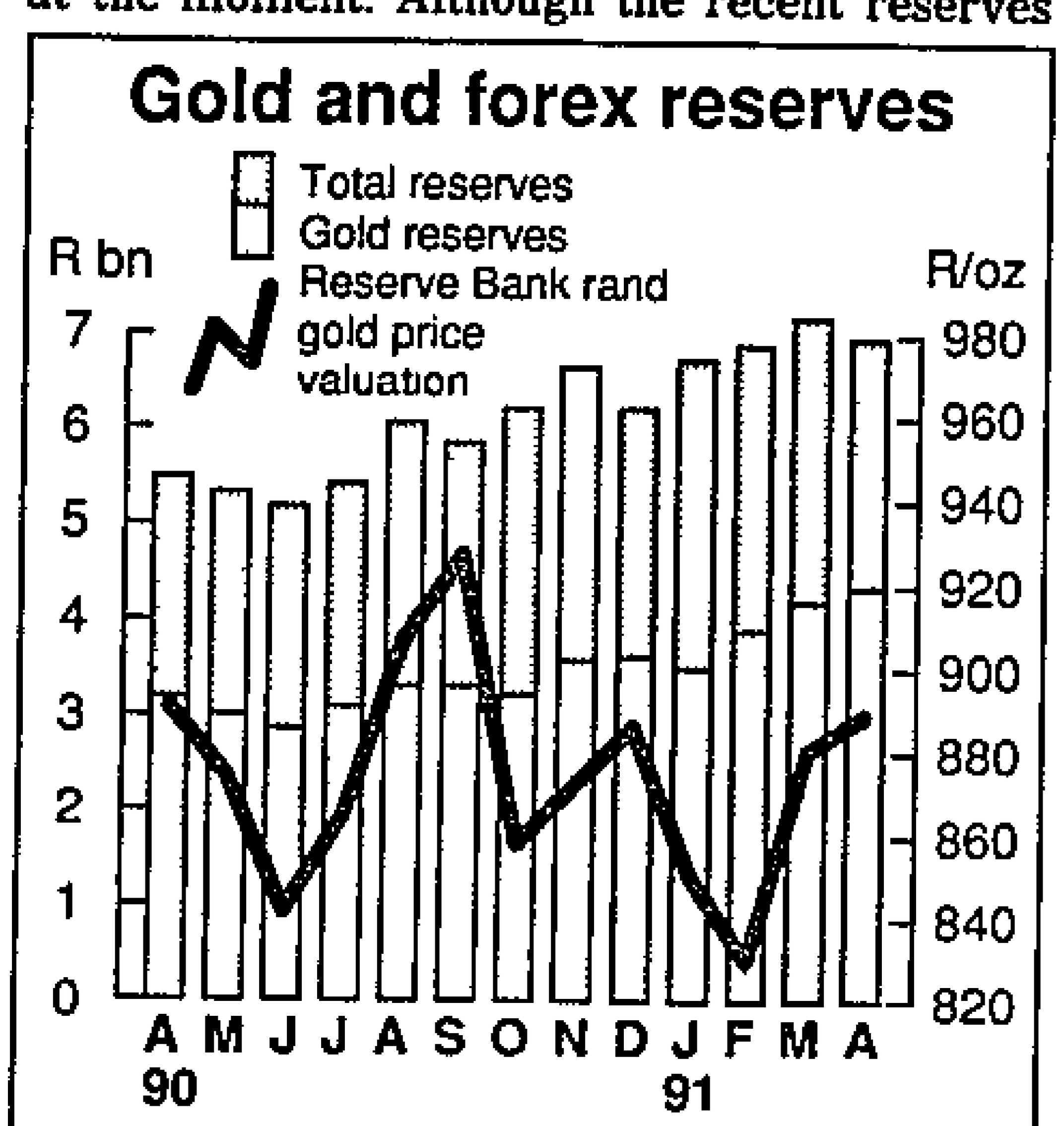
AMID the unmitigated gloom of the latest domestic inflation and money supply statistics, it is SA's external sector that currently offers the best prospects of returning respectable and improving outturns.

Thus the authorities are likely to be looking at the May gold and foreign exchange reserves figure due at the end of this week for some consolation.

After bottoming out last June, the level of total reserves has been on a general recovery path in the present cycle — hitting a record high of R7,3bn in March. The total dipped narrowly below R7bn in April but should, from last month, begin to reflect the perkier trade balance seen to date in the second quarter.

Markets would do well to remember, though, that building the reserves level to one that covers at least three months' imports is also a publicly stated Reserve Bank target. If the reserves figure emulates those for inflation and money supply in failing to meet the authorities' expectations and guidelines, then there will be just one more impediment to any further easing in the overall credit stance in calendar 1991.

At around R7bn the reserves level is still, technically, less than halfway towards the official Reserve Bank target of three months' import cover — a level that would be about R16bn at the moment. Although the recent reserves performance has been encouraging, therefore, the variable stands alongside other problem areas such as M3 money supply growth in being well adrift of its official target area.



Graphic FIONA KRISCH Source: SA RESERVE BANK

Internationally, markets will again be concentrating on the end of the week when the latest US unemployment data are due for publication. The May employment report is scheduled for release on Friday and of interest will be whether the unexpected fall in US unemployment in April was a freak. The April figures showed that the US unemployment rate dipped for the first time since May last year, from 6,8% to 6,6%.

Unemployment is usually one of the last indicators to signal recovery from an economic recession. A confirmed turnaround in the year-long rise in US joblessness at this stage of the business cycle would cause some hurried reassessments of US economic forecasts in many quarters, not least in predictions on the dollar's value. Friday's figures, however should reverse out the fall in unemployment in April and show the rate heading for 7%.

What will be decipherable from the data is that the rate at which US unemployment is growing is slowing up appreciably. This should be enough to confirm general impressions that the short and shallow US recession will be over some time during the third quarter of this year. This, in turn, dovetails with expectations that a fudamentals-backed dollar advance is due in the second half of the year.

An earlier indication of the US economy's progress — or otherwise — in recovering from recession comes later today with the publication of the purchasing manager's index for May. The index, which measures industries' expectations on orders and production, rose to 42,1% in April from 40,0% in March. Another rise in May would represent a third consecutive increase from a trough in January.

Although this could be another harbinger of economic recovery further down the line, an index below 44% still shows a declining level of overal activity — even though that decline may be slowing. While it looks as though a third successive rise in the index is in store today, a revival to levels above 44% seems to be another month away.

Opec oil ministers start the first of their twice-yearly price-fixing meetings in Vienna tomorrow. The oil price is sluggish at levels around $2 below Opec's targat price of $21 a barrel, and the cartel will need to cut production quotas if it still wants $21 reference price. Alternatively, members could settle for a lower price of $18 to encourage higher consumption, and raise overall output.

German party politics do not often intrude into the world's financial markets, but one of those rare occasions comes up this weekend. On Friday a crisis meeting begins of the Christian Democrats-Free Democrats coalition. Although no one is saying as much in public, the meeting looks set to assess the party's national standing following its by-election loss of a safe province to the opposition last month.

The unspoken point some party members may seek to make is that the CDU leader, federal chancellor Helmut Kohl, has been at the helm for 10 years and is the focus of much of the resentment about the problems of Germany unification. Anger about unification, it may be argued, is rubbing off onto the party although the swift absorption of the former East Germany was largely Kohl's idea.

A quiet campaign to replace Kohl could well start at this meeting. If it gains momentum quickly, fresh political instability looks set to add to the Deutschmark's problems just as the beleaguered Germany currency is getting over the potentially traumatic resignation of the German central bank govenor.

Swiss banks shy away from gold

Star 4/6/91

ZURICH — Once a safe haven for nervous investors, gold has lost so much financial lustre that even Swiss banks are shying away from dealing in the metal.

Investors are shunning a stagnating gold market, and analysts and traders say some banks can no longer afford to trade in a commmodity which performs so dismally.

Bank Leu, Switzerland's oldest bank, pulled out of major market making in March and other medium-sized banks may soon be forced to follow.

"For financial reasons smaller banks will have to give up," a source close to Leu said. "You just can't make money."

Fredy Gubler, an analyst at Citicorp Investment Bank in Zurich, said the role of gold was increasingly peripheral.

"We just don't use it at all in portfolios and I imagine other banks are shying away too," he said.

The metal no longer offers investors the protection against inflation it once guaranteed.

Analysts say the big three Swiss banks — Credit Suisse, Union Bank of Switzerland and Swiss Bank Corporation — which have their own gold refineries, must stay in the market for reasons of prestige.

79 ~~34~~

The big banks have enough liquidity to experiment with derivative business like forward sales and gold loans. Smaller operators have less room for manoeuvre.

"The volatile swings followed by periods of stagnation over the past few months, and the declining number of market-making counterparts, made it a no-win situation for a medium-sized player," said Werner Frey, head of Bank Leu's finance division.

"We were honest enough to admit this. A market maker should always quote prices, but some players haven't been answering the phone when the going gets tough."

During the Gulf war, hopes of a rally were dashed as gold plunged more than $20 to $380 an ounce despite high oil prices. It has since slipped further to languish between $355 and $362.

In 1980 prices rocketed to a record $850, propelled by surging oil prices.

"Investors are no longer prepared to hold an asset that doesn't give a decent return on their money," Mr Gubler said, adding that the gold price could sink as low as $280.

Bank Julius Baer, with a strong private client base, is often mentioned as ready to pull out of the market. But management committee member Juergen Lueti said the bank was coping despite the squeeze.

"We have the fullest intention of maintaining our market-making position. But with no activity on the private customer side, it has become extremely tough," he said.

One Zurich analyst who abandoned the gold market for asset management last year said the recent departure of many well-respected London analysts indicated that the market had hit rock bottom.

It is not just the lack of investors that scares dealers. Mr Frey said gold producers were finding new ways of channelling the metal directly to jewellers without using banks as intermediaries. — Sapa- Reuter.

India planning to sell off five tons of contraband gold

NEW DELHI — India is to sell abroad part of its stock of confiscated contraband gold to raise badly needed foreign exchange and to help meet repayments due on its foreign debt.

A consignment of five tons of gold — worth about $58 million at current prices and large by the standards of the precious metals market — is being prepared for shipment to London or Zurich.

Further evidence of the foreign exchange squeeze has also emerged with the disclosure that foreign airlines are being allowed to remit only half the earnings they are normally allowed to transfer abroad.

The decision to sell some of India's stock of confiscated contraband gold appears to demonstrate the government's readiness to take almost any measure to avoid a default on foreign debt repayments.

India is believed to have a stock of 70 to 80 tons of confiscated gold.

It is not clear how much of the stockpile will be on offer or whether India is planning an outright sale or a swap deal that would allow it to redeem the gold later.— Financial Times.

A case of keeping your eye on the sparrow

Argus 8/6/91

JOHN SPIRA, Weekend Argus Correspondent

74

AS the industrial index continues to break into new high ground, the manner in which South Africa's business cycle is likely to evolve between now and the end of next year assumes growing importance.

For, if the pending economic recovery is to be short-lived and shallow, there is little room for doubt that share prices are too high. The weight of institutional funds cannot continue to pressure shares ever higher in the face of so negative an economic outlook.

If, on the other hand, the recovery is to be robust and elongated, then there are sound reasons for believing that share prices can continue to scale new highs.

Right now, we are witnessing two schools of thought.

The optimists believe the business cycle is in the late stage of a cyclical downswing which began in 1989 and which will hit bottom before the end of this year and then advance strongly in 1992 when real gross domestic product could rise by between 3 and 4 percent.

It's a school of thought which emphasises the economy has traditionally been boosted in the early stages of a recovery by a strong balance of payments. At present both the capital and current accounts are serving to create a base for a new upswing.

The volume of merchandise exports rose by 6,5 percent last year following an increase of 17 percent in 1989.

This year the growth rate of merchandise exports will probably moderate but the combination of withering sanctions and a looming revival in the world economy will likely lead to a growth in export volumes in 1992.

Further international commodity prices will start rising within the next six months enhancing export receipts.

A commodity price-driven, export-led recovery should accordingly get underway in 1992 when the revival could be assisted by favourable trends in the capital account of the balance of payments.

The huge capital outflows in recent years in the form of foreign debt repayments have absorbed a large share of the economy's limited domestic savings, thereby curtailing the resources available for domestic investment.

Any reduction in the burden of capital outflows will be beneficial for growth prospects.

A net inflow of capital of more than R1 billion was recorded in the first quarter of this year and the optimists believe such inflows are likely to persist throughout 1991 and 1992, in the process stimulating investment in inventories and plant and machinery.

Additionally, a strong balance of payments will lead to a substantial rise in gold and foreign exchange reserves, thereby encouraging the authorities to relax their tight monetary policy.

Against such a background we are looking at a much longer cyclical upswing than occurred in the late 1980s with growth accelerating in 1993.

SA gold, forex reserves rise

CT imes 8/6/91. (79)

By ARI JACOBSON

SA's total gold and foreign reserves rose by R195,8m in May against expectations of a further decline after shedding R294m in April.

Sanlam's chief economist Johan Louw said the government's bank had them worried earlier in the week with talk of "leads and lags" creating a large capital outflow in the period under review.

Louw said this came about because of a weakening rand encouraging importers to stall payments and exporters to rush the settling of bills.

However, considering the pessimistic expectations the performance was not bad at all, he said.

"Also the weakening rand does not completely account for the rise in reserves because even in dollar terms the forex position rose by $40m."

Louw said this could be because of an improved trade position, a solid inflow of capital or a combination of the two elements.

Old Mutual's Ursula Maritz said the good all-round performance was supported by higher gold volumes for the month of May (0,6%) and a higher gold valuation at R904 an ounce as opposed to R899 an ounce for April.

Maritz pointed out that uptick in reserves has improved the cover position on imports. Imports now have almost two months cover via reserves from March's ratio of 1,6.

Total gold and foreign assets held by the country increased to R7,2bn, up from R6,98bn in March.

Total gold holdings increased to R4,4bn, a slight improvement of R95m from March.

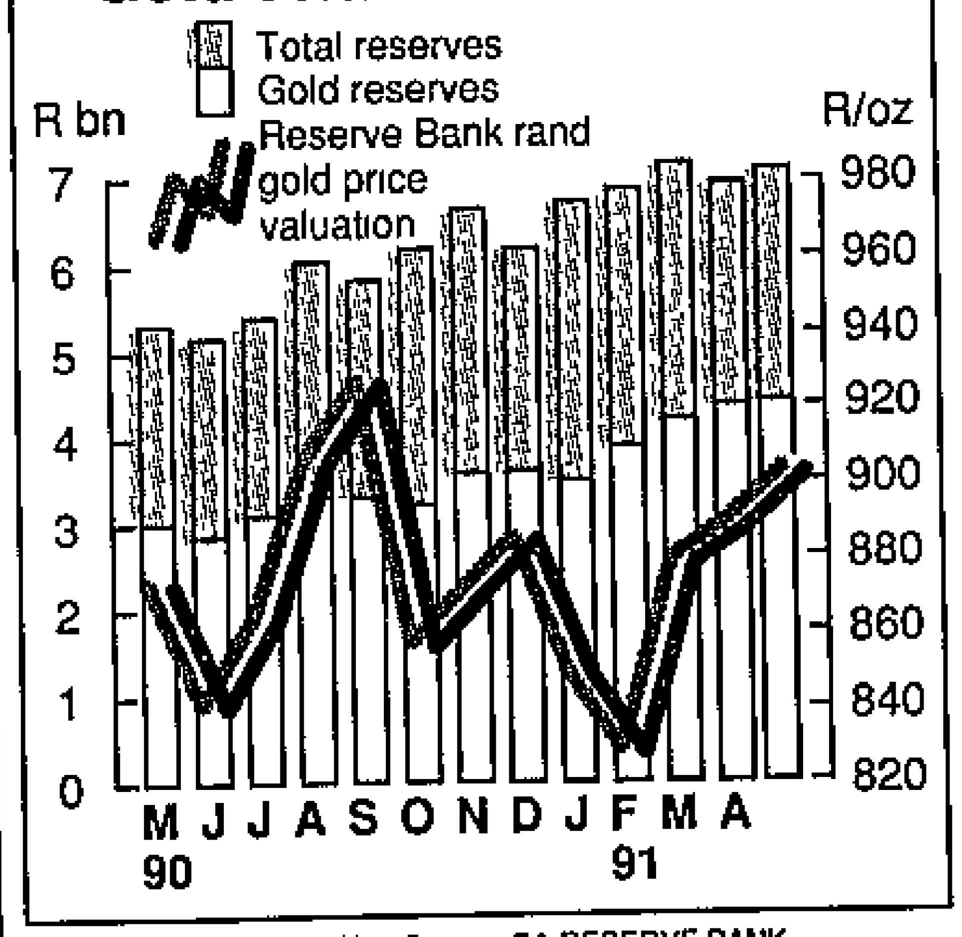
Total foreign assets grew by R100,8m to R2,7bn from April's figure of R2,6bn.

Gold holdings were valued at R904,53 a fine ounce from R889,27 the previous month, an improvement of R15,26.

Physical gold holdings in May increased by 22 733 fine ounces to 4,91m fine ounces from 4,89m fine ounces.

Stockbrokers Frankal, Max Pollak, Vinderine's economist Mike Brown is optimistic in his forecast that net forex will grow sharply by R3,5bn this year and by R4,6bn in 1992.

"This will consist of capital inflows of R600m in 1991 and R1,5bn next year, with the current account surplus registering R2,9bn for the year and R3,1bn next year."



Graphic LEE EMERTON Source SA RESERVE BANK

Foreign reserves rise 3,1% in May

79

SHARON WOOD

FIRMER foreign currency and gold reserves led to a 3,1% rise in Reserve Bank total foreign reserves in May, figures released on Friday showed.

Total reserves rose to R7,18bn from April's R6,99bn, having recovered from a temporary setback caused by the strong dollar and foreign debt payments.

The long-term trend is a slow but steady rise in reserves during the past year.

Foreign reserves have risen about R2bn since May 1990 — about half a month's import cover. BDay 10/6/91

Current reserves provide less than two months' import cover, which is still well below the Reserve Bank's aim of providing three months' import cover.

A R15,26 rise in the gold price to R904,53 in May helped push gold reserves up 2,2% to R4,44bn from April's R4,35bn. Gold reserves have risen steadily throughout 1991. In addition, the Bank's physical gold holdings rose 0,5% in May to 4 908 352oz from 4 885 619oz in April.

Foreign currency holdings rose 3,8% to R2,74bn in April from R2,64bn in March.

The Reserve Bank expects reserves to continue climbing this year as a result of easing debt repayments outside the debt standstill agreement and debt rollovers.

But if the rand continues to weaken, foreign currency reserves will be placed under pressure. A dollar bull trend could re-emerge if the expected US turnaround materialises.

Gold may have lost its shine

810 11/6/91 (79)

BASLE — Developments in the gold market in 1990 suggested that the metal might have lost some of its traditional appeal as a haven in times of crisis, the Bank for International Settlements (BIS) said in its annual report released yesterday.

"Perhaps the most remarkable feature of the precious metals market in the period under review was the failure of the price of gold to react significantly to the Gulf conflict, political turmoil in the Soviet Union and recurrent questions about the robustness of the international banking system," the report said.

Although the gold price showed more volatility last year than it had in recent years, the report noted that "the sort of unremitting upward pressure on the price so evident in previous episodes of strife in the Middle East and spectacular increases in energy prices was completely absent".

The BIS argued that gold's lacklustre appeal could have been attributed to the fact that a wide variety of low-risk financial assets with "fairly high real interest rates" were available to investors. The report noted that producers throughout the year had a tendency to sell gold whenever prices showed some strength, damping the metal's upward price potential.

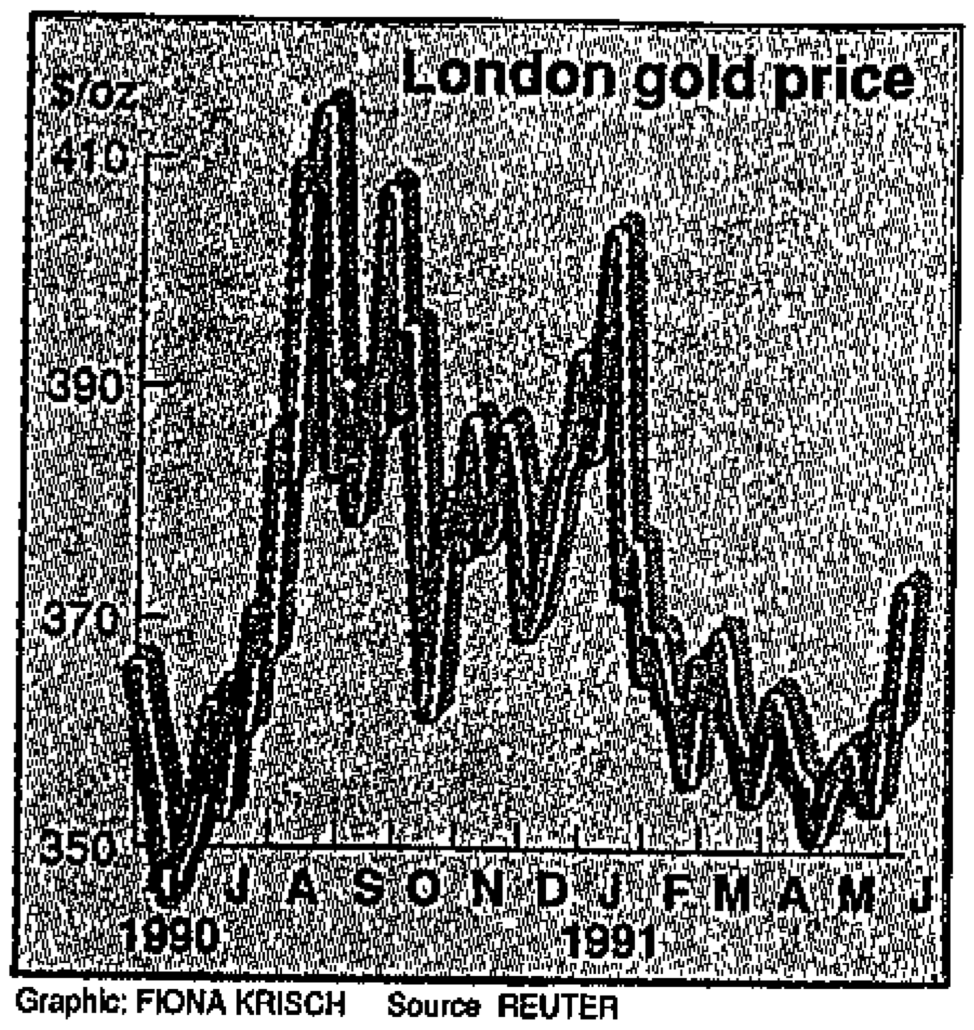
Supplies of gold to the market in 1990 were little changed at 2 220 tons compared to 2 210 tons in 1989. But compared with previous years, supplies in 1989 and 1990 should be viewed as high, the BIS said.

Western mines' output climbed for the 11th successive year to 1 735 tons from 1 685 tons in 1989, while output by the Soviet Union, China, North Korea and Eastern Europe rose to 350 tons from 300 tons. Gold production in the US grew to 295 tons, up from 266 tons in 1989, and 31 tons in 1980. The report suggested the US might have overtaken the Soviet Union as the world's second-largest gold producer.

However, the world's largest producer, SA, saw its output slip in 1990 to 605 tons from 608 tons in 1989.

Australia saw output surge to 241 tons from 204 tons. Much of this increase was put down to mining companies' efforts to beat corporate taxes on gold mining from January 1 1991, the BIS said. — AP-DJ.

See Page 6



Graphic: FIONA KRISCH Source REUTER

Gold sweeps up $7 to four-month high

MERVYN HARRIS (79)

TECHNICAL momentum swept gold up nearly $7 in active trading on bullion markets yesterday to close in London at $373, its highest level in more than four months.

The rally gave a further boost to share prices on the JSE with the all gold index climbing 4,7% or 63 points to 1 416 with the buoyant mood affecting mining financial and exploration shares.

Some market watchers expected gold, and share prices, to come back after the metal shot up after lunch to breach $372, but the price held at the higher levels.

While industrials were overshadowed by golds, the industrial index edged up two points to a fresh closing high of 3 684 to lift the overall index 40 points to 3 249, with dealers reporting good local and foreign demand. B/Day 11/6/91

Capitalising on gains in early trading, gold catapulted through resistance at $368 to touch a high of nearly $372 as speculators provided follow-through buying.

Dealers said intermittent profit-taking and some producer selling only briefly stemmed gold's rise as the metal got a boost from central bank intervention on the foreign exchange market, which took the dollar off its highs.

But the rand closed weaker against the US currency which, combined with the strong gold price, lifted the rand gold price to R1 059,76, its highest for some time.

Gold price entering bull phase

Star 12/6/91

By Magnus Heystek (19)

The surge in the gold price on Monday is confirmation that the gold price has entered a new bull market phase, says technical analyst Issy Bacher.

"There's dynamite in the current bull market and I can see the gold index testing its historic high levels before the end of the year.

"While there might be a pullback in the gold price to around $365, I would consider it a marvellous buying opportunity," he says.

With the benefit of hindsight just about every analyst in town is now suggesting that the outlook has improved.

To his credit, Dr Bacher has consistently been forecasting a surge in the gold price, and more so in gold shares, since mid-April.

On April 22 at an investment seminar in Sandton he suggested that gold shares were behaving in much the same way as they did before the 1982 boom.

At that time the gold price was languishing around $355, while the gold index was below 1000.

Since then the gold index has soared more than 40 percent. But this is only the beginning, says Dr Bacher.

He's fairly confident that the all gold index can be above 2400 before the end of the year.

"According to all my indicators gold is now once again firmly established in a primary bull market.

"This has been confirmed by the sharp rise in the price of ASA, an American investment trust company that is made up 95 percent of SA gold shares."

He says American fund managers and investors have been heavy buyers of both ASA and SA gold shares in recent weeks.

"The gold price is now behaving much better than the Dow Jones index. This is considered extremely bullish for gold," he says.

Other analysts say European investors have been heavy buyers of selected gold counters in recent weeks, especially Libanon, Doorns and Kloof.

While local financial institutions have been running shy of gold shares in recent months and have, in fact, been heavy sellers, they are reported to be back in the market for blue-chip gold shares.

Resilient gold will keep going up, says analyst

79

BDay 12/6/91

MATTHEW CURTIN

THE gold price is back on the upward track, bolstered by a shake-out of fringe and disillusioned investors at the start of February, and buoyed by the bullish expectations that gold jewellery demand will continue to outpace new gold production.

Angus Robertson, a leading gold market analyst and investment consultant at Davis Borkum Hare, said yesterday that market observers had underestimated the resilience of the gold price in the past four months.

The metal had now started what would be a slow and steady increase in price. The odds were against it falling back to the $350 mark.

He said February 6 was a watershed. With gold at 10-year lows in all the major currencies, many investors left the gold market, fed up with the metal's poor performance during the Gulf war when it had been unable to sustain levels of more than $400 an ounce.

However, although the dollar gold price had been sluggish since February, the dollar's relative strength on international markets had disguised the resilience of the gold price in other major currencies. While the dollar price had risen only 1% since then, the price of gold in Swiss francs had risen 25%, in Deutschmarks by 24%, in yen by 12%, and by 14% in rand terms.

Robertson said that "in February gold was clearly oversold" and only the "serious players" had maintained interest in the metal.

The prospects of a rise in the gold price were then boosted by the news that gold jewellery demand had exceeded new gold production for the third year running, triggering industry comment that jewellery demand would tip the supply/demand balance in the favour of producers in years to come.

Strategy

Robertson noted that in April Anglo American gold division chairman Clem Sunter began the upbeat sentiment in his group's gold quarterly results. He was followed by others, including De Beers deputy chairman Nicholas Oppenheimer.

This combined with signs that the World Gold Council was adopting a more sophisticated marketing strategy, in the same vein as De Beers Central Selling Organisation to push up demand for gold.

The council, following Chamber of Mines reports, had targeted jewellery demand in developed and developing countries, investment demand in developed countries, and industrial demand as the four areas in which it would concentrate its marketing efforts.

He said upward pressure on the gold price came from yet another quarter, the futures market. Brokers and producers who had taken out contracts when the price was at its nadir were now facing losses as gold's upward run was sustained. They were covering contracts, increasing demand for gold and adding new impetus to the price.

Robertson warned that the gold price was still highly sensitive.

Finrand's drop props up golds

79

CT 12/6/91.

Own Correspondent

A SHARP drop in the finrand towards the close of trading helped prop up gold shares on the JSE yesterday after they had come off highs in line with an easier gold price.

Gold closed $2 down at $371 in London.

The finrand slump to R3,37 from R3,30 to the dollar came as a seller entered the market at the last moment. Dealers said the downturn was aggravated by the fact that SA banks had to square positions at the end of the day.

"The sale might have had something to do with the R150m payment in financial rands by Datakor for the purchase of US computer group Timeplex. But as it came at the last minute, not many rands went out," a trader said.

The awakening of gold from months of slumber saw renewed customer interest and only limited producer selling on bullion markets.

Profit-taking

Dealers said when early efforts to pull gold down failed, the metal rose to a high of $373,10 before profit-taking set in.

The JSE all gold index closed unchanged at 1 416 after rising to a high of 1 442 in the morning and dipping to a low of 1 412 in the afternoon.

Industrials were steady with the index off two points at 3 682 but firmness in mining house shares lifted the overall index 12 points to 3 261.

Many local analysts were optimistic that if gold could hold at current levels, the price could be on the way to $380.

Heavyweight gold share Vaal Reefs closed R1,50 easier at R233 after rising to R239. Freegold ended unchanged at R28 after touching R28,75 but Southvaal closed R3 firmer at R100.

Mining financial leader Anglos gained R2,50 at R116 and diamond share De Beers R1 at R77,75.

Among industrial leaders, Barlows ended 25c firmer at R40,50 but Richemont eased 40c to R26,60.

RESERVES (79) FM 14/6/91

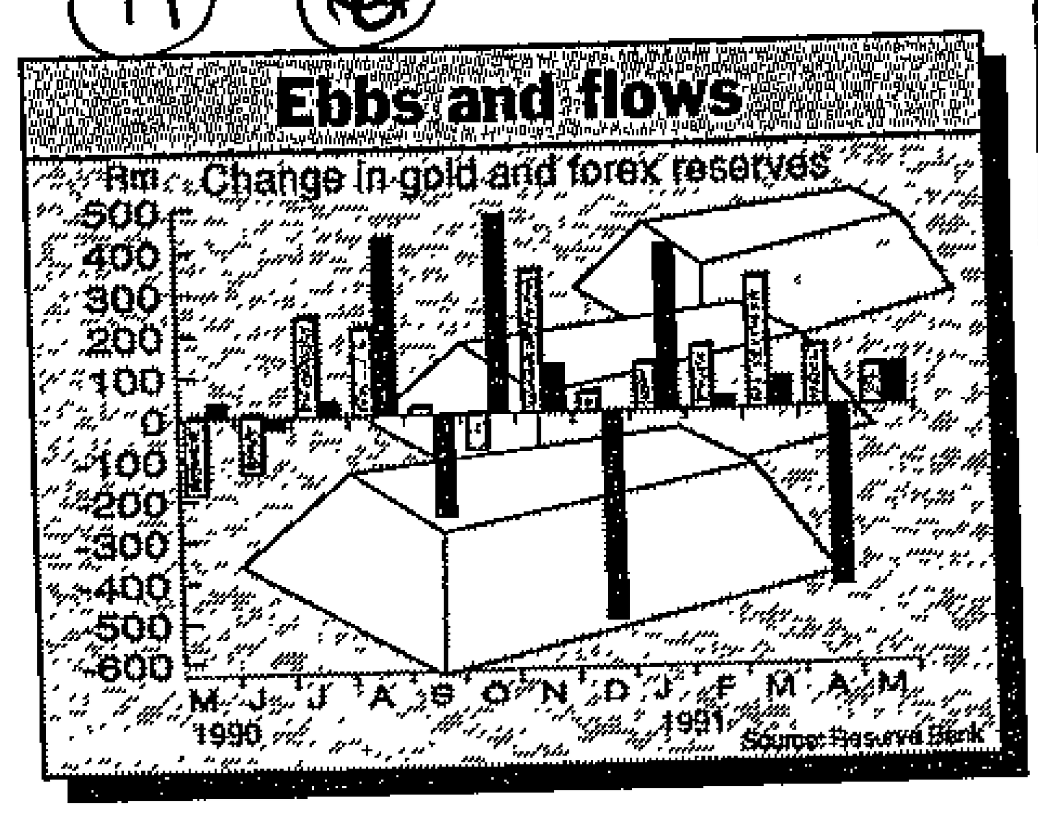
RESERVING JUDGMENT

Reserve Bank gold and foreign exchange holdings gained R196m (US$70m) in May, to R7,2bn ($2,6bn). Gold rose R95m ($34m) to R4,4bn ($1,6bn), largely thanks to a R15/oz rise in the price, as well as a modest increase in physical holdings from 4,89m fine oz to 4,91m. Forex holdings recovered by R101m ($36m) to R2,7bn ($1bn), after a R438m ($160m) drop last month.

A generally positive trend in reserves over the past 12 months has been punctuated by

FM 14/6/91

(79)



several declines, usually reflecting exchange rate pressure or debt repayments (see graph). The next repayment from within the standstill net is due in August.

"Though these figures suggest an improvement in the reserves," says a Standard Bank economist, "much depends on the Bank's foreign liabilities." These are disclosed only in the *Quarterly Bulletin;* in the monthly statement of assets and liabilities they are hidden under "other liabilities" (up R723m in May, to R8,6bn).

"This increase could reflect foreign borrowing — by the Bank or Treasury — or, say, dollar swaps with commercial banks. But this is pure speculation."

The reserves still cover less than two months' imports, well below the IMF's recommended three months. ■

Rand crumbles as dollar goes wild

BDay 14/6/91.

ANDREW GILL and MATHEW CURTIN

THE rand slumped to its weakest level against the dollar yesterday as the US currency went on the rampage on international foreign exchange markets.

The bulls were given further ammunition with the release of unexpectedly strong US retail sales and producer price inflation data, which swept the dollar to recent highs against major currencies and a record high against the rand.

The rand ended the day at R2,8847 to the dollar after crumbling to R2,89 earlier in the day.

It closed on Wednesday at R2,8623.

However, it held steady against the basket of currencies as other rates took an even bigger beating because of the US currency's improved fundamentals.

US consumer inflation and industrial production figures are due for release today. If positive, these could see the dollar clamber even higher.

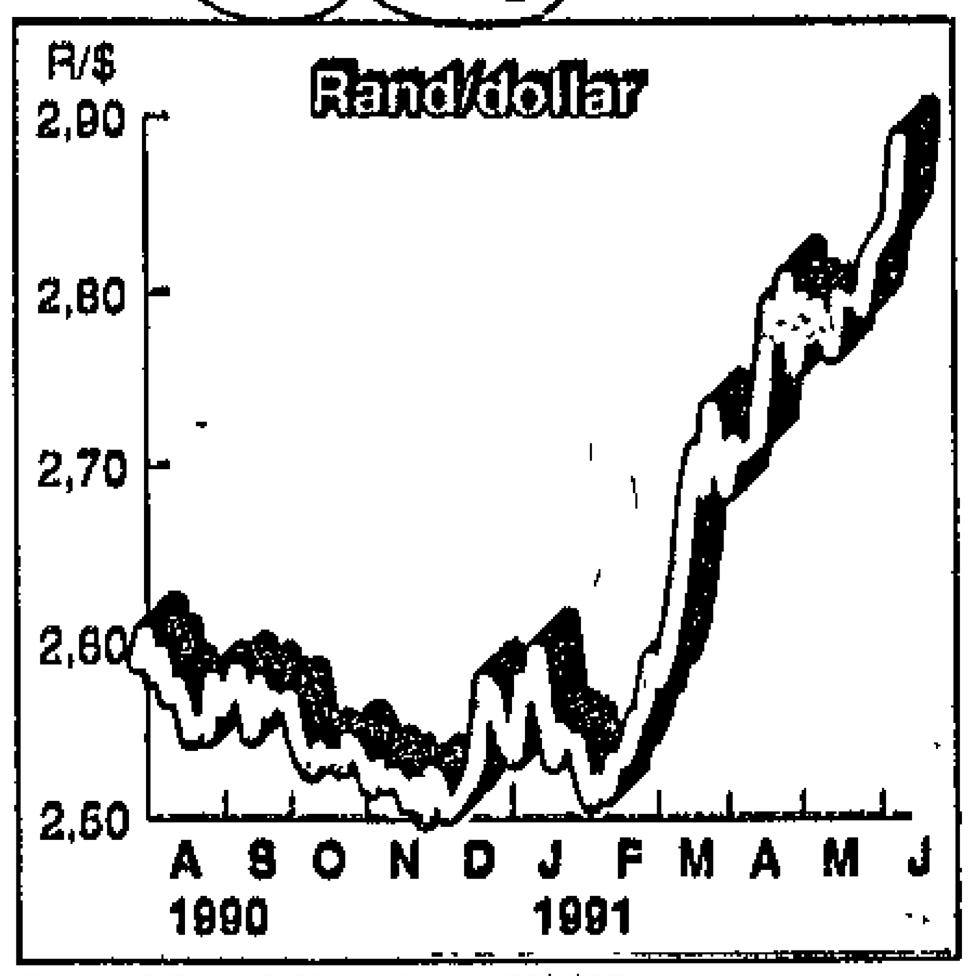
Analysts said the solid gold price and the tumbling rand had given SA's gold mining industry a double boost which, if sustained, would drag several mines from their current marginal status.

Gold hit year highs yesterday of almost R1,070/oz or R34 350/kg.

Chamber of Mines economist Ivor Liebowitz said chamber figures showed that with last year's average price of R31 976/kg, 11 mines were dangerously close or on the wrong side of the critical break-even mark.

However, the latest price, in the long term, would change the marginal status of the Libanon, West Rand Consolidated, Marievale, Harmony, Western Areas, and Doornfontein mines.

Still at risk would be Loraine, Grootvlei, Venterspost and ERPM, which needed a gold price of between R34 500/kg and R40 000/kg to break even.



Graphic: FIONA KRISCH Source REUTER

Inflation may deter further advances in the gold price

c/T 14.6.91

(79)

By ARI JACOBSON

THE U-turn in gold sentiment has been phemononal — from sharply negative to far more positive, said Simpson Mckie's market strategist Peter Trengove-Jones.

However, Trengove-Jones warned that the anticipated inflation decline in all the major industrial countries may deter further advances in the dollar gold price.

"This is not the natural environment for gold to surge," he said.

Trengove-Jones was commenting on the large jump in the gold index since the beginning of the month — up 167 points or 13,5% at 1 368 (1 235) at close yesterday. This is still down on the highs of 1 416 reached mid-week. But a gain of more than 30% in the index (at about 1 050) from the beginning of May.

Trengove-Jones mentioned that the marginal mines had performed best over this period — which is clearly indicated with a massive seven of the marginal and exploratory shares in the top ten movers for the week to Wednesday.

They include Sub Nigel, Osprey, Rand Exploration, Southgo, Lindum, Rand Lease and the problematic ERPM.

Tregove-jones pointed out that the upward trend in the gold index is illustrative of strong advances among the blue chips. "Some of the marginals have obviously done better than this."

"But it's difficult to put a value on marginal and exploratory shares — fuelled by gold price sentiment rather than fundamentals."

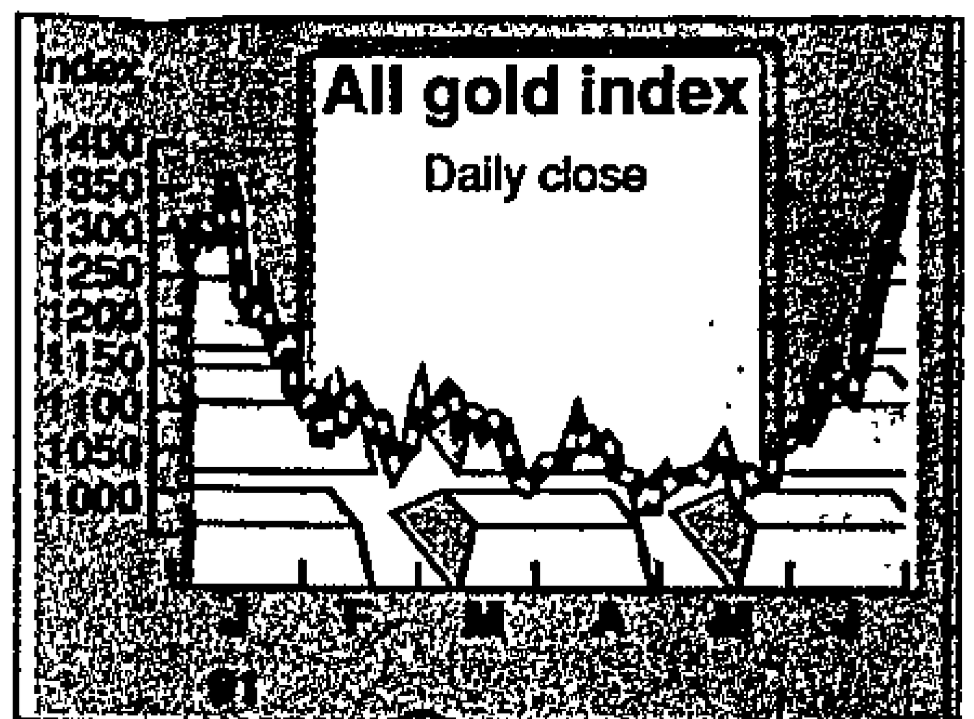
A better gauge of the gold index's relative performance can be seen by the more gradual movement in the industrial index.

The index has climbed by 117 points or three percentage points to settle at 3 724 yesterday.

Remgro with a solid 15% growth in earnings for the year end-March has supported the buoyant index — with its share price rising from R18,30 to R20 in a fortnight.

Safren is another good performer in the industrial fold with the share trading at its current price of R68,25 — some R3,25 or 5% up from R65 at the end of May.

Richemont, Remgro's overseas connection, has been more subdued remaining virtually unchanged in the same period at R26,50.



Graphic: LEE EMERTON Source: INET

Bullion surge gives shares a lift

79

B/Day 19/6/91

MERVYN HARRIS and ANDREW GILI

A SURGING gold price in dollar and rand terms, amid buoyant sentiment on the political front, swept share prices sharply higher in hectic trading on Diagonal Street yesterday.

Ignoring the strength of a rampant US dollar, the gold price leapt $3 from $368 to $371 within a few minutes in early afternoon trading. The rise came on a rally in silver in early New York dealings and large buying from a Middle East player.

The rand plunged to its second record low in as many weeks as it threatened to break through R2,90 to the dollar.

Demand for gold shares was fuelled by renewed dollar strength which pushed the rand gold price to R1 070/oz as the rand improved to R2,8892 to the dollar after touching the record low of R2,8968.

The rand gold price is only R25 below its peak of R1 095 reached in November 1989, according to First National's data base, when the rand was then at R2,6137 to the dollar and gold above $400.

Forex analysts said the dollar rally was likely to continue with recent figures reflecting a US economic recovery.

The rand could fall to R2,93 to the dollar in the short term, an analyst said. At the current dollar gold price of about $370, a rand gold price of R1 085/oz would be realised.

The losses against the dollar have been countered by a strong performance against the cross rates with a 3% gain against sterling in just over a week compared with a 1,5% fall against the dollar over the same period.

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Shares

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☐ From Page 1

A boon for dollar exporters would result if the low levels were maintained, an analyst said, on top of which inflationary fears resulting from the rand's fall would subside because the rand's performance against a basket of currencies had been "remarkably stable".

The JSE all gold index climbed 4% or 53 points to 1 372, while the industrial index maintained its run-up to fresh peaks with a gain of 18 points to 3 786 to lift the overall index 30 points to 3 312.

Analysts said institutional cash flows and positive announcements on the political front, including the possible lifting of sanctions, were creating a firm environment for the industrial market which was discounting fundamentals 18 months down the line.

"There is strong demand for quality stock but an absolute lack of sellers as nobody is prepared to release them," a dealer said. An example of the shortage of scrip on offer was the fact that Barlows first traded yesterday only late in the afternoon when the price firmed 25c to R41,75.

Krugerrand to be launched again (79)

ANDREW GILL

THE Krugerrand would be relaunched internationally in view of the EC decision to scrap the ban on coin imports, outgoing Chamber of Mines president Clive Knobbs said yesterday. B|Day 19|6|91.

Speaking at the chamber's annual meeting, he said SA's gold-mining industry had decided to relaunch the coin to take advantage of a possible resurgence of interest in the gold market that changing economic circumstances could bring.

"In this event it will be important for all the correct marketing structures to be in place to ensure the Krugerrand is freely available as an investor option on the bullion market," he said.

About 50-million Krugerrands were issued internationally between their launch in 1967 and the imposition of formal sanctions in 1985.

No promotional funds had been spent on the coin since 1985.

Knobbs said the Krugerrand was without doubt the best-known and most sought-after coin on the international market. As a result it would seem unwise to change its name as had been suggested in some quarters in recent times.

Chamber spokesman Peter Bunkell said decisions on how and when the relaunching would take place were still under investigation.

A Mintek spokesman said the success of the relaunching depended largely on marketing strategy, and questioned whether "the same old Krugerrand" would attract sufficient interest.

Anglo American chairman Julian Ogil-

☐ To Page 2

Krugerrand B|Day 19|6|91

(79) ☐ From Page 1

vie Thompson applauded the decision to relaunch the Krugerrand, saying it was one of SA's "widely known ambassadors", and to absorb 170 tons of gold, as the market did in 1978, would be a marvellous achievement.

Knobbs said the imposition of VAT on Krugerrands was in nobody's interest.

The announcement of the introduction of VAT on the coin had already reduced local sales and potential tax revenues to a trickle.

Because Krugerrands were legal tender in SA, many of the countries that had a VAT system had not imposed tax on the importation of the coins, which were therefore tradeable across international borders.

"The introduction of VAT on local sales could undermine the legal tender status of the coin, prompting disinvestment of some of the many millions of coins currently in circulation. This would have an extremely negative impact on the gold price," he said.

AAM 'stunned' over Krugerrands launch

(79)

ARGUS 21/6/91.

(5659)

LONDON. — The Anti-Apartheid Movement said it was "stunned" at the "arrogance and ignorance" of the South African gold industry after its decision to relaunch the sale of Krugerrands.

An European Community ban is still being upheld by Denmark.

Mr Mike Terry, executive secretary of the British AAM in London, said: "We are astonished, stunned ... don't they know its still illegal and liable to prosecution if they go ahead?"

He described the announcement in Johannesburg by Chamber of Mines President Clive Knobbs as "arrogant and ignorant of the international situation".

Although the EC decided in April to lift its 1986 ban on the import of gold coins, this move is still blocked by Danish opposition parliamentarians, who have combined in a majority to stop the Copenhagen government from endorsing the EC's decision.

Mr Terry warned that AAM activists would definitely take the necessary steps to inform relevant authorities in Europe if any sales of Krugerrands took place before the prohibition was lifted.

Danish opposition MPs were not expected to give the go-ahead to the sanctions-lifting move until President De Klerk agreed to ANC demands for a constituent assembly and interim government.

"In the the meantime, it gives us something to campaign against," Mr Terry said.

The EC in Brussels confirmed that the ban on Krugerrand imports was still in place because of the Danish situation.

Mr Terry said it was apparent that Mr De Klerk and Foreign Minister Pik Botha had failed to advise the Chamber of Mines of the true situation in Europe.

"We're stunned that they could be so ignorant and arrogant.

"If anything, this will harden the attitude in Denmark and also among other EC member states who were secretly relieved at the Danish block," Mr Terry said. — Sapa.

Big rise in use of gold for jewellery

BDay 24/6/91

BRENT VON MELVILLE

THE use of gold for local jewellery manufacture has more than doubled since the scrapping of the ad valorem tax and the reduction in the required added value content of jewellery last year.

Last year, SA's level of gold fabrication was 15t. Ten tons were used in electronics, dentistry, industrial coin manufacture and 5t in jewellery manufacture, a jump of 138% over the 2,1t used the previous year.

But former Chamber of Mines president Clive Knobbs says that level is not nearly high enough.

"On the world stage of gold jewellery fabrication SA remains a very small player, accounting for only 0,6% of total world usage of gold for jewellery," Knobbs said at the opening of the recent Jewellex '91 at Kempton Park.

Knobbs said jewellery exports from SA to the western world were valued at R10m last year. Local jewellery purchases by foreign tourists visiting SA was a massive R150m.

The problem in SA was that jewellery was purchased mainly for adornment rather than as an investment. He said there was considerable scope for expansion of the local market by promoting gold jewellery as investments.

Council for Mineral Technology (Mintek) president Aidan Edwards has said SA should aim for 100t of gold jewellery by the end of the century. That could earn up to R1bn a year in foreign currency and create thousands of jobs.

Flexibility in medical benefits

DARIUS SANAI

PROPOSED changes to medical aid structures will mean patients will have to pay for treatment before being reimbursed and companies will be able to shape benefits privately. BDay 24/6/91

These conclusions were presented over the weekend in an analysis of proposed changes to the Medical Schemes Act by Old Mutual's Employee Benefit Centre.

"In the proposed new system, members of medical schemes may be made responsible for paying all their medical accounts themselves. Members would then claim from their medical scheme," the analysis says.

Old Mutual Employee Benefits assistant GM Henk Beets says the proposed changes will also give employers and employees far greater flexibility in deciding how to structure benefit levels.

One of the most important of the proposed changes is the removal of current minimum and maximum benefit levels, says Beets.

"Members, through their employee groups, may then be able to choose the level of benefit best suited to their needs."

The removal of the guaranteed payment system, whereby the suppppliers pay doctors directly for treating patients, will result in much stronger links between patients and suppliers, he says.

However, Beets warns that some patients may be lured into saving money by drawing insufficient medical cover on the new scheme, and discovering to their detriment that their costs will not be paid.

Business criticises aims of city council's budget

DARIUS SANAI

THE Johannesburg Chamber of Commerce and Industry (JCCI) has strongly criticised the city council for aiming last week's budget increases at business targets.

JCCI CE Marius de Jager at the weekend expressed his "grave concern" about the possible effects of the city budget.

He was responding to a statement on Thursday by council management committee chairman Ian Davidson that the city's budget should "in some small way attempt to redress the imbalance" in the state Budget between business and private individuals.

Davidson said business would shoulder the lion's share of the council's increase in spending of 25%.

Chamber of Commerce President Mike Cato dismissed Davidson's comments as "a lot of nonsense".

"He has no right to cast himself as some kind of an equilibrium maker between the federal and local budgets," he said.

The budget was "upsetting" because it would penalise business, Cato said.

De Jager said the decision contradicted the council's policy of encouraging business investment in Johannesburg.

"It will mean that businesses thinking of moving here will decide they are better off in Maritzburg, Durban, or Pretoria."

He added that while nearby municipalities such as Midrand were offering incentives to business to relocate there, the Johannesburg council's action would act as a disincentive.

"The decision is a bad one given the objectives the council has set out of attracting companies."

"It is not the role of the local authority to redress what it perceives as imbalances in the state Budget."

Kruger coins tarnished by uncertainty

CT 24/6/91

79

JOHANNESBURG. — South African mine-owners are banking on the krugerrand's former fame to relaunch the gold coin in world markets, but uncertainties cloud its return.

Anglo chairman Julian Ogilvie Thompson describes the coin as an "immensely valuable trademark" and a well-known ambassador for its country.

Yet Eli Levine, chairman of the SA Gold Coin Exchange which portrays itself as the country's largest gold coin broking service, cautioned against high expectations when the krugerrand returns to the world stage.

Premium

He and other analysts point out that since its inception in 1967, some 45m krugerrands have poured into world markets. And currently they are available for a premium of less than 1%, compared with 3% to 4% for other bullion coins.

"But in time it could regain popularity as South Africa's image improves further, and this would be reflected in the premium," said one analyst.

The outgoing president of the Chamber of Mines Mineowners' Association, Clive Knobbs, announced last Tuesday the plans to relaunch the krugerrand.

The decision followed proposals by the European Community to remove sanctions imposed against the coin since 1985 as part of an anti-apartheid trade embargo.

President George Bush is prepared next month to lift US economic sanctions against South Africa, which include a ban on krugerrand imports, in response to the dismantling of apartheid laws, according to US administration officials.

Levine echoed concerns voiced by Knobbs that government proposals to subject local krugerrand sales to VAT could undermine its role as legal tender, and trigger widescale disinvestment.

"The revenue VAT will bring in from the gold coin market is minuscule compared to the damage that VAT will have as far as international numismatic and investor interest in our gold coins is concerned," he declared.

Gold has little attraction for investors at the moment. But should it eventually regain its appeal, as local industry sources predict, a successful krugerrand could play a key role in curbing bullion supplies, and bolstering prices.

"Gold coins are the second most important avenue for benificiation of gold after jewellery and could become a far more significant consumer of gold bullion," remarked Levine.

"Each ounce used in gold coin form reduces the amount of bullion on world markets. Who can calculate what benefits could flow from this in the form of a higher gold price?"

In its heyday the krugerrand was the world's most popular gold coin, which accounted for seven-tenths of world gold coin sales between 1970 and 1989 totalling 2 000 tons.

When krugerrand sales hit a record 170 tons in 1978 they absorbed 24% of the 704 tons of gold mined in South Africa that year.

That effectively kept one-quarter of output mined in South Africa from the world bullion market.

The amount of gold used in world coin production has fallen from a peak 338,4 tons in 1986 to 117,4 tons in 1990 as the metal gradually lost its charm for investors and prices sagged.

But Knobbs said that although prospects for a revival soon in gold's fortunes were slim, grounds existed for optimism in the longer term.

It appeared that returns on competitive, interest-bearing investments were shrinking and there was increasing demand for gold in making jewellery —which last year absorbed a record 1 986 tons and supplies could start to fall from 1991.

Doubts voiced about Krugerrand

B/Day 24/6/91

SA mine owners are banking on the Krugerrand's former fame to relaunch the gold coin in world markets, but uncertainties cloud its return. (79)

Anglo American chairman Julian Ogilvie Thompson describes the coin as an "immensely valuable trademark" and a well-known ambassador for its country.

Yet Eli Levine, chairman of the SA Gold Coin Exchange, which portrays itself as the country's largest gold coin broking service, cautions against high expectations when the Krugerrand returns to the world stage.

He and other analysts say that since its inception in 1967, about 45-million Krugerrands have poured into world markets. And currently they are available for a premium of less than 1%, compared with 3% to 4% for other bullion coins.

"But," said one analyst, "in time it could regain popularity as SA's image improves further, and this would be reflected in the premium."

Outgoing Chamber of Mines president Clive Knobbs announced last week plans to relaunch the Krugerrand.

The decision followed proposals by the EC to remove sanctions imposed against the coin since 1985 as part of the anti-apartheid trade embargo.

President George Bush is prepared next month to lift US economic sanctions against SA, which include a ban on Krugerrand imports, in response to the dismantling of apartheid laws, say US administration officials.

In its heyday the Krugerrand was the world's most popular gold coin and accounted for seven-tenths of world gold coin sales between 1970 and 1989 — a total of 2 000 tons.

Anglo American gold division chairman clem sunter predicts gold demand will outstrip supply in the coming decade. — Reuter.

Bank acts on gold swap reserves

ANDREW GILL and MERVYN HARRIS

25/6/91

MOVES by the Reserve Bank to halt the depletion of its gold swap portfolio reflected its comfortable reserves position and would reduce downward pressure on the gold price, analysts said yesterday.

Reserve Bank gold and foreign exchange reserve GM James Cross, in Vienna for the Financial Times World Gold Conference, was quoted by Reuter as saying the Bank did not intend reducing its swap portfolio further and would like to buy back gold and build up reserves.

The Bank had been compelled to swap gold reserves for dollars during the 1980s when foreign exchange reserves were needed to repay debt commitments. Although the swap was a form of a loan "with absolute surety", the bullion involved in swaps was sold down over time.

Since the end of 1988, Cross said, the swap portfolio had fallen to around 5-million ounces from 12,8-million. This represented a net outflow of 7,8-million ounces.

(79)

Physical gold holdings of the Reserve Bank are running at 4,9-million ounces.

Frankel Max Pollak Vinderine economist Mike Brown said the move reflected a more confident approach by the Bank towards its reserves, especially with other access to financing becoming available in the future.

It had been an expensive way of financing reserves, with bullion being swapped at a discount of between 10% and 20% of its

To Page 2

Gold swaps

Bday 25/6/91

(79)

From Page 1

price in a declining gold price environment.

Davis Borkum Hare analyst Dave Giese said the move reflected the imminent accessibility of other forms of financing for reserves.

Gold tumbled through several key support levels on bullion markets yesterday to go briefly below $360 in what traders described as a vicious sell-off by professionals in early New York dealing.

The metal recovered some of its poise to close $5,30 down at $361,45 in London, but the sudden plunge in thin conditions sparked "a little panic selling" of gold shares on Diagonal Street, dealers said. In New York gold closed at $363,15.

The JSE all gold index fell 3,4% to 1 326 in a market where the much needed correction of leading industrial shares got under way after their record-breaking run had created an over-heated market.

Spectre of central bank sales haunts gold industry

B/Day 27/6/91

(79)

VIENNA — The spectre of the world's central banks selling their huge gold reserves — worth $380bn — is haunting the gold industry as it nurtures the hope that the metal's price will return to more than $400/oz.

Mining executives and economists close to the industry quoted figures at two gold conferences in Vienna to show that central banks had increased their gold holdings recently. But they acknowledged that as an investment, gold had underperformed, giving central banks, like other investors, little incentive to hold it.

Gold's failure to respond to the Gulf war underlined its loss of favour with investors.

Hit twice

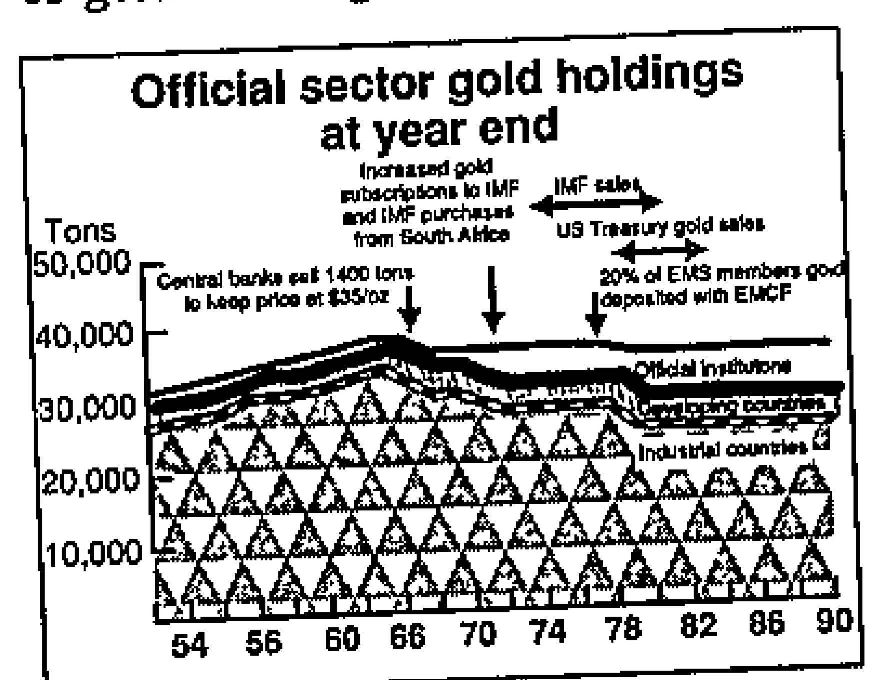
Central bankers insist that gold's role in the international monetary system is dead. Economist Sir Alan Walters said: "If I was in the mining industry I'd be frightened to death. The central banks are sitting on 20 years of production and have no reason to hold it."

The gold market has been hit twice during the past 30 years by heavy selling from the official sector.

In the late 1960s, the US, in an attempt to defend the then official $35/oz price, sold gold worth millions of dollars from its reserves. In the late 1970s the US, with the IMF, again sold heavily after the decision to end gold's role in the international monetary system. After both occasions the gold price rose strongly.

World Gold Council economist Richard Scott-Ram said: "There's no immediate threat of selling by the official sector." The council is the industry's promotional body.

Central banks and monetary authorities held 34% of the 106 000 tons of gold above ground, he said.



Since 1980 their holdings had grown by 813 tons, with net purchases in eight of the past 11 years.

Bank for International Settlements assistant GM Ricky Hall said gold, as a share of official reserves at current market prices, fell from 58% in December 1980 to 29% last December.

Although the volume of official gold holdings had barely changed during the decade, its price in dollar terms had fallen by one third, he said.

"Seeing how little the gold price has responded to major political uncertaintites in recent months, I find it difficult to imagine circumstances in which gold's relative importance would make a real comeback."

Hall said central bank reserve managers were boxed in. They owned so much gold they could not simply start to sell it as that would lower the value of their remaining holdings.

Canada, which produced about 5-million ounces in 1990, is an official seller. The Bank of Canada had sold a third of its gold reserves during the past 11 years.

Some central banks could help the industry.

SA Reserve Bank GM James Cross said his institution, which had been forced to dip into its gold reserves during recent years, would like to rebuild them.

State secret

Soviet central bank Gosbank would like to boost its official holdings of 374,5 tons, worth $4,4bn, deputy MD Alexandre Doumnov said.

However, total Soviet holdings, still a state secret, could be used to support the rouble by selling gold abroad or minting gold coins, he said.

Central bankers, mine executives, traders and economists agreed that gold's only hope lay in better marketing for jewellery and investors.

Gold Fields of SA chairman Robin Plumbridge said: "It is a great pity that there remain many important gold producers who . . . fail to appreciate the importance of promoting their product." — Reuter.

Campaign aims to create new generation of gold-diggers

(79)

Star 11/7/91

The world gold industry is targeting affluent working women — known as "trend-setters" and "strivers" — as its main customers.

They include 30 percent of all women in Europe and account for 47 percent of gold purchases.

Officials of the World Gold Council (WGC), the promotional body for gold mines in 14 countries, say women in developed countries account for about three-quarters of all purchases of gold jewellery.

Clem Sunter, chairman of Anglo American's gold division, estimated recently that the world gold production last year totalled about 2 200 tons, roughly equal to demand, and jewellery accounted for about 1 800 tons of that.

Sylvia Ruscheweyh, WGC market research manager for Europe and the Middle East, says "trend-setters" are independent, original, creative and interested in personal fulfilment rather than success.

"Strivers" live life in the fast lane, are competitive, want instant gratification and have a hectic social life. Looking good is important to them.

Both look for pleasure and the quality of life.

To sell gold to these women it is necessary to get away from the idea of gold as an ostentatious status symbol, or with sentimental associations, and to emphasise the pleasure and feeling of gold, or gold as self-expression.

"The point is to show the pleasure of moving with gold rather than simply owning it," she says.

Boost

The WGC says a Europe-wide advertising campaign launched in 1989 has already succeeded in boosting sales to these women.

The council's approach in Japan is different, highlighting sentimental reasons for buying new products designed in conjunction with local jewellery retailers.

In the affluent Japanese market almost all women now have the basic set of gold earrings and chains, says Kit Inagaki, WGC jewellery manager for Japan. "We have to give consumers a reason to buy more," he says.

Building on the idea of wedding and engagement rings, the council has run a campaign for "memory bangles", to be bought to mark events such as birthdays.

A similar idea is the "eternal chain" — a gift to a daughter on marriage, as a symbol of enduring family links.

The eternal chain is aimed at getting gold into the growing bridal market which has been dominated so far by diamonds and platinum, says Linda Sai, WGC gold information manager, Japan.

But the industry is not ignoring the potential of working women in Japan and is pushing relatively neglected items of jewellery.

With many women wearing jackets, WGC is looking at the logic of developing the brooch.

Years of market research will culminate in 1992 with the appearance of a new symbol, the goldmark, similar to the successful woolmark, says Michael Barlerin, WGC chief executive.

Intended to "brand" all gold jewellery, the goldmark is based on the symbol for infinity. SAPA-REUTER

Metfund doubles liquidity to 'cushion weakness'

ROBERT LAING

THE high ratings of the all gold and industrial sectors are making portfolio managers cautious, resulting in Investec Group's Metfund doubling its liquidity to 18% from 9% during the quarter to provide a "cushion against expected weakness that may occur in the short term". B/Day 1/7/91

Metfund, Metboard's unit trusts, produced a return of 22% for the year to date excluding distributions, beating the JSE all share index's 20,5%, fund manager Hendrik du Toit said in his quarterly review.

While the industrial index advanced at a rate similar to that of the first quarter, the all gold index increased by 37% — roughly 10 times as much as the gold price's advance.

Du Toit said he was cautious about exposing the portfolio to gold shares because of the "less than encouraging international environment for the bullion price".

"The industrial index, at a price-to-earnings ratio of almost 13, is also expensive in the light of its own history," he said.

He said the portfolio included new counters which reflected the group's expectations of a sound dollar and slowly improving world economy. Metfund has acquired holdings in Safren, Samancor, C G Smith, Engen and Absa.

□ Investec Investment Trust announced earnings of 98,8c a share.

Gold's retreat 'is short term'

B| Day 5/7/91

Business Day Reporter

THE view that gold has lost its role as a store of value is true only in the short-term, East Daggafontein chairman Peter Bieber says in the annual report.

Gold had shown remarkable resilience in the face of excessive sales from stock-piles, a very marked decrease in world liquidity and a high level of new gold production.

"It is, therefore, of concern that the price of gold in international markets has been showing weakness rather than strength," he says. "It seems almost as if gold's traditional role as a safe store of value has been neglected or abandoned."

This is a short-term view, he adds, commenting that: "In respect of the gold price, I am encouraged by indications of falling supply of newly mined gold in the coming years, an upturn in world economies after the present recessionary phase and an increase in demand for both commercial and industrial purposes."

The importance of gold to SA, particularly as a provider of employment in the crucial years of transition to a democratic system, cannot be emphasised sufficiently.

Bieber says that while the influence of the gold exports in the economy will not be dominant in the future as it has been in the past, the metal will, nevertheless continue to play a vital role.

Also in the report, Bieber notes that 1991 gold production from the Daggafontein plant was higher than in the previous year, with 3 780kg produced at an average cost of R15 663/kg, compared to 3 655kg at R14 424/kg in 1990. This makes the plant the lowest cost gold producer in SA.

The average gold price over the year under review did not reach the 1989/1990 levels, resulting in a decrease in net profit from R16,84m in 1990 to R14,62m in 1991.

As a direct consequence of this, the dividend for the year was reduced to 100 cents per share from 118 cents in 1990.

79

Agreement

During the year under review, East Daggafontein acquired, with Ergo, slimes dams from Gold Fields of SA, which will significantly extend the life of the plant.

Last year the company in a consortium with Lydenburg Exploration and Potchefstroom Gold Areas acquired certain slimes dams, sand dumps and surface rights and options from Rand Mines' ERPM mines — as recently announced in an agreement concluded with Ergo to treat certain of these high-grade slimes dams at the Ergo plant, beginning in mid-1992.

The company has also bought 24-million tons of slimes from Vlakfontein Gold Mine.

Gold producers aim to boost jewellery

79

Argus 6/7/91.

CLAIRE GEBHARDT

Weekend Argus Correspondent

WORLD gold producers will be devoting more attention to boosting demand for gold jewellery.

This is in line with what one of the world's foremost scenario planners, Pierre Wack of Old Mutual/Nedcor fame, recommended five years ago.

According to sources, Mr Wack foresaw the industry's present crisis way back in 1986 but his proposals were largely ignored.

Anglo American's gold and uranium division, Clem Sunter, said on his return from the World Gold Council conference in Vienna that Anglo had for many years followed some of Mr Wack's proposals — part of a confidential internal document prepared for the industry.

With remarkable foresight, Mr Wack warned that the gold market was changing from one in which price would be determined by investment demand associated with political and economic crises, to one determined by normal supply and demand forces.

"Anglo didn't ignore his recommendations. We have been on a single theme of the future of gold jewellery since then, and began a lobbying campaign among fellow producers to undertake a more pro-active strategy in the promotion of gold."

Mr Sunter says producers find it difficult to put more money into the WGC, established to develop demand for gold, because of cash-flow difficulties — but if the gold price rises, part of that could be ploughed back into the WGC.

"We have a favourable wind because gold jewellery rose at a fairly good clip in the late 1980s to 300 tons a year, so further improvements will be like putting up a spinnaker on a yacht."

Vital to the new strategy is renewed strength in gold over the next six months as the world economy comes out of recession.

As the world becomes wealthier, jewellers will represent about 85 percent of the demand for gold.

"If we can double jewellery consumption over the next six years from 1 900 tons to 3 800 tons, together with industrial demand of, say, 400 tons, we are looking at a total figure of over 4 000 tons a year.

"This should see demand outstripping supply, as there's no way new mine production will be close to that figure."

He believes output in the 1990s could rise to 2 400 tons, leaving a 1 600-ton gap to be filled by investors and central banks.

Central banks have 3 200 tons of gold in stock. Total above-ground stock is 90 000 tons, which includes all jewellery and gold bars hoarded since the beginning of man's history.

Of this, SA has cumulatively mined 43 000tons — almost half the world's existing stock.

"Pessimists will say that with so much gold any deficit will easily be met out of central bank or private investor stock.

"We argue that soon as the market tightens investors will behave as they do with any other investment.

"If they foresee a better price they'll be less willing to sell.

"If gold goes to $500 we don't believe there will be an enormous supply surge from new production — there isn't that much gold waiting to be mined."

SA is the world's largest producer at 605 tons, followed by the US (295 tons), the USSR (260 tons), Australia (241 tons) and Canada (165 tons).

Star 8/7/91

Gold and forex reserves increase

By Sven Lünsche 79

Gold and foreign exchange reserve increased in May, boosted by the sharp appreciation of the rand gold price.

The Reserve Bank reported on Friday that the level of reserves in June rose to R7,44 billion from R7,18 billion in May.

This follows on a rise of over R500 million in the gold content of the reserves from R4,44 billion in May to R4,97 billion last month as the average rand gold price soared from R904,53 to R950,06.

The volume of gold holdings rose from 4,908 million ounces to 5,231 million ounces.

The increase in the volume is in line with declared Reserve Bank policy to buy back some gold and rebuild reserves.

James Cross, the general manager of the Bank's gold and foreign exchange department, told a conference in Vienna last month that there had been a sharp drop in the "swap" portfolio over the last two years, but that there was no intention of reducing this portfolio any further.

The rise in the gold content offset a fall in the foreign assets in May to R2,47 billion from R2,74 billion in the previous month, following on a slightly lower trade surplus so far this year.

Revenue dismisses calls to drop VAT on Krugerrands

BDay 8/7/91

GILLIAN HAYNE

GOVERNMENT's argument that it could not justify taxing white bread while allowing an exemption for Krugerrands is treated with sympathy but disbelief by gold dealers.

SA Gold Coin Exchange chairman Eli Levine said since the first mention of VAT on Krugerrands, sales of the coins from the Rand Refinery — one of the two outlets of new Krugerrands — had dropped 95%.

SA Association of Numismatic Dealers vice-president Eddy Absil said by placing VAT on Krugerrands, Revenue would be "demonetising" the unit. Demand would drop, leading to a general decrease in the demand for gold. This would jeopardise the struggling industry, and harm workers.

He added that if South Africans did not support their own gold market they could not expect the world market to buy gold.

Inland Revenue chief Trevor van Heerden said it was an overreaction to say VAT on Krugerrands would jeopardise the gold industry as sales of gold coins formed a very small part of the industry.

He added that sales of gold coins had dropped dramatically over the past five years, and not only since the announcement of VAT on Krugerrands.

The argument that VAT would affect the export market was also inaccurate as exported Krugerrands would be zero-rated.

He said there was no chance of the treatment of Krugerrands changing before the introduction of VAT on September 30.

But a Reserve Bank spokesman said it was still waiting for a directive from Revenue on the treatment of new Krugerrands.

"Second-hand" Krugerrands — those bought anywhere except from Rand Refineries or the SA Mint — will be subject to VAT. But, as Levine pointed out, with gold coins defined as "second-hand goods", dealers buying coins from individuals would be able to claim a notional input tax credit on the price paid.

Thus, although Krugerrands sold by the Rand Refinery or SA Mint would have to carry the full 12% VAT charge, the values of second-hand coins would not be affected by VAT.

Assuming a coin was worth R1 000, the dealer would be able to claim an input tax credit of R107,14. He could sell the coin on for R892,86 plus 12% VAT (R107,14) thus maintaining its price of R1 000.

Absil said Krugerrands, like shares, were traded on the JSE. As shares were exempt from VAT it would be inequitable to tax what was in effect just another investment vehicle.

By law Krugerrands were legal tender. The fact that VAT legislation specifically excluded Krugerrands from the definition of money was totally wrong, he said.

THE MONEY MARKETS by Andrew Gill

Some red faces over unexpected shortage

BDay 8/7/91

THERE were a few red faces in the corridors of the Reserve Bank early last week after an oversight resulted in an excessive shortage appearing out of the blue.

The problem, you see, is that they had forgotten platinum mines paid tax in June. This apparently accounted for a large amount of the money drained through tax cheques.

As a result the shortage clambered to over R3,5bn — its highest level since last October — and left a few people wondering whether Reserve Bank Governor Chris Stals had decided to exterminate the inflation bug in one fell swoop.

The week is probably best relegated to memory as an enormous booboo by the protector of the internal and external value of the currency.

To cap it all, they managed to roll over R600m in special TBs in the two days that the tax cheques came through — better luck next time! The mess is expected to result in a slowing of the Bank's recent activity in issuing special TBs and undertaking dollar swaps.

If the Bank is looking at a shortage of about R2bn, a fair amount of maturities have to filter through before more issues are made.

Gold and foreign reserve figures could have suffered from the Reserve Bank's consistent use of dollar swaps. Friday's figures showed a sizeable 10% decline in forex reserves, part of which analysts said was due to the swapping.

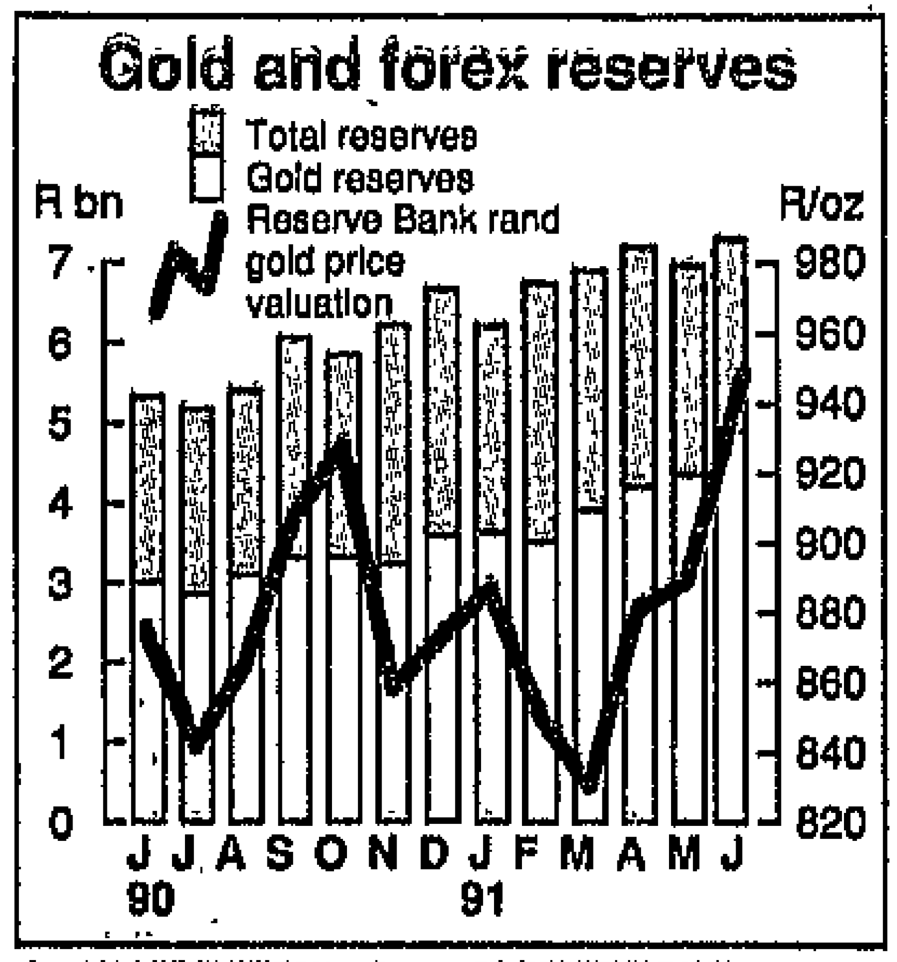
The Bank's balance sheet shows another significant movement. In June, deposit-taking institutions deposits at the Reserve Bank fell 22% (R346m) to R1,2bn. The falls are likely to have occurred as a result of the lower reserve requirements that have been phased in since March which are due to be completed towards the end of the month.

This was, however, largely ~~countered~~ by the amount of discounted bills at the end of June, up by a fairly large R281m (12%) during the month.

Another liquidity boon mentioned in the Bank's Quarterly Bulletin was forward cover losses. In the balance sheet, other assets (largely forward cover losses) grew by R328m in one month to top R13bn.

Other than the oversight, another deadly quiet week was had by all, with dealers looking enviously at their capital market colleagues who managed to move rates down on whispers of Japan dropping sanctions.

Some market players are wondering whether Bank officials are having a general bout of amnesia because of the still-elusive circular 11. Two weeks after being told that circulars 9 & 10 were to be scrapped, treasurers are still waiting.



Graphic: LEE EMERTON Source: SA RESERVE BANK

B/Day 8/7/91

Reserves boosted by weaker rand

79

ANDREW GILL

THE Reserve Bank's holding of gold and foreign exchange reserves climbed to its highest level in June thanks to a sharply higher rand gold price and a depreciating rand.

Reserves climbed by R255,7m to R7,44bn as the Bank's gold price valuation climbed by R45 an ounce to R950,06 and physical gold holdings climbed 322 950 ounces.

In dollar terms, however, reserves dipped by $6m, indicating the change was largely a function of the higher rand gold price. Disregarding the gold revaluation, reserves climbed by a minimal R32m in rand terms.

Foreign exchange holdings fell by R274,6m to R2,469bn, apparently as a result of foreign debt commitments. Gold holdings were up by R530,3m to R4,97bn.

Nedbank economist Edward Osborn said the reserves fell by only $103m over the second quarter despite over R1bn in foreign debt commitments over the period.

This was in addition to decreased foreign exchange holdings resulting from the Bank's dollar swap transactions which it undertook to squeeze money market liquidity in the past few months.

This indictated SA was able to face large foreign debt commitments with little impact on reserves. Osborn said it could indicate that a large proportion of the foreign debt commitments (owed mostly by the parastatals) had been rolled over during the quarter.

The Bank's balance sheet also showed a worsening position with regard to forward cover losses.

Gold price relief boosts GFSA quarterlies

8 | Day 10/7/91

ANDREW GILL

THE relief of a higher rand gold price as well as higher yields helped Gold Fields of SA (GFSA) produce its best results in more than a year in the June quarter.

The division's after-tax profits were up almost 12% at R245,7m as the mines received an average price of R32 166 a kilogram compared to R30 929 in the March quarter. It was the first mining house to produce results for the June quarter.

GFSA executive director Alan Munro said the results were by no means tolerable but were a movement in the right direction. Working costs, however, were up 4% at R621m, also an intolerable situation, said Munro.

(79)

During the quarter, the group's marginal mines all reversed or decreased their losses but all were still battling.

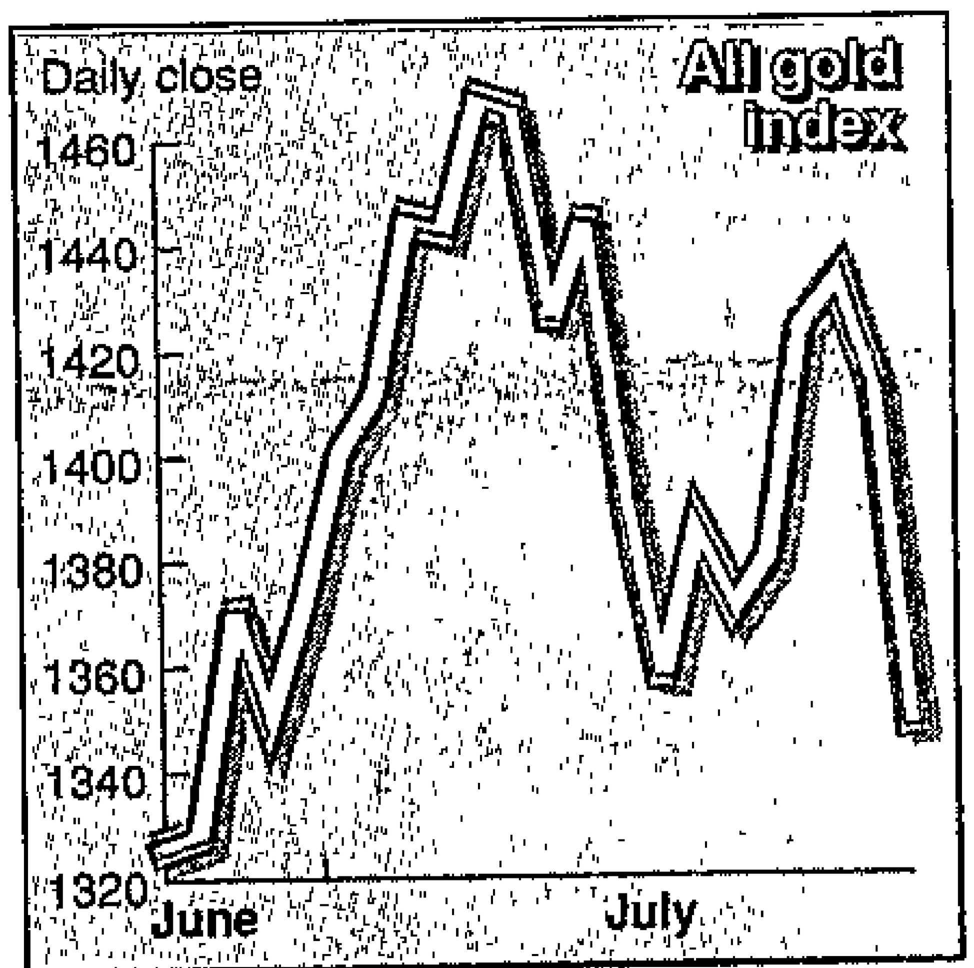
Although capital expenditure fell by R8m to R133m, many of the mines were still producing insufficient profits to recover capex. The bigger mines were undergoing capex programmes necessary to preserve their lives.

See Page 12

Mining boards bear the brunt of fall

(79)

MERVYN HARRIS



Graphic FIONA KRISCH Source I-NET

DIAGONAL Street was under renewed pressure yesterday as a lower gold price weighed on share prices after market sentiment had already been cooled by the slush fund political scandal.

The combination of the two factors sent the JSE overall index down 2% or 71 points to 3 453, with the sapping of confidence reflected in losses outnumbering gains by 140 to 24. Bday 24/7/91

The mining boards took the brunt of the fall. The all gold index tumbled 4,4% or 62 points to 1 348, compared with the industrial index which fell 1,4% or 61 points to 3 981 — indicating the market was becoming more concerned over the direction of

☐ To Page 2

Mining Bday 24/7/91.

(79)

☐ From Page 1

gold than the political crisis.

Analysts said that, in spite of the Inkatha funding row, government and the ANC had little option but to talk to each other.

Most observers believed the current downtrend from recent highs would be more of a consolidation of share prices than any sustained downward correction.

Trading on the JSE yesterday was slow and volumes thin in a similar pattern to other global stock markets where turnovers have declined to their lowest levels in weeks or, in some cases, in years.

Gold closed $2 lower in London at $367,75, but was above Asian lows after Monday's overnight sell-off in New York.

The market had opened firmer on demand from Middle East buyers operating out of London, but when this dried up, prices drifted lower with losses in an active silver market in New York contributing to the softer trend.

Opinion is divided among analysts over the future direction of gold. A Zurich dealer quoted by Reuter said he doubted whether the market had sufficient momentum on the downside to overcome heavy physical demand and test support at $365.

But other traders said the market's underlying frustration with the inability of gold to break above $372 could result in the metal falling further.

Bulls desert gold for time being

79

B\Day 1\8\91

ANDREW GILL

THE bull market for gold that some analysts and producers had hoped would materialise in the short to medium term is unlikely to happen.

Analysts said yesterday the optimistic tone that the gold price had shown for June and part of July had disappeared and fundamentals pointed to a stale performance from the metal well into 1992.

While volatility in the precious metals markets had been causing reasonable fluctuations in the price recently, even chartists had revised earlier views that it was set for a boost in the short term.

Fundamentally, said Frankel Max Pollak Vinderine analyst Rob Gillan, the bull phase should only arise towards the end of 1992 when world gold production peaked.

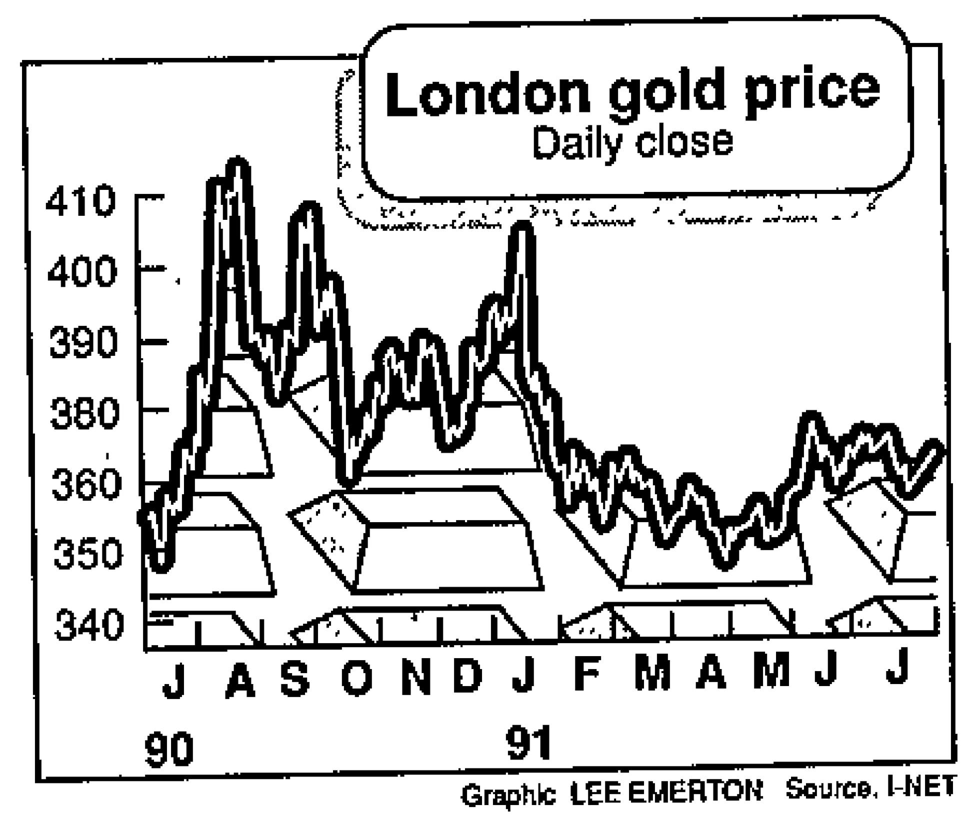
This, hopefully, would be accompanied by increased demand through jewellery consumption which the recent World Gold Conference focused on.

North American producers, who were active forward sellers of bullion, should see production peak towards the end of 1992. A peak in forward sales should complement the production peak, thus making it easier for gold to breach higher levels.

Other analysts supported the view that gold was unlikely to make significant upward inroads, but said the price was well supported at $360.

Davis Borkum Hare analyst Dave Giese said the recent conference had resulted in stronger sentiment with its commitment to increasing jewellery demand for gold.

However, in the face of technical resistance levels at around $372 to $373, the price was knocked back at about $371 when the US announced it was to sell some of its strategic stocks, including platinum and silver.



Graphic LEE EMERTON Source: I-NET

Although there was no fundamental correlation betweem gold, platinum and silver prices, the sentimental connection between precious metals knocked it back below $370.

An improvement in gold's fundamentals was only likely to occur if situations like major turmoil in Eastern Europe or another US banking crisis happened, both unlikely events.

Longer term, however, gold's outlook was positive because of the imminent peak in production and the scope for increased jewellery demand.

Also, real interest rates worldwide were set for further decreases, thus prompting investors to look for more attractive investment avenues, including gold.

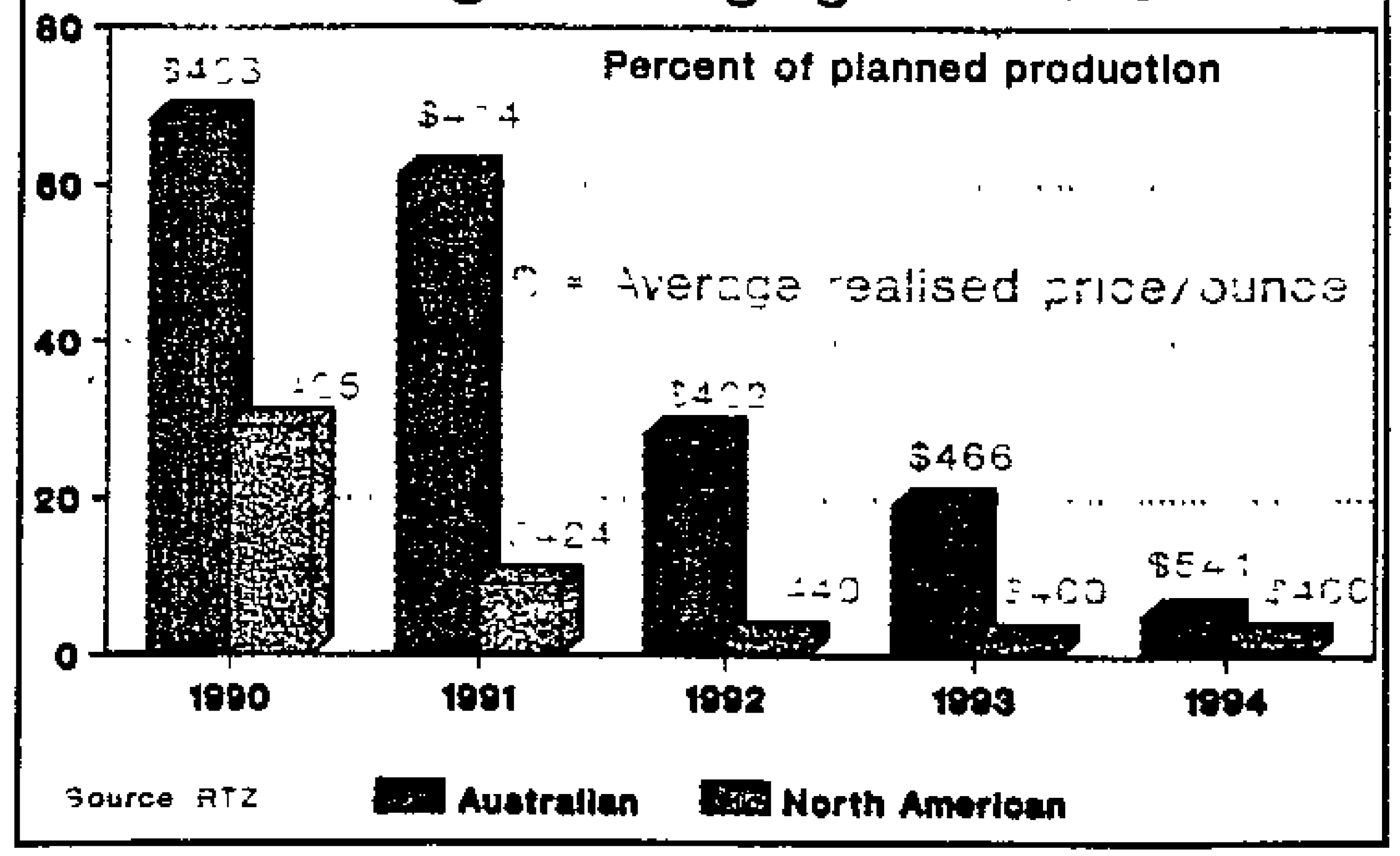
Fergusson Brothers analyst Mark Madeyski said gold had nothing going for it in the short term. The current international inflationary environment was not too bad and interest rates not too low.

Also, the push for increased jewellery demand would take time. There were no real reasons why the price should go up, he said.

Financial engineering traps gold price

Star 1/8/91 (79)

Cumulative gold hedging at end of 1990



LONDON — Modern technology allows miners to trace specks of gold invisible even under a microscope and to release them profitably from material that once would have have been discarded as waste.

Modern financial engineering, a more-recent introduction to the industry, allows gold miners to lock in certain profit and achieve prices on their sales well above the market average

But the result is to trap movements of the gold price in a relatively narrow range.

Esoteric tools

Amax Gold, for example, last year achieved on average a premium of US$30 an ounce over the New York Commodity Exchange spot price for its metal.

Marvin Kaiser, chief financial officer, listed at the recent Financial Times gold conference some of the esoteric "tools" employed:

- FDFs (fixed date forwards).
- SDFs (spot deferred forwards).
- CSOs (committed sale options).
- CPOs (committed purchase options).
- COs (compound options).
- Double Os (overnight options).
- KO options (knock-out options).
- CCSs (committed close-out sales).
- SIPs (simulated inventory positions).

Like dining

Jesica Jacks, an economist who studies the gold market for the RTZ Corporation, the world's biggest mining company, says:

"For mining companies hedging is now like dining in a restaurant which offers not only a generous set menu in the form of exchange futures and options, but also a vast a la carte menu covering a wide choice of dishes — European and American style options, lookback options, knock-out options, flat and variable forwards, spot deferred and so on.

"The mining community is spoilt for choices."

It is generally agreed that all this hedging activity by the gold producers has trapped the gold price in a relatively narrow trading range in the past two or three years.

Although they act individually, such is the speed of world communications that they all tend to act at one time, selling forward tons of gold whenever the price shows signs of moving strongly upwards. This puts a cap on price rises.

Catch 22

Those producers who hedge extensively say they are in a Catch 22 situation — they have a duty to shareholders to protect themselves from a collapse in the gold price but they know their efforts will probably prevent the strong recovery in the gold price they so devoutly wish for.

Ms Jacks says: "The more mines hedge, the more their cumulative activity caps the gold price and therefore the more they need to hedge to protect their profitability. Hedging has become self-fulfilling."

Hedging also affects the gold market by enabling marginal mines to stay in business.

"The global mining industry is achieving prices that are substantially higher than today's current market price.

"More important, a good deal of future production, as far forward as 1996, has been protected at these high prices.

"This implies that, while there will be casualties in future, we are not going to see the substantial capacity closures that many have been anticipating in the near future.

"Mines which are incurring high costs and which currently look very marginal are probably able to keep operating for longer than expected simply because they are achieving prices that bear little relation to current market prices."

Under-hedged

Until recently there was very little information readily available about the gold industry's hedging activities.

However, Ms Jacks has pulled together some detailed statistics, after painstaking inquiries covering about two-thirds of 1990 gold production.

Her conclusions will not be welcomed by gold bulls. She suggests that the North American industry, the second-largest in the world, is relatively under-hedged compared with Australia's.

Meanwhile, South Africa, the biggest gold producer, has only dipped a toe in the water. So hedging will remain an important depressant in the gold market for some time to come.

60 companies

In the first six months of this year, Ms Jacks was in contact with 60 of the big gold mining companies in Australia and North America to ask for detailed information about their hedging policies.

She also drew heavily on research about North American hedging by Ted Reeve of Credit Suisse First Boston in Toronto.

Ms Jacks gave a taste of the results of her research at the Financial Times gold conference. Now she has published the full details.

These show that more than 1 100 tons of gold was covered by hedging at the end of last year. The total was boosted to an even higher level when the Gulf crisis flared into war this year, Ms Jacks points out.

Forward sales

She says the most important influence on the gold price was the new hedging business — which last year involved 238 tons, most of it (159 tons) in forward sales.

By the end of 1990 the Australian gold industry had sold 81 percent of its 1991 output, locking in an average price of $447 an ounce. It had also committed 50 percent of 1992's production and 34 percent of that for 1993.

Just entered

However, total new hedging business by Australian companies totalled only 8 tons, implying that they did not depress the price as much as widely believed.

In contrast, North American companies accounted for 124 tons of net new hedging business at an average of US$430 an ounce.

But "hedging in North America still has a long way to go both in terms of the volumes involved and the type of instrument used," says Ms Jacks.

South Africa has only just entered the "hedging maze" but at the end of last year had 15 percent of annual output or 90 tons of 1991 production associated with some sort of price protection.

Level off

Ms Jacks points out that "these figures do not take account of the producer hedging that occurred during the extraordinary night of January 17 1991, as war broke out in the Middle East.

Since then the global hedged position is known to be substantially higher than at the end of 1990."

She says that, because Australian production seems to have peaked for the time being, hedging by that country can be expected to level off and then gradually fall.

But "I am expecting a further build up of hedging by the Canadians and the Americans reaching a maximum perhaps in the early to mid-1990s".

Once South Africa is taken into account, "cumulatively I foresee that the global total in outstanding hedging is going to remain high for some time to come," says Ms Jacks.

What would it take to persuade the mining industry to unwind its positions and withdraw from the forward and options markets?

Ms Jacks dismisses the idea that hedging "indigestion" will set in because mining companies will be so fully hedged that they will be unable to complete further business.

Flexibility

She explains: "A mining company can buy back a contract at a lower price only to resell into new rallies. Furthermore, the newer instruments without the obligatory physical delivery, such as options, offer greater freedom and flexibility".

She suggests there are two ways in which hedging might become less important to the gold market.

Backwardation

Firstly, the gold price would have to lapse into a prolonged and deep backwardation (where the price for immediate delivery is above that for future delivery) of the sort seen until recently in base metals markets.

Secondly, there would have to be a sharp and prolonged fall in bullion lending by central banks. This would effectively reduce the liquidity necessary for the forward markets to operate.

"Without this liquidity, bullion dealers would find it difficult to offset the miners' forward sales."

Ms Jacks says, however, that there is little likelihood of either of these changes taking place. — Financial Times.

FOX

GOLD QUARTERLIES

Signs of turnaround

FM 2/8/91 (79)

June quarter results from gold producers could mark a turning point for the industry — for the first time in about 18 months, conditions generally are looking better on the mines.

Particularly marked are the improved cost performances virtually across the board. All the mining houses are getting to grips with managing their operations, with the emphasis now on the cost per kilogram of gold produced, rather than the traditional cost per ton of ore milled.

Average cost of production of Gold Fields of SA's (GFSA) mines dipped 1,2% to R20 894/kg in the June quarter (March quarter — R21 146/kg), while Anglo American Corp's average working costs rose by just 0,6% to R26 193/kg (R26 030/kg).

On an industry basis, the average cost for those gold mines which are members of the Chamber of Mines dipped 1,4% to R25 843/kg for the quarter compared with R26 203/kg in the March quarter. Average cost for the 1990 December quarter was R26 000/kg which was 8,6% up on the R23 943/kg for the 1989 December quarter; this, in turn, was 15,8% up on the R20 683/kg for the 1988 December quarter.

Also notable is the continued use of hedging, which is saving the bacon of mines like Harmony and improving earnings on mines like Freegold. The debate in the industry on forward sales of gold continues, with Anglo gold division chairman Clem Sunter rejecting the view held by Gengold MD Gary Maude that gold sales by the SA producers are depressing the gold price.

GFSA mines continued to shun hedging, so the average price they received of R32 166/kg for the June quarter (March quarter — R30 929) can be taken as a "clean" price for the industry.

Harmony received R33 835/kg in the June quarter but, had it received the GFSA average price, its working profit of R10,8m would have been chopped to R2m. As it is, Harmony made a paltry R1,5m working profit from underground production totalling 4 748 kg of gold, compared with a working profit of R9,3m from production of just 398 kg of gold recovered from surface dumps.

More good news is that investors have something to look forward to in the current

continued

September quarter, because the gold price — on the trend so far — should be even better. It also appears increasingly likely that the wage settlement with the National Union of Mineworkers (NUM) is going to be favourable and along the lines of the precedent-setting agreement at Ergo.

While the Chamber and the NUM continue to negotiate, JCI has followed Ergo's lead by implementing a low, across-the-board increase, linked to bonuses dependent on productivity and movements in the gold price. JCI was able to do this because the NUM is not recognised on its gold mines, where membership fell way below the required levels for recognition in the wake of the widespread labour unrest during 1987-1988.

JCI's Maxwell ... *workers keeping their jobs*

JCI has granted a 5% across-the-board increase, coupled with a scheme that can add up to a further 7% if the gold price rises through certain "trigger" levels and another 12% if costs in rands per kilo of gold are reduced sufficiently.

JCI gold division chairman Ken Maxwell says the agreement was reached with the workers through the participative management system on the group's mines and was accepted by workers because it meant they would keep their jobs.

Gold division executives report industrial relations on the mines generally have been good this year, mainly because workers are concerned about job security after the massive retrenchments throughout the hard-pressed industry over the past 18 months.

The recent improvement in the gold price came through mainly in the last four weeks of the June quarter. That raises the prospect of better to come in the current September quarter. The current price is around R33 750/kg.

Also helping is that gold production is being increased by management's concentration on raising grades where possible to hold down rand/kg production costs. Chamber economists forecast a rise in the average recovery grade from 5,19 g/t in the first quarter of this year, to 5,42 g/t in the last quarter.

That translates into a forecast jump in total SA gold output from last year's 603 t to 617 t. Previous estimates had SA output falling to as low as 580 t. The longer-term negative side of this is that the lives of the mines are being shortened through depletion of the high-grade ore reserves.

Looking at the individual houses and mines, for once the improvements by far outnumber the hard-luck stories. Many of the marginals are looking better. At GFSA, Venterspost and Doornfontein returned to profitability, as did Rand Mines' Blyvooruitzicht, while Durban Deep further improved on its good March quarter results. Even ERPM managed a working profit, but it was overwhelmed by interest charges on its R416m debt burden. The position of Anglovaal's Loraine improved but remains worrying as the mine stayed in the red despite a gold revenue of R35 051/kg thanks to hedging.

JCI's H J Joel turned in a maiden working profit, as the long-awaited improvement in recovery grade finally came through.

Analysts are disappointed by poor results from Anglo's Ergo, caused by problems in the Ergo division metallurgical plant and by Genmin's Unisel where an expected production recovery in the June quarter failed to materialise.

Among the independents, improved results were the order of the day from both the Golden Dumps and Southgo groups. Question now is, how long can the industry keep it up?

Brendan Ryan

GOLD

Downbeat

99

Chamber of Mines senior economist Francois Viruly has revised his average forecast for the year downwards, from US$390/oz to $370. With total production for the year

FM 2/8/91 99

estimated at 617 t, the $20 difference represents a loss of $396m a year. At an estimated exchange rate averaging $/R2,8 this amounts to over R1bn.

Gold exports in the first quarter were a seasonally adjusted and annualised R17,3bn. Using this as a projection for the year, the downward revision represents a loss of about 6% of 1991 gold mining revenue.

Fortunately for the mines, it comes at a time when rand revenues have been boosted by the fall in the currency against the US dollar. So, despite the lower forecast, the prospects look better in rand terms than at January 4, when the unit stood at $/R2,54. Revenue was then estimated at fractionally under R20bn for the year, whereas now it amounts to a little over that sum.

The loss will be felt more in terms of dollar export revenues. In the six months to June the accumulated surplus was $2,84bn. If the surplus for the year is double this, the lost $396m will be nearly 7% of the surplus.

The longer-term outlook is more optimistic. A recovery in the world economy and a sophisticated marketing thrust is expected to push up demand in 1992-1993. Viruly projects $400 for 1992 and $450 for 1993. ■

Gold dips in wake of weak platinum price

Star 3|8|91

FINANCE STAFF 719

THE GOLD price fell by almost $7 yesterday on the back of a slump in the price of the other major precious metal, platinum.

Gold closed in London yesterday at $356,75 compared with the close on Thursday of $363,55.

World gold prices have declined this week following a Far Eastern liquidation in platinum. "Weak platinum prices have pulled gold lower leaving gold shares weaker," an analyst said.

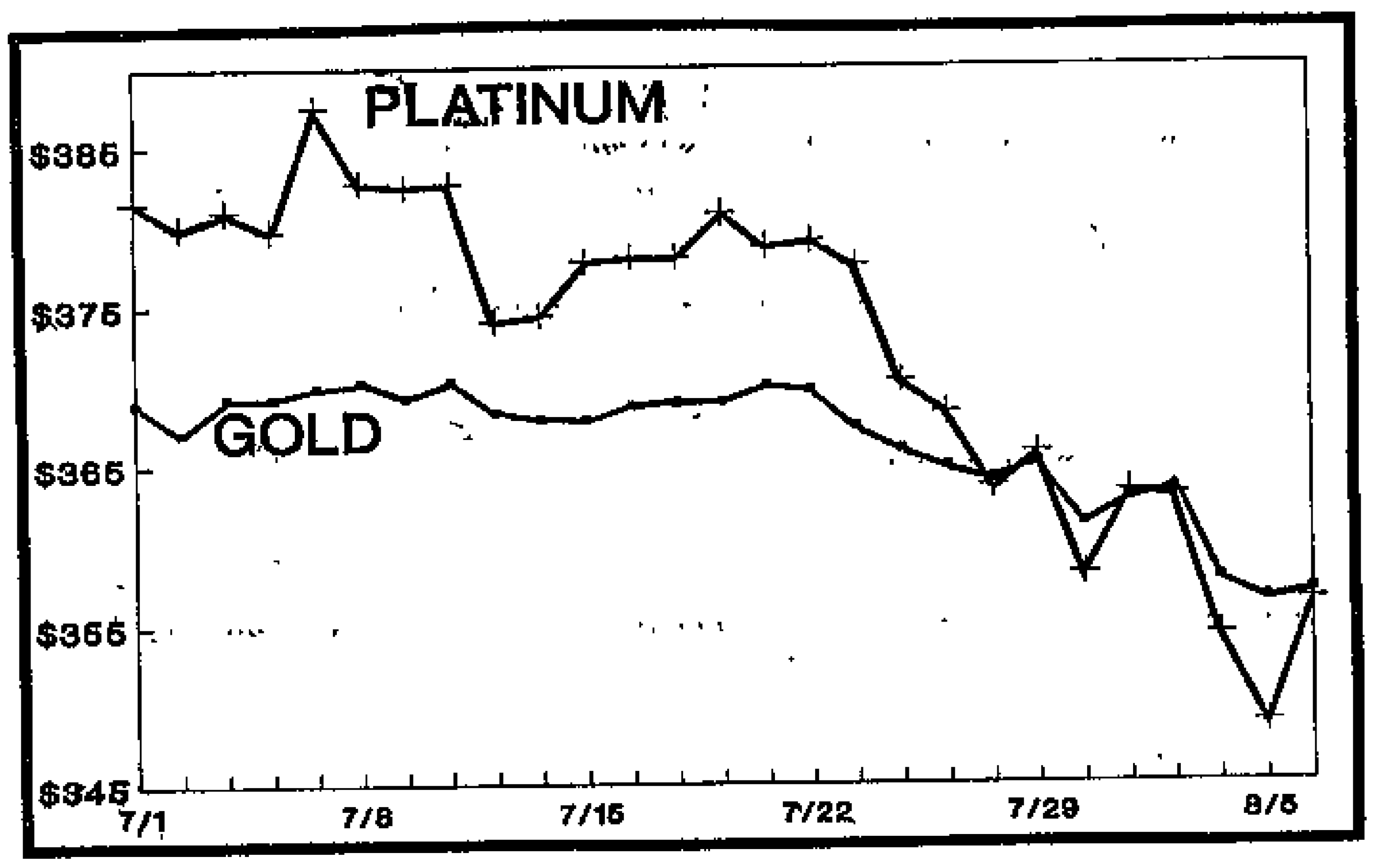
● See Prices Page

Gold bulls are getting it wrong

Star 8/8/91

(79)

By Neil Behrmann



LONDON — Back England against the West Indies and you are bound to lose money. Follow the pundits who forecast the moon for the gold price and you are just as likely to end up a loser.

While professional bullion dealers advised caution in recent weeks, gold bug doyen James Dines, a variety of US newsletters, chartists and professional speculators predicted a renaissance for bullion.

Even American investment magazine Barrons devoted a feature article on the merits of gold.

Despite all the publicity, gold's rally in July was less than $20 or 6 percent. While the pundits and their unfortunate followers are shaken by the setback, few in the bullion dealing community are surprised.

"My fantasy was a rally to $380 to $390," said a German bullion manager at the time of recent gold fervour. In reality he expected the price to stall around $370, and indeed the price reached that level briefly.

It was the line of least resistance for producers who took advantage of higher prices and sold.

But the main reason for gold's sudden drop was the result of sales by disenchanted investors and commodity funds who had taken advice from the pundits. They were forced to cut losses as the price slid.

Dealers neither detected unusual volumes of sales from Western producers nor the Russians.

Sadly the relentless compounding of real interest rates continues to defeat an investment in bullion.

Even if an investor had bought gold at $280 in February 1985, the low point of the past decade, gains would not have matched returns on bonds or cash deposits.

In dollars, a cash sum of $280 would have compounded to $420 at seven percent — and interest rates in the intervening period were higher. Converted to currencies such as yen, German marks, Swiss francs and sterling, the principal value of gold has declined.

Swiss bullion managers welcomed the rally on Monday, but feared that Kuwait could damage the market. It needs to either sell or swop a gold stockpile worth $1 billion that it has recovered from Iraq.

"I am afraid gold prices could fall further," said a Swiss bullion manager. "The first support line is $350 and then $342."

Union Bank of Switzerland's latest foreign exchange and bullion review says: "Gold has failed to benefit from the sharp dollar decline. This is an ominous sign indeed."

Others believe that gold will remain stuck in the $350 to $370 trading band and contend that any decline will be short lived.

But they are concerned that fabrication demand is slack in the northern hemisphere summer break and that a well supplied market could keep the metal depressed until September.

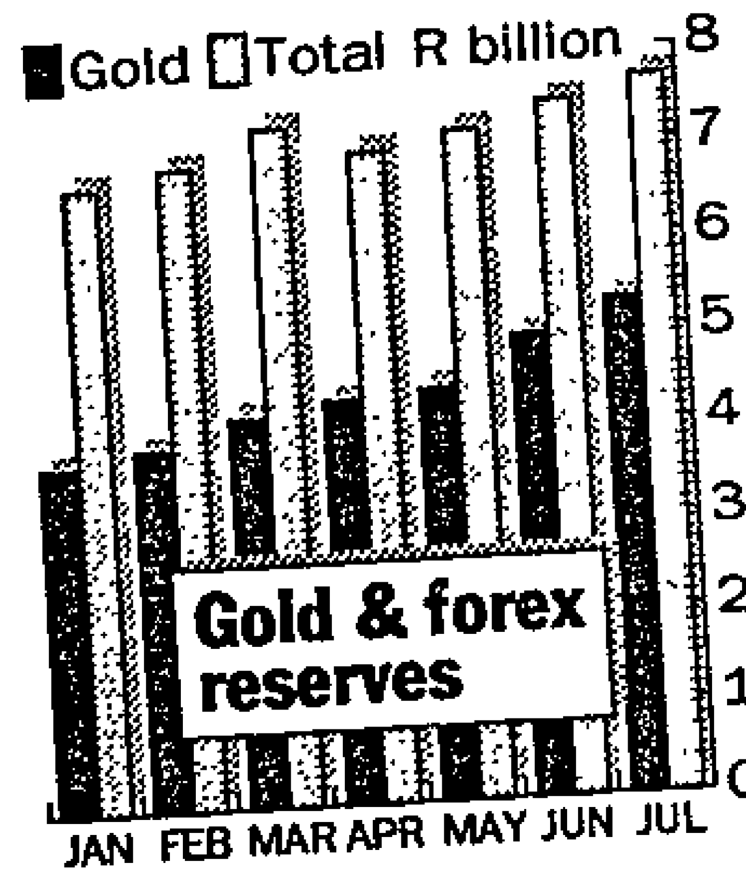
Even if gold surprises the market and rallies to $370, there seems little hope for dividend increases at the mines, unless the rand devalues.

Gold share dividends on average are about a quarter of SA bond yields and costs are rising. Compound interest is also working against shareholders, although they have been relieved by share rallies from time to time.

Gold, forex reserves rise to record level

(79) (48)

By Sven Lünsche Star 9/8/91



South Africa's gold and foreign exchange holdings rose to a record level of R7,69 billion in July, 3,3 percent higher than June's R7,44 billion.

The rise in the reserves gives the government a little bit more scope to stimulate economic growth, but economists say that the figures should be treated with caution.

"For one," says Bankorp economist Nick Barnardt, "the level of reserves are still not sufficient to cover even two months of imports, as against the internationally recommended three months."

Furthermore, while the reserves rose by 2,5 percent in US dollar terms during July to about $2,68 billion, they are still below the level recorded in the beginning of this year.

However, more favourable capital flows and moderate surpluses on the trade account have boosted the gold and foreign exchange reserves by about 10 percent since May.

The reserves in July were also lifted by a virtual absence of foreign debt repayments, both inside and outside the debt standstill net.

According to the figures released by the Reserve Bank yesterday the foreign exchange content of the reserves during July was slightly lower at R2,36 billion (June: R2,47 billion) following on the slight drop in the rand-dollar exchange rate during the month.

But the value of the gold holdings soared from R4,97 billion to R5,32 billion despite a slight fall in the average rand gold price from R950,06 to R938,25 per ounce.

The gold holdings were boosted by 441 000 ounces to 5,67 million ounces (5,23 million ounces), as the Reserve Bank withheld gold from the international market in an endeavour to stabilise the gold price.

(79) AUG 14/8/91

Gold price setback shakes the pundits

The Argus Foreign Service

LONDON. — Back England against the West Indies and you are bound to lose money in any cricket test series.

Follow the self proclaimed pundits who forecast the moon for the gold price and you are likely to end up a loser rather than a winner.

Whilst professional bullion dealers advised caution in recent weeks, gold bug doyen James Dines, a variety of US newsletters, chartists and professional speculators predicted a renaissance for bullion. Even American investment magazine Barrons devoted a feature article on the merits of gold.

Despite several articles on the merit of the metal, gold's rally in July was less than $20 or six percent. Whilst the "pundits" and their unfortunate followers are shaken by the setback, few in the bullion dealing community are surprised.

"My fantasy was a rally to $380 to $390," said a German bullion manager at the time of recent gold fervour.

In reality he expected the price to stall around $370 an ounce and indeed the price reached that level briefly. It was the line of least resistance for producers who took advantage of higher prices and sold.

Yet the main reason for gold's sudden drop was the result of sales by disenchanted investors and commodity funds who had taken advice from the pundits. They were forced to cut losses as the price slid. Dealers neither detected unusual volumes of sales from Western producers nor the Russians.

Sadly, whilst England thrilled supporters and won the first test, the bookies hardly reduced the odds against the Windies fast bowlers.

Sadly the relentless compounding of real interest rates continues to defeat an investment in bullion.

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Compound interest is also working against shareholders, although they have been relieved by share rallies from time to time.

Reserve Bank plan for its gold reserves in full swing

B/Day 14/8/91.

(79)

SHARON WOOD

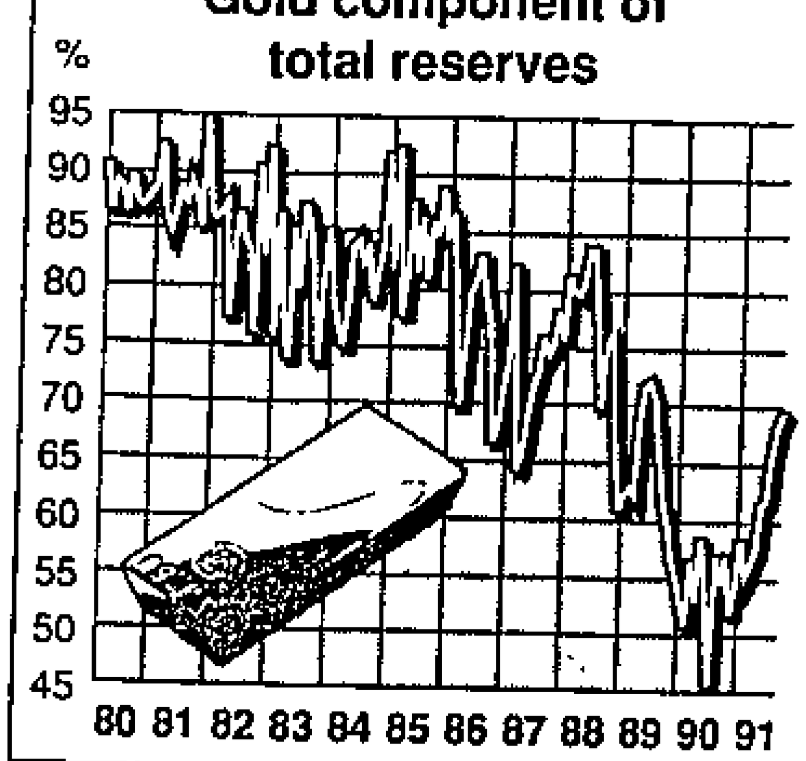
THE Reserve Bank's plan to replenish its foreign reserve coffers with gold is in full swing with gold as a percentage of total foreign reserves rising to about 70% in July from 55% in January.

But current levels are still well below the amount of gold stocked during the metal's heyday. In 1980 the gold price averaged more than $600 and about 90% of SA's foreign reserves were in gold.

The proportion of gold in SA's reserves far outstrips the worldwide figure estimated by the Bank of International Settlements. Gold comprised only 29% of total world foreign reserves at the end of 1990, and this figure fell even further this year to about 27% in March.

Investor interest in gold has diminished steadily since the early '80s and the metal is making heavy weather of escaping the trough of its decade-long bear trend. The metal's problems are compounded by mines

Gold component of total reserves



Graphic FIONA KRISCH Source I-NET

which have been increasingly active in hedging against price movements.

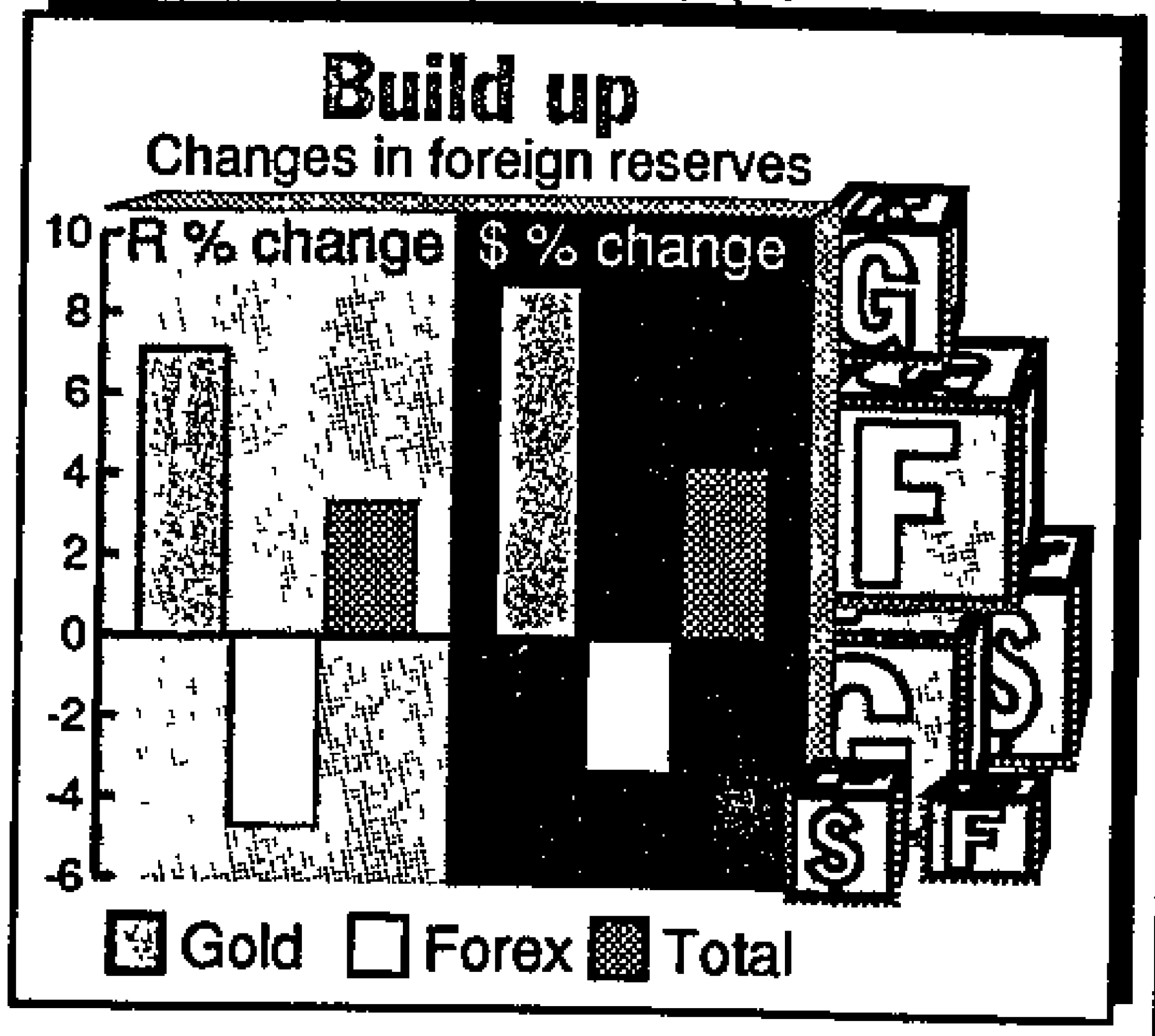
Changing attitudes towards gold's worth are illustrated by the reduction in international central banks' gold reserves in the late '80s.

Throughout the world, 5,3-million ounces of gold worth $10,8bn were sold from foreign reserves during 1989, and 2,2-million ounces worth $10,3bn in 1990. In place of bullion, central banks are boosting foreign exchange reserves at the expense of gold, with the currency component of total foreign exchange rising by $51bn in 1989 and $119,9bn in 1990.

The decision by the Reserve Bank to replenish Pretoria's gold reserves is at odds with international experience. James Cross, Reserve Bank gold and forex GM, asks rhetorically: If the Bank does not show faith in gold, who will?

The Bank's gold holdings have risen by about 30% to 5,7-million ounces in July from 4,4-million ounces in January. But this is still far less than the 12-million ounces held in the early '80s. Cross makes it clear, however, that the Bank has no intention of rebuilding reserves to the early '80s level. The aim is to lift gold and forex reserves to the comfortable point at which they equal three months' imports. Three months' import cover has been pinpointed as the minimum level of import cover for a healthy economy.

But this does not influence the composition of reserves.



from US34,6c to US34,9c.

Though this is encouraging, it is not without problems, expecially for exporters, whose rand revenues have fallen. And there are further implications.

Says Econometrix's Azar Jammine: "Though exports are mainly dollar denominated, imports are mainly sourced from Europe and the Far East. And, as the dollar declines against these currencies, the rand traditionally falls with it — so if the trend continues, imported inflation will begin to put pressure on domestic prices."

In July the rand fell from:

- ☐ DM0,623 to DM0,609;
- ☐ £0,212 to £0,207;
- ☐ FF2,114 to FF2,072; and
- ☐ L463,916 to L455,401.

It rose against the yen from Y47,893 to Y48,123. Since end-July, however, this trend has reversed. The Japanese currency appreciated sharply against the rand — it stood at a record high of R/Y47,73 last Friday. ■

RESERVES (79)

Relative rates FM 16/8/91

The improvement in gold and foreign reserves in July was even greater in dollar than in rand terms (see graph), thanks to the decline in value of the US currency.

Gold reserves rose 7,1% to R5,3bn — a new peak, after a steady increase in recent months. Holdings up from 5,2m oz to 5,7m oz offset a price decline from R950/oz to R938/oz. Foreign currency holdings fell 4,3% to R2,4bn and total gold and foreign assets increased 3,3% to R7,7bn, about two months.

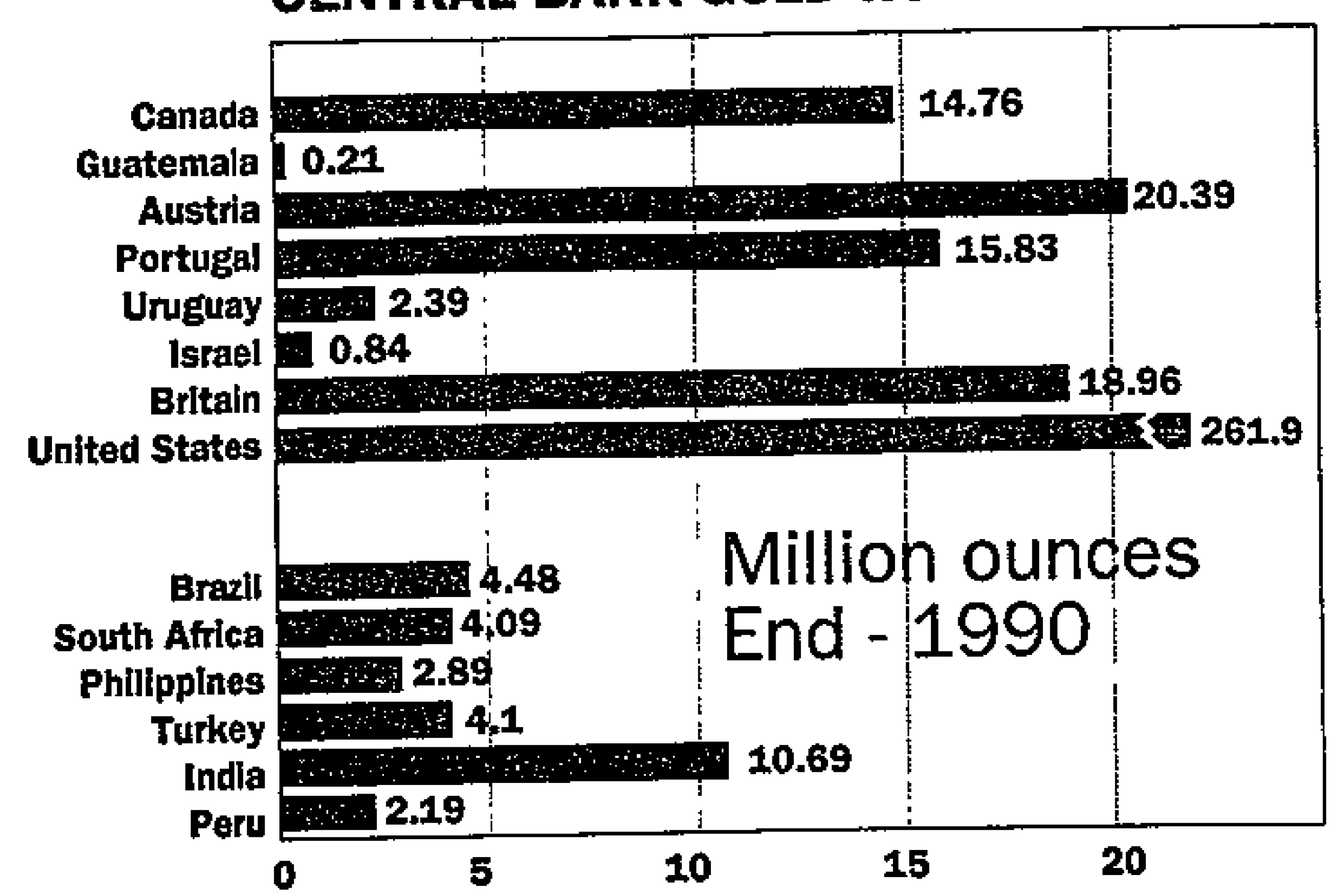
Holdings up from 5,2m oz to 5,7m oz offset a price decline from R950/oz to R938/oz. Foreign currency holdings fell 4,3% to R2,4bn and total gold and foreign assets increased 3,3% to R7,7bn, about two months' of import cover.

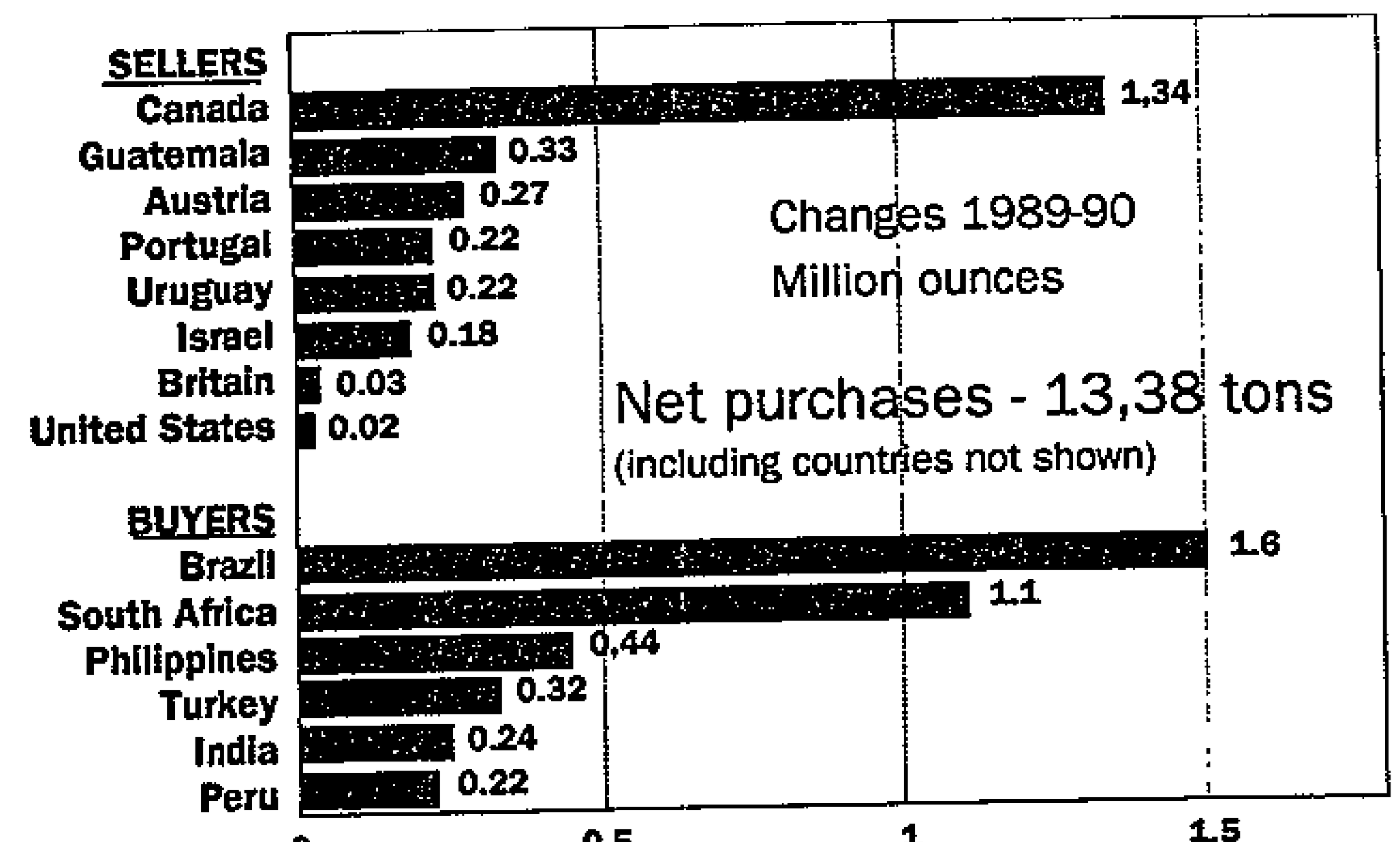
Continue →

World banks bump up gold reserves

Star 19/8/91

CENTRAL BANK GOLD HOLDINGS





By Sven Lünsche 79

Official International Monetary Fund figures on central bank gold holdings indicate that the world's central banks bought a net 13,4 tons of gold in 1990.

This seems to contradict the many theories that ascribe the current depressed gold price to the vast overhang of gold reserves in the vaults of central banks and to the sporadic selling of substantial amounts of these reserves in the past few year by indebted countries.

However, Jessica Jacks, economist with UK mining giant RTZ Corporation, argues that the IMF statistics are only the tip of the iceberg and that the official sector still remains the largest "swing factor" in the gold market.

In an article in the latest Gold Mining Newsletter Ms Jacks says key transactions by central banks are not reflected in the IMF statistics.

A rise or fall in reserves reported by the IMF, does not alway imply an outright purchase or sale and in many cases these positions are neutralised by an equal sale or purchase only months later.

Furthermore, central banks gold swops, which consist of a spot sale executed with a simultaneous forward purchase of equal quantity, would not influence the overall analysis of central bank activity but has a major impact on the market.

"Some of the most sizeable central bank transactions are also not reflected in IMF figures, simply because the activity may not involve the transfer of bullion in or out of official reserves.

"The gold purchased by the Japanese authorities initially for the Hirohito coin in 1986 and more recently the Akihito coin, are good examples.

"For 1990, the 70 tons bought for the Akihito coin are included as a central bank purchase, but will be reflected as sales once the coin is launched."

These purchases easily offset the sales seen by Canada, Israel and other countries, with a net result that central banks were buyers of gold last year to the tune of 50 tons.

However, this figure does not account for any central bank bullion that may have entered of left Iraq or Kuwait throughout the Middle East conflict.

Finally, official statistics do not account for the official sector's gold leasing or lending, which has a significant impact on the market, Ms Jacks says.

USSR may boost sales of gold

79

JOHANNESBURG. — The ousting of Mikhail Gorbachev by Soviet hardliners may increase pressure on Moscow to accelerate sales of gold and other precious metals in order to raise much needed money, market analysts said.

However, it would be in the Soviet Union's interest to try to maintain a policy of orderly sales, refraining from dumping metal in the market and pushing down prices, they said.

The power grab posed a threat to foreign aid which Moscow stood to win in support of political and economic reforms initiated by Gorbachev, analysts said.

"It increases the chances of precious metals sales to raise cash," said Mike Brown, with stockbrokers Frankel, Max Pollak. — Reuter

CT 20/8/91

Rand drops

JOHANNESBURG. — The rand recorded a new closing low of R2,9180/95 per dollar but was up from early quotes of as low as R2,9275/9300. On Friday it ended at R2,8815/30 and its previous low was R2,9095/9110 on July 5. But it firmed against other currencies.

The foreign investment unit, the financial rand, depreciated to R3,25/27 per dollar from Friday's R3,18/20 close, reuter

USA: 2,9180/95
UK: 4,7520/65
Germany: 0,6220/30
Switzerland: 0,5325/35
France: 2,1090/120
Netherlands: 0,7010/20
Japan: 47,27/34. — Reuter

Gold falls as markets recover

(79) MERVYN HARRIS (BDay)

SLIDING precious metal prices put gold shares under pressure yesterday as the rest of the JSE joined global stock markets in a strong rebound from Monday's sell-off.

Gold slipped to a low of \$352,75 in London before recovering to close \$4,90 down on the day at \$355,50.

The decline came on disappointment at precious metals' failure to hold on to gains.

Speculation that Russia would have to sell gold and platinum to generate hard currency also weighed on bullion markets. Platinum fell \$8,50 to \$344,50 and silver was quoted at \$3,96 against the previous \$4,0550. BDay 21/8/91

The JSE all gold index slumped 44 points to 1 225 but the downtrend of platinum shares was stemmed. Leader Rustenburg Platinum, which bottomed at R63,50 on Monday after tumbling from a month-ago high of R74,25, rose 250c to R66.

Dealers said the decline of gold shares also reflected a lower rand gold price which fell R25,50 to R1 028,77 on a combination of softer gold and a slight recovery in the rand against the dollar.

The JSE overall index recouped 2,2% or 76 points to 3 369 after shedding 182 points on Monday as bargain hunters swooped on selected shares.

After plummeting 5,5% (227 points on Monday, the industrial index recovered to close 3% or 118 points firmer at 4 013.

● See Page 10

Fears of Soviet sell-off hits gold

(79)

Star 21/8/91

By Neil Behrmann

LONDON — The gold price fell back yesterday as US institutions sold amid fears the new Soviet regime would be forced to increase sales of precious metals to obtain foreign exchange.

Gold lost nearly $5 to a close of $355,50 in London and $355,90 in New York after a brief $7 spurt to $364 on Monday soon after the takeover in Moscow.

Spot platinum prices dropped slightly to a close yesterday of $346,75 after recovering by $8 to $354 on Monday.

A Swiss bullion manager said that, illustrating the uncertainy, Vneshekonombank, the USSR's Bank for Foreign Affairs in charge of selling precious metals, did not deal on Monday.

Analysts are concerned about outstanding Soviet loans backed by gold and platinum collateral.

The Russian Ministry of Foreign Affairs, which is opposing the Soviet coup, has asked foreign governments to freeze all Soviet gold and hard-currency assets and transfers until the coup committee is disbanded.

Loans backed by the collateral of commodities were vitally important as credits from commercial banks were likely to dry up, a London banker said.

About three to five million ounces of gold, worth $1,5 billion, are held as collateral against loans, analysts estimate.

Cautious about the USSR's sliding credit rating, bankers are demanding the loans be rolled over every three months. The loan expiry period of the gold swops used to be six to 12 months.

The USSR is so desperate for foreign cash that Vneshekonombank recently negotiated a loan backed by one million ounces of platinum worth $354 million at current prices.

Following Mikhail Gorbachev's ousting, nervy banks are unlikely to raise the amount of gold or platinum collateral credits to the USSR.

"Pressure on the Soviet Union's foreign exchange reserves will inevitably increase," said a London bullion banker. The gold price rally was capped by the threat of further Soviet sales.

Dealers do not expect the Soviets to dump metals.

"If the same officials remain in charge of Vneshekonombank and Almaze, another Soviet precious metals agency, they will not be keen to knock the price," said a Swiss banker.

But without necessary credits, an authoritarian government might increase sales, regardless of price. Its main aim would be to feed and clothe a dissatisfied population.

It is also possible that the new conservative government will try to build up its monetary gold reserves, estimated at around 50 million ounces.

Another Lenin dream dashed

Star 23/8/91 (79)

LONDON — "When we are victorious on a world scale, I think we shall use gold for the purpose of building public lavatories ... this would be a most just and educational way of using gold." Lenin's fancy was denied.

Instead his country has used its gold commercially to become one of the world's canniest traders. Even so, the Soviet Union has always remained somewhat apart from the gold market.

Ever since Stalin, inspired by the example of California, used the lure of gold to colonise eastern Siberia before the Japanese could get there, the Soviet gold industry has been a closed book.

Statistics for its production, reserves and sales are secret.

Earlier this month Viktor Gerashchenko, the boss of Gosbank, urged his government to come clean about its gold — something it must do if it is to gain full membership of the IMF.

A change in Soviet policy would dispel one of gold's last great enigmas.

Conspiracy theorists would like to believe that Soviet secrecy conceals a surprise. They will probably be disappointed.

Habit, rather than the inaccuracy of Western estimates, has been the main reason for keeping gold figures secret.

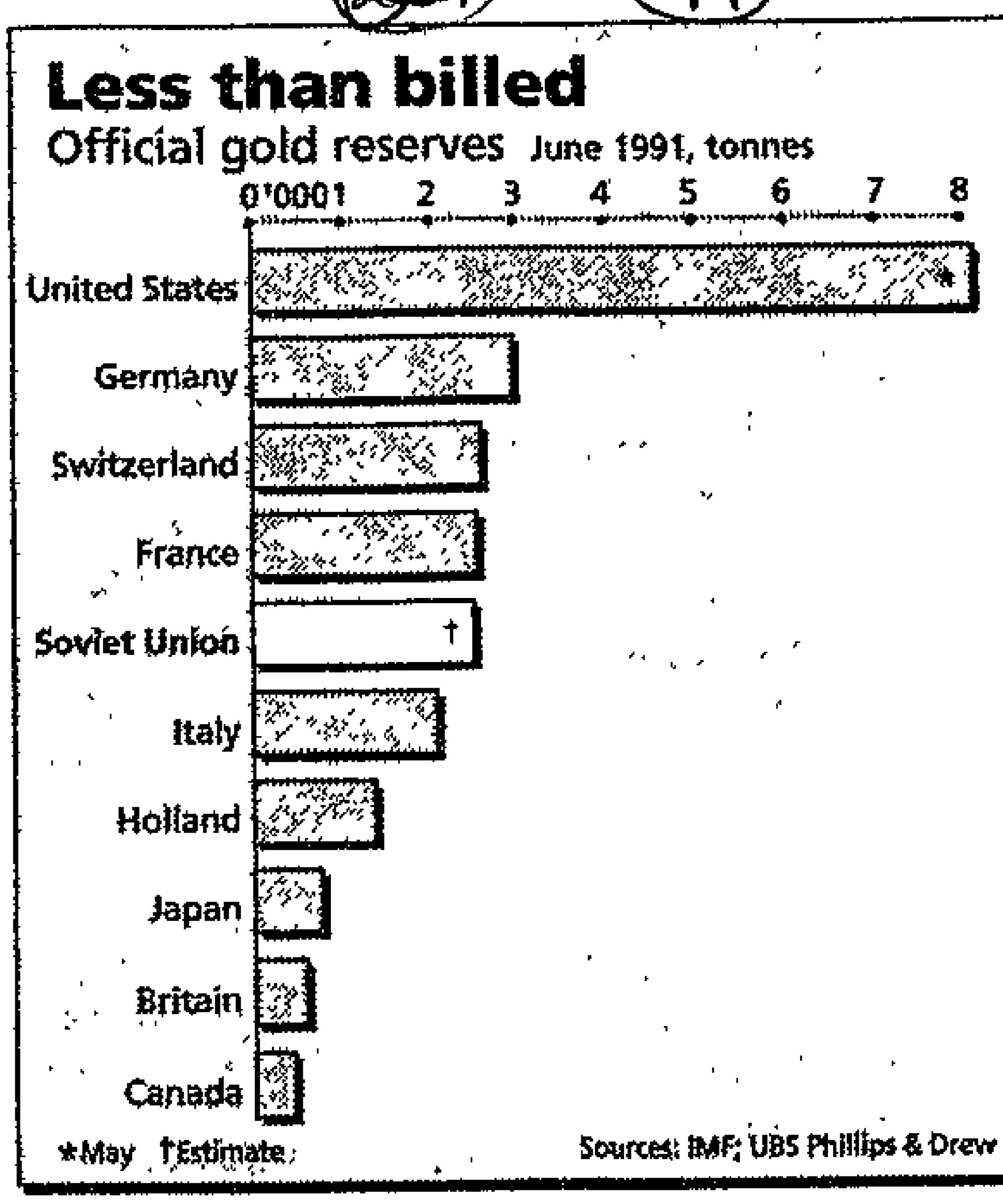
Most analysts agree that Soviet reserves are a modest but respectable 2 000 to 3 000 tons.

That this puts the world's third-largest producer well down the list of goldholders should not come as a surprise.

Many producers sell the gold they dig up — for the good reason that their reserves are held in mines rather than bank vaults.

However, two other questions about Soviet gold are pressing.

One is the decline in production, which at 260 tons last year, guesses Gold 1991, an annual survey, was the lowest for a decade.



Output is being affected by shortages of machinery, energy and workers, and by local fears about the environment.

Siberia's alluvial deposits, which can be cheaply dredged, are well past their heyday. The country's new mines in Uzbekistan and Armenia are more conventional and more costly — one reason behind last month's agreement on technology with South Africa's Chamber of Mines.

The other question is what the Soviet Union should actually do with its $30 billion of central-bank holdings.

Fashionable ideas about gold-backed roubles soon faded when it became clear that ordinary Russians would swop notes for metal at the first opportunity. Gold loans offer a paltry rate of interest.

Soviet swops (a temporary exchange of gold for hard currency) turned into unfavourable sales because the country was too short of foreign exchange to buy back its gold later.

Gold in a Moscow strongroom will not serve as collateral because the republics will long be wrangling over who owns what.

Andre Smith, an analyst at UBS Phillips & Drew, suggests the Soviet Union might profitably deposit its gold with the Bank of England. There, it could not be challenged as collateral for an IMF loan. — The Economist.

Short-term help seen for CPI

Star 24/8/91.

CAPE TOWN — The tax adjustments announced by the Minister of Finance could result in the Consumer Price Index (CPI) rising less in the short term than would otherwise have been the case, says Johan Louw, the chief economist of insurance giant Sanlam.

"As far as the switch from GST to VAT is concerned, the envisaged recomposition of the Consumer Price Index makes it very difficult to determine the net effect of this change.

"At this stage, we think it should bring about only a small once-off increase in the inflation rate."

He says the higher petrol prices — 13c a litre for conventional fuel and 8c for diesel fuel — and excise duties on liquor, tobacco, TV sets and cars, on the other hand, are expected to cause this rate to rise by an estimated 0,7 percentage point in September.

(The forward and backward linkage effect could push the inflation rate still higher in time).

"All in all, we foresee that the inflation rate (after the tax adjustments) will be just over 14 percent by the end of the year.

"For 1991 as a whole, we estimate a figure of between 14,5 percent and 15 percent.

This could decline to an average rate of about 13 percent in 1992," Mr Louw concludes. — Sapa.

Gold, platinum take it on chin

Star 24/8/91.

79

FINANCE STAFF and REUTER

THE gold price yesterday fell to its lowest level in a year in the aftermath of the failed coup by hardliners in the Soviet Union.

Over the past week gold has fallen by almost $9 to be fixed yesterday afternoon in London at $353,70.

Platinum prices also took a hard knock, despite the temporary closure of two mines by Impala, the second-largest producer in the world.

It was set at $331,50 an ounce yesterday, its lowest level since December, after a close of $344 on Thursday, and in the wake of selling by Japanese investors.

The decline in the gold price, coupled with a recovery in the rand against the dollar over the week, hit the rand gold price — the price SA gold mines receive.

The rand gold price started the week at R1 054 immediately after the coup, but over the week plunged to close yesterday at R1 018.

The decline had a devastating effect on gold share prices on the JSE. Over the week the gold index shed 125 points to 1 144 yesterday.

Gold's failure to budge on news of the abortive coup in the Soviet Union, shows once again that the precious metal has lost its place as a safe haven in political crisis, analysts say.

Monday's coup by hardliners in the Soviet Union initially tacked $5 on to gold's price.

But values had retreated to the minus column by midday as threats of potential gold sales by the Soviets worried the market.

The Soviet Union, the world's third-largest gold producer, has a stockpile of 2 000 tons, and the market feared the economically ailing country would sell more gold to boost its foreign exchange reserves.

The coup's speedy demise resulted in a brief rise, as anxiety about Soviet sales waned on Wednesday.

Investors are not interested in trading gold, analysts say, and many have switched to more robust markets, such as the dollar, stocks and government bonds.

"I think part of the problem for gold is that world financial markets have matured and people are looking to other vehicles," says Jeffrey Nichols of American Precious Metals Advisors, a Florida-based consulting company.

"Gold is not particularly sensitive to geopolitical anxieties. Its traditional response (to global crises) is no longer valid. People prefer to hold dollars as opposed to gold," he says.

When Iraqi President Saddam Hussein's troops stormed into Kuwait in August 1990, gold prices on New York's Commodity Exchange rose just $3.

In mid-January, when Gulf War ground fighting erupted to dislodge the Iraqis, gold gained more than $6 in Sydney, Australia, the first market to respond.

But the next day it crashed a spectacular $30 in New York on expectations of a quick victory for the allies.

● Scores of miners at GFSA's Doornfontein gold mine have been on strike since Tuesday, the company confirmed yesterday.

It said the apparent reason for the strike was a resistance to alternative employment one level lower than existing positions in order to avoid retrenchments.

An ultimatum to return to work was issued to those employees who participated in the illegal strike.

The employees did not respond to the ultimatum, with the result that about 6 000 employees out of a total of 7 000 have been dismissed.

Government set to woo foreign insitutional investors

Star 24/8/91

STAR FOREIGN SERVICE

BONN — THE South African Government will make presentations to institutional investors and bankers in Germany next week, preparing the ground for its first public Eurobond issue since 1985.

Deutsche Bank, the biggest German bank, and favourite to win the mandate for a public issue, is hosting presentations of institutional investors in Frankfurt on Wednesday.

Representatives of the South African Ministry of Finance will be present.

However, a senior Deutsche Bank official says no decision has been made on the timing or size of a public bond issue.

South African Government-backed borrowers, such as the Department of Post and Telecommunications and Transnet have been active in the private placement markets of Germany and Switzerland this year.

The Centre for the Study of the South African Economy in London estimates that borrowers have raised about $300 million from this source in the first half of this year.

However, almost all of these funds have been used to refinance the redemption of outstanding bond issues made in the early 1980s.

There has been no public bond issue by a South African borrower since 1985.

The Government has said that it would like to make a big, public bond issue in the name of the Republic of South Africa and would like to raise new money.

Bankers says the lifting of US sanctions in July made it possible for institutional investors to participate in a public issue.

The involvement of large investment institutions would be vital to ensure the success of a public issue in the region of Dm150 million to Dm200 million.

But they say political sensitivities remain great.

For example, some of the biggest borrowers, such as the Province of Ontario and Ontario Hydro, will not deal with SA-linked banks.

Star 13/9/91 (79)

Amgold share conversion

Amgold is to hold a meeting on October 3 to convert 6 million issued and unissued S ordinary shares into ordinary shares in view of the lifting of America's Comprehensive Anti-Apartheid Act.

Amgold says in a circular to members the shares were created before the rights issue of November 1990 in response to the CAAA and to provide shares, both for the rights issue and to have a certain number of shares in reserve.

The S ordinaries carry the same voting and dividend rights as do the ordinaries but they have a preferential right to one cent a share in the event of a winding up of the company.

The lifting of the CAAA means that it is no longer necessary to continue with the special ordinaries, the company says.

The meeting will also decide on the power of directors to issue and allot the authorised but unissued capital.— Sapa.

Gold producers cut back hedging

Star 25/9/91.

By Sven Lünsche

South African Gold producers sold only 10 percent of their 1990 production forward, despite the volatile performance of the bullion price.

This compares with 77 percent and 83 percent for North American and Australian producers, says the economist of the Chamber of Mines, Ivor Leibowitz, in the chamber's latest newsletter.

Mr Leibowitz bases his findings on research by two overseas financial institutions, Barclays de Zoete Wedd and First Boston.

"The research estimates that North American and Australian producers hedged some 356 tons and 201 tons respectively in 1990 while, in the same year, South Africa's producers hedged only an estimated 64 tons."

Few SA producers, however, publish information on their exposure to gold hedging because they fear that this could reflect a lack of confidence in the metal's price and thus depress the price even further.

Mr Leibowitz says that while fundamentals are turning in favour of a firmer gold price, this is being hampered by the effect of forward sales.

"Gold supply is continuing to be augmented by accelerated forward selling by producers, who are anxious to lock in higher prices for their output.

"Forward selling is thus tending to 'cap' any gold price rise, since producers are encouraged to become active in the market whenever a rally in the price occurs," he says.

He acknowledges that investor interest in the metal has been virtually absent over the past few months, but adds that the supply/demand situation has been tightening.

The supply of newly mined gold is expected to peak either this year or in 1992 after the sharp increases of the last decade, in which supply rose from 988 tons in 1981 to 1 734 tons last year.

On the other side of the equation, an expected upturn in economic growth could boost jewellery demand in OECD countries.

"However, worldwide demand for gold for investment purposes is only likely to increase if renewed economic growth releases inflationary pressures," Mr Leibowitz says.

● The gold price rose through the $350 barrier yesterday on the back of a stronger silver price. Gold was fixed at $351,75 in London yesterday afternoon, $2,50 up on Monday's close.

Bullion dealers said yesterday gold was poised to move higher if silver could break through the $4,30 an ounce price barrier, Sapa-AP reports.

Silver prices jumped by more than 10c to $4,23 yesterday after a bout of overnightbuying in the Far East.

Rand Mines up for sale?

(79) CT 13/9/91

ARI JACOBSON

Market rumours in Johannesburg have it that Rand Mines may be up for sale.

It is suggested that this particular mining house is likely to disappear while the other five (Anglo, SA Goldfields, JCI, Anglo-Vaal and Gencor) struggle to survive with a gold price well below $400 an ounce — in the past considered a basement level.

But Rand mine's financial director Des Arnold dubbed this scenario as "far-fetched".

An analyst discussing Rand mines (in the Barlow's stable) said the overall poor performance "might mean Witbank Colleries (WitCol) its coal producer and only mining success may have to be dangled as the carrot".

The source said this was the sole profit generator against a string of failures. These include Barmine the platinum producer (in holding company Barplats), Vansa (the vanadium mine) which suffered the sharp fall in world steel demand, the closure of gold mine Barbrooke and the well-documented problems with marginal mine ERPM.

The source added that Rand mines had "no heavyweight" in the gold department which could provide support "or be used to hang cashflow problems". Others in the fold such as Blyvooruitzicht, Durban Deep, and Harmony were all marginals with a limited lifespan.

Arnold said he accepted the poor predicament of its gold mining counters but reiterated there were "no sell-off plans in the pipeline".

Mining houses are well aware that the slump in the gold price is most likely to become a permanent reality.

They say the strategy will be to allow the marginal mine component to "die a natural death" with the rationalisation process revolving around maintaining the heavyweight mines. Such streamlining would allow a more focused approach to exploration as technology is used to undercover more efficient methods for mining.

Goldfields have Dries and Kloof, Anglos have Vaal Reefs, Western Deep, South Vaals and, with Anglovaal, have control of Hartes, Gencor through their mining arm have among others Beatrix, Kinross, Winkels, and Buffels, JCI have a strong showing in platinum with Rusplats.

Market players said a large mine in the fold should prevent further concentration among mining houses — helped on by the fear for large groupings in the new SA.

The gameplan with Rand mines could be a package deal with Anglo the probable suitor, or the possibility of Barlow's mining arm being broken up and sold.

Barlows while attempting to offload the muck will be wanting to hold on to to the black gold (coal) they have at WitCol.

Business Report

Gold price hits SA mines

(79) CT 13/9/91

From MATTHEW CURTIN

THE plunge in the rand gold price to less than R1 000 an ounce meant that nearly half of SA's gold mines were making operational losses and as many as 250 000 jobs were at risk, Silvis Barnard analyst Robinn Kearney said yesterday.

In a report on the effect of low prices on the industry, she said if costs rose 2,8% in the current quarter, 15 mines would be losing money while 20 would be making overall losses if capital expenditure was taken into account.

The gold price touched a five-year low of $342/oz on Wednesday and has since firmed slightly to the $346/oz level. Gold closed in London yesterday at $346,25.

Kearny said that with a rand gold price of R978/oz, about 48% of SA's output or 8,6-million ounces of annualised production was being produced at a loss.

Chamber of Mines external relations GM Johan Liebenberg said a sustained gold price of less than R1 000/oz was cause for concern.

However, the gold mining industry was not run as a short or even medium term business. It was impossible to predict where the industry was going on the basis of weekly movements in the gold price.

Liebenberg said the industry was fitter than it was 18 months ago and had weathered low prices in February and March well. Job losses so far in 1991 had fallen short of predictions. Employment on gold mines affiliated to the chamber fell from 505 262 in 1989 to 473 685 in 1990, the lowest figure since 1980.

Low prices were affecting all producers. If gold production fell worldwide and demand remained static, prices were likely to recover, he said.

Kearney said the impact of outstanding forward sales contracts on earnings was crucial. Estimates showed that of the 11 loss-making operations which had locked in forward sales, only Rand Mines' Durban Deep and Harmony mines, and Anglo American's Freegold operation had contracts which would protect bottom line earnings.

"Far more worrying for SA than the impending closure and restructuring of low-cost producers is the impact the weak gold price has on the development of future reserves. Major projects such as Anglo's Moab, JCI's South Deep, and Anglovaal's Sun projects, representing more than 1 500 tons of potential reserves, will not be given the go-ahead," she said.

Belly-flop for Kruger relaunch

79

S/Times (Bus) 15/9/91.

By DON ROBERTSON

THE KRUGERRAND relaunch, announced by the Chamber of Mines in June, has failed.

Sales in South Africa have virtually dried up and the lifting of sanctions by the US and Hong Kong has not sparked any enthusiasm for the coin.

The SA market was hit in February when it was announced that Krugerrands and other coins would attract Vat after September 30. A decision three weeks ago to tax Krugerrands at zero rate failed to encourage the market.

Since June, the 78 000 ounces of gold offered by the Rand Refinery has attracted bids for only 1 175oz. Most has been from jewellers for smaller coins, such as the one-tenth-ounce Krugerrand which they convert into cufflinks and bracelets.

Secondary

The decision by President Bush in June to lift sanctions opened the way for Americans to buy Krugers legally.

Senior general manager of the Chamber of Mines Daniel Pollnow says a major factor in the demise of Krugers is the belief that gold does not offer an attractive investment in the short term. Coins, in particular, are not seen as a good buy.

Dr Pollnow says the secondary market in Krugers in SA is sufficient to meet demand. Although the coin's premium over the rand price of gold has increased from nothing to about 2% in the past three weeks, the cost of holding Krugers is high when compared with high interest rates.

"But the quiet market suits us. We do not have to rush into a market in which we have not really been involved since 1986.

"We have initiated research into the market, which has changed from the one we were shut out of in 1986."

The Krugerrand, with sales of 46-million ounces since it was introduced in 1970, became the most sought-after coin in the world.

SA Gold Coin Exchange managing director Eli Levine says for the Kruger to succeed internationally it will have to be changed.

Mr Levine says to beat competitors, the Kruger should be upgraded from its current 22 carats to almost pure gold — 24 carats.

A resurgence of Kruger sales could be good for the gold price. In 1985, 784 484oz was used in the coins, but this fell to only 54 656 the following year and 19 290 in 1987. High Kruger sales take some gold off the market.

SA's 10 highest-cost gold producers	Cost $/oz June 1986	Cost $/oz June 1991	Employees at June 1991
Mine	300	426	9 161
Venters	271	420	3 351
Stils	227	412	9 229
Loraine	268	412	27 333
Harmony	217	409	1 234
S.Roode	240	396	10 179
Doorns	271	387	2 098
Groots	151	387	2 177
C. Modder	404	384	7 235
ERPM	317	377	2 009
WR Cons			

Source: Mining Journal

The noose

S/Times (Bus)

tightens

79

15/9/91

AS GOLD fell to $342 an ounce — its lowest in five years — the squeeze on SA's mines tightened this week, writes JULIE WALKER.

Production costs at 18 mines exceeded $342 an ounce in the June quarter. This figure does not include several smaller operations not quantified in the Mining Journal.

The total employed at the 18 mines at the end of June was more than 127 000. Freegold, whose costs were $336/oz in the June quarter, employs 103 000.

Efforts are being made to keep the mines afloat, but the longer low gold revenue and high cost increases prevail, the more casualties there will be.

Employment on gold mines peaked at 534 000 in 1986 and averaged 473 700 in 1990. This year has been one of major retrenchments at many mines.

In 1986 the break-even pay limit on ore was a grade of 2,9g/t, rising to 4,3g/t at present. Gold production fell from 640 tons in 1986 to 605 last year.

Average revenue in the June 1986 quarter was $342/oz, equating to R841/oz. In the three months to June 1991 revenue was only $360/oz, or R1 008/oz.

But the average cost of producing an ounce of gold in SA was reduced from $314 in the March quarter to $288 in June and from $302 in June 1990. In June 1986 it was $211.

Reserves buoyant

S Times (Bus) 8/9/91 (79)

THE RESERVE BANK'S gold and foreign-exchange reserves increased by 3,5% to R7,9-billion in August.

Foreign assets were the main contributor, showing a 7,8% rise to R2,5-billion. Gold reserves increased by 1,6%, an extra 262 000 ounces.

Government securities held by the Reserve Bank halved to R499-million, reflecting its policy of tightening liquidity in the capital market.

COMPANIES

Gold 'set to breach $400 level'

MATTHEW CURTIN

GOLD prices would rise above $400 within a year or even earlier, George Milling-Stanley, precious metals analyst at New York broker Shearson Lehman Brothers, said yesterday.

He said international supply and demand for gold were undergoing changes which would support higher prices.

Gold supply, which had grown at a hectic pace in the 1980s, was levelling off and would fall slowly in the next few years, while current estimates of growing jewellery demand were conservative.

He said the chances that gold prices would fall below $350 for a long period were slim, while average prices would rise from $375 in 1991 to $385 next year.

There were signs that the Reserve Bank's commercial reserves were running low and the Bank, keen to build up its portfolio, was ready to buy gold when the prices seemed to bottom out.

Milling-Stanley said the metal's trading range would move from between $350 and $410 in 1991 to between $360 and $425 in 1992. B/Day 24/9/91.

Producers' forward gold sale were a key factor in the narrow trading range and relative lack of volatility in the gold price.

However, research showed that US shareholders rated gold mines which sold forward more highly than those which did not. Shares in American Barrick, which has sold more than a year's supply forward, rose higher when the gold price increased and fell less when the price slumped than shares in Homestake, which did a minimum of hedging.

79

Gold's drop puts mines in danger

(79)

B Day 13/9/91

MATTHEW CURTIN

THE plunge in the rand gold price to less than R1 000 an ounce meant that nearly half of SA's gold mines were making operational losses and as many as 250 000 jobs were at risk, Silvis Barnard analyst Robinn Kearney said yesterday.

In a report on the effect of low prices on the industry, she said if costs rose 2,8% in the current quarter, 15 mines would be losing money while 20 would be making overall losses if capital expenditure was taken into account.

The gold price touched a five-year low of $342 on Wednesday before firming to the $346 level. Yesterday it closed at $346,25 in London, but fell $0,90 to $344,35 in New York later.

Kearny said that with a rand gold price of R978/oz, about 48% of SA's output or 8,6-million ounces of annualised production was being produced at a loss.

Chamber of Mines external relations GM Johan Liebenberg said a sustained gold price of less than R1 000/oz was cause for concern.

However, the gold mining industry was not run as a short- or even medium-term business. It was impossible to predict where the industry was going on the basis of weekly movements in the gold price.

Liebenberg said the industry was fitter than it was 18 months ago and had weathered low prices in February and March well. Job losses so far in 1991 had fallen short of predictions. Employment on gold mines affiliated to the chamber fell from 505 262 in 1989 to 473 685 in 1990, the lowest figure since 1980.

Low prices were affecting all producers. If gold production fell worldwide and demand remained static, prices were likely to recover, he said.

Kearney said the impact of outstanding forward sales contracts on earnings was crucial. Estimates showed that of the 11 loss-making operations which had locked in forward sales, only Rand Mines' Durban Deep and Harmony mines, and Anglo American's Freegold operation had contracts which would protect bottom line earnings.

"Far more worrying for SA than the impending closure and restructuring of low-cost producers is the impact the weak gold price has on the development of future reserves. Major projects such as Anglo's Moab, JCI's South Deep, and Anglovaal's Sun projects, representing more than 1 500 tons of potential reserves, will not be given the go-ahead," she said.

Kearney said pressure was also mounting on the US and Australian gold industries. Almost half of US gold was produced at a cost of more than $345/oz.

Based on the average cost of production from North America and SA, Kearney said a base level for the gold price was $355.

Prices had been volatile in recent weeks, and the current slide might be an over-correction.

● Comment: Page 8

Leaner gold sector 'can cope with price plunge'

(79)

B/Day 3/9/91.

MATTHEW CURTIN

THE rand price of gold tumbled to a five-month low yesterday, but industry sources said the gold mining sector was better placed to deal with weak prices than when they last collapsed earlier in the year.

Gengold MD Gary Maude said the industry was more efficient than it had been, but warned conditions were tough for marginal operations. He said there could well be casualties among marginal gold mines before fundamental market conditions improved to bolster prices.

Margins

The rand gold price fell to R31 756/kg yesterday, its lowest level since April 5, nearly 10% down from the year's high of R34 500/kg and back at September 1990 levels.

Low prices are again cutting margins given that average working costs stood at R26 100/kg for the industry as a whole in June, and R27 900/kg at Gengold and R30 900/kg at Rand Mines, the mining houses with the highest production costs.

Davis Borkum Hare analyst David Giese said the mining houses still had room for manoeuvre to improve efficiency, despite being leaner than before the spike in the gold price. Cost cutting would remain a priority, with management ready to cut unprofitable shaft areas and close marginal mines if necessary.

Simpson McKie analyst Rodney Yaldwin said gold mines would benefit in the current quarter from their retrenchment programmes earlier in the year and the low wage settlements reached with unions last month.

Maude said when Gengold started to protect itself against the low gold price three years ago, it found many areas where progress could be made. The SA industry had had a longstanding approach to employment which had led to overmanning.

Gengold had sought to improve grades, put a stop to mining unpayable areas and put its workforce to better use.

Growing interaction between management and mineworkers meant improvements which were thought impossible three years ago were now being implemented. Marginal mines were finding new ways of cutting costs beyond eliminating unprofitable production.

(19) (244)

Gold price is key to firm's dividends

B Day 12/9/91

Business Day Reporter

THE rand gold price will be the key factor in determining earnings and dividends for Anglovaal's Eastern Transvaal Consolidated (ETC) Mines, chairman Rob Wilson said yesterday.

Increased working costs, a constant recovery grade and a slight increase in mill throughput are expected in the current year, he said in his chairman's statement.

He estimated higher capital expenditure for the year at R7,7m from R4,8m. The capex will go towards Sheba's low-grade cyanide circuit (R1,9m), environmental control measures (R1m), Sheba's return airway and pumping (R1,4m), and shaft sinking (R1,5m).

Prospecting expenditure is set to fall to R7m from R8,8m. Included is R1,2m to complete the initial drilling programme at Slaaihoek.

Village Main Reef, of which Wilson is also chairman, is expected to treat about 800 000 tons of sand and ore with an average head value of 1,25g/t. This compares with last year's 777 000-ton throughput and average head value of 1,13g/t.

Underground exploration accounted for most of last year's R300 000 capex.

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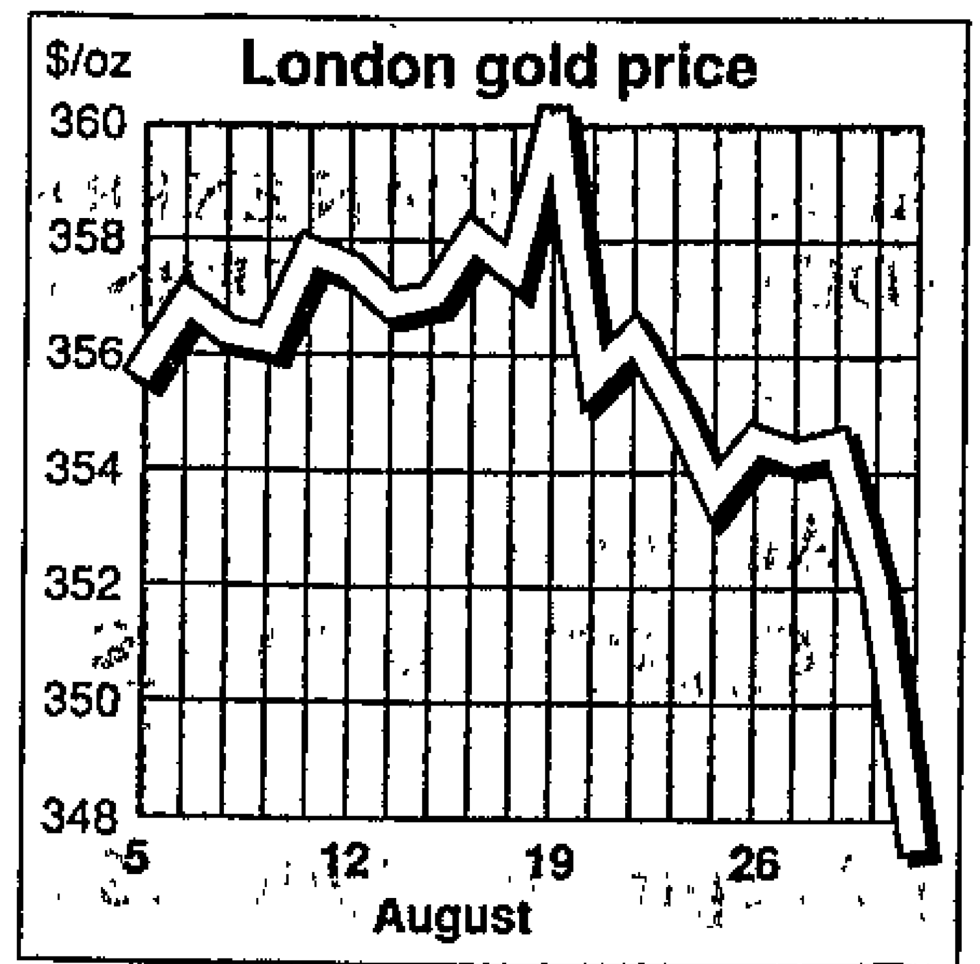


Graphic FIONA KRISCH Source REUTER

(79)

Gold drags down leading industrials

B/Day 2/9/91 MERVYN HARRIS

LEADING industrial shares were dragged down in sympathy with golds on the JSE on Friday as the market braced itself for possible further losses in precious metals.

The gold price's fall to its lowest level since June 1990 set alarm bells ringing for a scenario which could see gold heading towards the $300 level if resistance was broken at $341, analysts said.

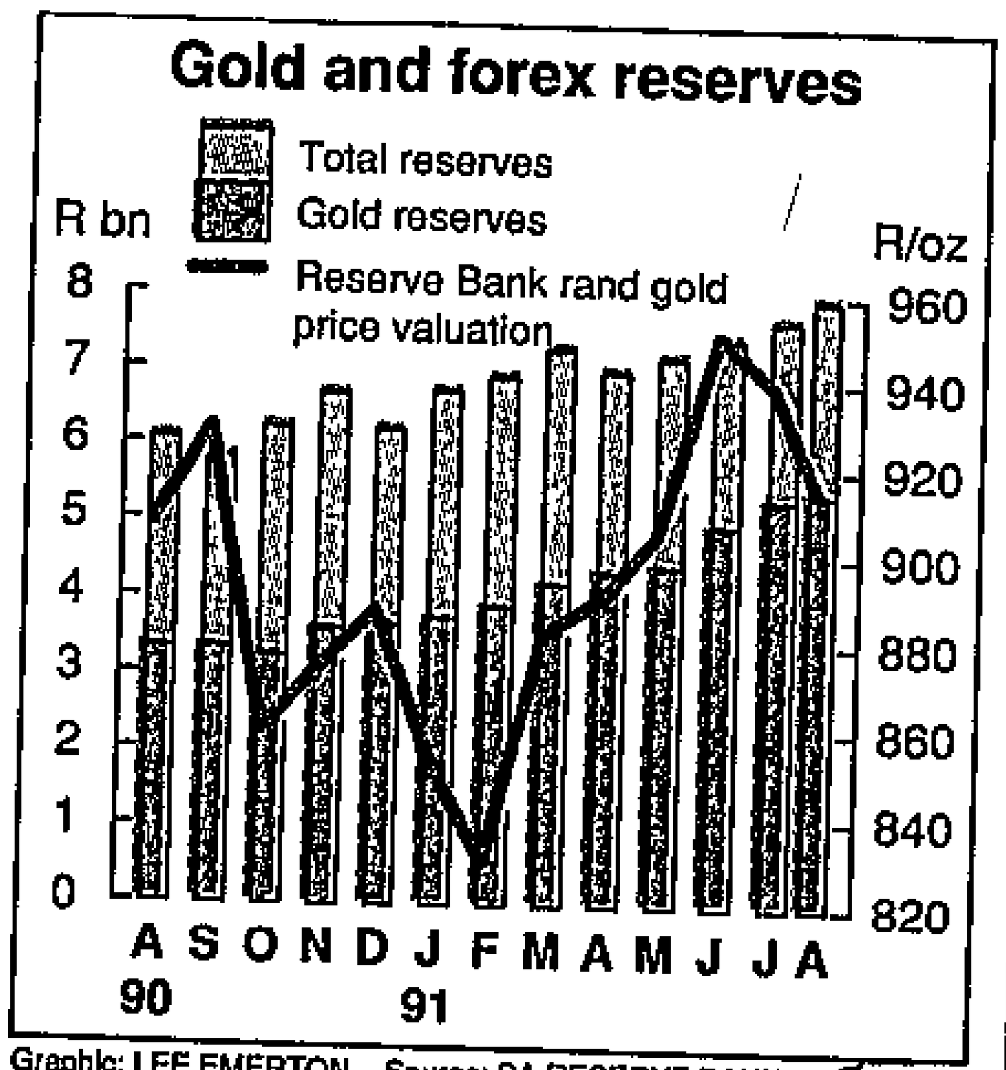
Markets were gripped by fresh waves of bearish sentiment on Friday, when gold closed more than $4 down in London at $347,75, but off the day's 14-month low of $345,50. In New York the metal ended $2,70 down at $348,75. In Hong Kong on Saturday gold ended slightly easier at $348,25.

Reuter reports that the market is plagued by fears over the Soviet central banking system. Soviet republics' central bank presidents are expected to meet next week to discuss the future of the country's monetary system.

JSE dealers said quality gold shares held up reasonably well under the circumstances. The JSE all gold index fell almost 3% or 33 points to [illegible]077. However, losses among lightweight golds ranged up to 15%.

Negative sentiment from the gold board spilled over to the rest of the market. A 13-point decline in the industrial index to 4 114 helped pull the overall index down 33 points to 3 349.

Dealers expect trading to remain hesitant and volatile, with the gold price slump taking some of the edge off leading industrials which are no longer seen as offering value at current levels.



Graphic: LEE EMERTON Source: SA RESERVE BANK

BDay 9/9/91

Forex reserves reach a new high

79

SHARON WOOD

SA hurdled a large debt repayment in August, with total foreign exchange reserves rising by 3,6% despite $200m in foreign debt being repaid.

Reserve Bank figures made available on Friday showed foreign exchange reserves rose to a record high of R7,96bn from R7,69bn in July.

Economists said the rise in reserves was pleasing because more than $200m debt had been repaid in August in line with the third interim debt arrangement.

The gold and currency components rose in the month and the Reserve Bank continued replenishing gold reserves.

The gold component rose 1,7% to R5,4bn from R5,3bn in July, despite a R26,49 drop in the average gold price to R911,76 in August from R938,25.

The Bank's gold holdings rose 4,6% to 5,934-million ounces in a continuation of its efforts to increase gold's proportion of foreign reserves.

Reserve Bank foreign exchange GM James Cross said reserves rose because of a strong inflow on the current account.

Nedbank chief economist Edward Osborn said that in dollar terms foreign reserves increased by $155m and, if the repayment of debt was excluded, by $405m.

"This is so substantial that it is worrying because it is not justified by the performance of the balance of payments, and may indicate a further rise in short-term liabilities," he said.

Some shelter for gold producers

79

B/Day 12/9/91

LIZ ROUSE

MARGINAL gold producers are now heavily hedged — selling forward part of their gold production — because of their vulnerability to a lower gold price.

Most mines increase their exposure on a quarterly basis and calculations by Davis Borkum Hare analyst Dave Giese show that a marginal producer such as Loraine has hedged up to 68% of its gold production in the September quarter. However, the effect will be only to reduce the mine's working loss.

Loraine's earnings loss would be 30,5c a share, reduced to a loss of 6,6c a share with hedging.

Durban Deep, which will sell forward 48% of its production, will convert a possible loss of 30,1c a share into a profit of 32,87c a share. But the mine will not declare a dividend while receiving state assistance for pumping, says Giese.

Harmony stands to benefit substantially from its hedging activities, says Giese.

12/9/91

It is hedging 58% of its output, which will push earnings to 52c a share from 33,3c without hedging.

ERPM can expect its earnings loss to narrow to 88,9c a share from 92,3c.

Narrow ranges make life dull

8(pay) 4/9/91. (79)

SHARON WOOD

FLYING paper aeroplanes, doing the crossword and relaxing over a cup of coffee were just some of the activities in international forex markets last week as dealers waited for currencies to break out of their extremely narrow trading ranges.

US unemployment data due at the end of this week should end the boredom and determine dollar direction in the short term.

If a forecast 27 000 rise in non-farm payrolls for August materialises, the dollar should be jolted out of the lethargy characterising forex markets at present. This would follow a disappointing 51 000 drop in July.

Currencies traded narrowly worldwide and on Tuesday the dollar/yen traded in the narrowest range for 16 years between 136,81-136,85 yen. Forex markets are wary of taking a stand based on the mixed US economic data released last week and the still uncertain conditions in the Soviet Union.

Economic indicators released last week reaffirmed views that the economy was moving unevenly out of recession, with consumers not spending because they could not afford to.

The pressure of recession on individuals' wealth in the US was reflected in figures released last week. Jobless claim figures showed the growing number of jobless workers exhausting their unemployment insurance benefits and not qualifying for further aid.

Analysts say confidence would improve if US President George Bush signed the emergency order to activate the extension of unemployment benefits.

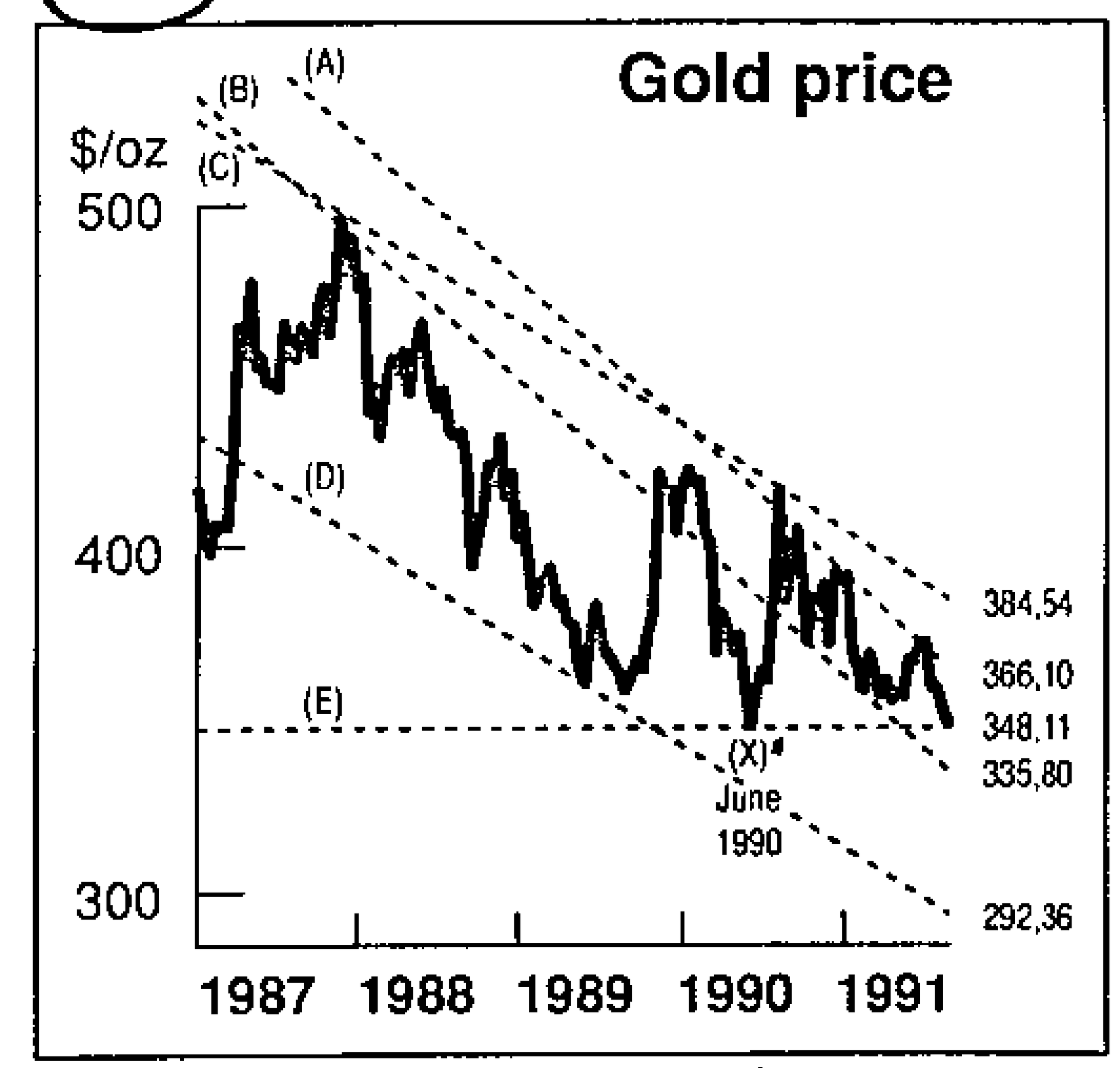
The direction the dollar will take at the end of the week will also depend on whether the speculated US interest rate cut occurs. The Fed has already indicated it will not cut its discount rate.

Market expectations of an interest rate cut in the US are based on the belief that the economic recovery needs a push in the right direction.

FNB technical analysts say the ranging activity of the dollar is expected to continue for the time being but the range is narrowing, suggesting a breakout can be expected in the near term.

The longer-term view is the dollar will test and break through the neckline of the head and shoulders formation at DM1,7148. The forecast range for the week is DM1.7148-1,7644.

Political uncertainty in the Soviet Union continues to overshadow international conditions. Forex markets will probably remain wary of the Deutschmark until the uneasy calm in the Soviet firms into stability.



Graphic: FIONA KRISCH Source: TELETRAC

The Soviet financial situation is much the same as SA's. Investors are only prepared to invest short term and longer-term money will flow in only once political and economic confidence has been established.

Once this happens the Japanese may lead the way because they are geographically well positioned to do business with the Soviet Union. Trading companies are already looking at developing markets as the republics break up into separate entities.

On the local front the rand shadowed the dollar, weakening slightly during the week. A decisive breach of the rand's support levels at $2,8623 could be precipitated by a stronger dollar, if employment figures are favourable, say FNB analysts

Against the third currencies the rand gained ground against the Deutschmark and yen but weakened slightly against the pound.

The gold price continued to disappoint, finally breaking below the $350 level during the week.

The graph shows a longer-term perspective of the gold price since 1987. The recent performance indicates the precious metal's price has real potential of breaking out of the medium-term bear trend (AB) it has been in since mid-1990 into the longer-term bear trend (CD)

The gold price is now retesting the low weekly close in June 1990 (X), when it fell to $348,11. A penetration of support here is very bearish because it will herald much lower levels, perhaps as far down as $330, say FNB technical analysts.

Gold surges on news of Soviet holdings

Star 1/10/91

MERVYN HARRIS

79

GOLD surged almost $7 to test the $356 level on global bullion markets yesterday on news that Soviet reserves of the metal were estimated at only 240 tons compared with some expectations of up to 3 000 tons.

The estimate by a leading Soviet economist — subsequently denied by the state bank — was seen as bullish for gold on perceptions of reduced Soviet sales, but the rise of the metal gathered momentum only in New York after the news had had little initial impact in Europe. However, gold closed in London at $354,55.

There was also some hesitation in dealings in gold shares on the JSE, and dealers said early buying lacked commitment after gold's failure to perform had repeatedly disappointed investors in the past.

But a late spurt of buying pushed up the all gold index 3,3% or 37 points to 1 133 after what dealers described as a subdued and choppy session of trading.

See Page 9

Shrinking Soviet gold hoard gives bullion a boost

(79)

Star 4/10/91

By Neil Behrmann, and Finance Staff

Gold continued its steady recovery yesterday after suggestions that massive Soviet sales earlier this year were set to slow down.

It closed in London yesterday at $357 — $1,60 up on the day and $13 higher than its four-year low of $344,25 just three weeks ago.

The rise in the price buoyed shares on the JSE yesterday, the gold index rising 20 points to 1 160 and the industrial index 53 points to 3 373.

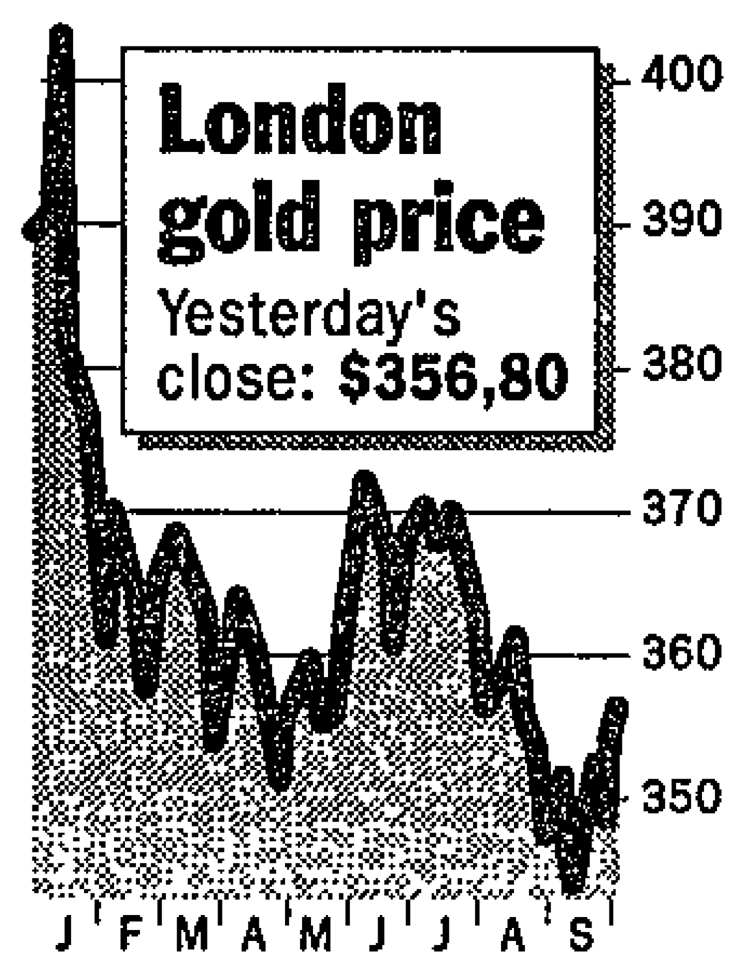
The local market seems to have temporarily digested Nelson Mandela's statement that the nationalisation of gold mines was still on the cards.

But in London, worries about his remarks kept investors on the sidelines.

Nevertheless, most analysts focused their attention on the Soviet Union, where recent statements about its gold reserves led to speculation that recent heavy selling would slow down considerably.

The speculation followed suggestions by a senior Soviet economist that the former Soviet Union's gold reserves were much lower than most Western analysts had estimated.

Grigory Yavlinsky, a top Soviet economics official, precipitated the welcome rally in the gold market by saying on TV that the USSR's gold reserves had fallen by two-thirds in the past year to only 240 tons.



His statement stunned the gold market and Soviet bank creditors who have been used to estimates ranging from 1 000 to 2 500 tons.

The statement by Mr Yavlinsky, who is deputy head of an interim committee managing the Soviet economy, was contradicted by officials of Vneshekonombank, the bank for foreign economic affairs.

Mr Yavlinsky said the Soviet Union had been selling up to 80 tons of gold each month this year to relieve foreign debt problems.

This has been described as the main cause of gold's decline from over $400 at the beginning of the year to $344 in mid-September.

Most Western analysts are sceptical about the claims of low gold reserves, but there seems to be agreement that the level of reserves is definitely falling.

"The Soviets will have to slow down their sales in the face of declining reserves, which should stabilise the bullion market somewhat," says a London analyst.

Roger Chaplin of Credit Lyonnais Laing in London suggests in the group's International Mining Monitor that the gold price will average $400 next year and could go as high as $450 in 1992.

He says the gold supply should peak this year, while jewellery demand continues to exceed newly mined production.

The deficit in supply might be 500 tons by 1993-94, he says.

Mr Chaplin says the high level of gold sales by the Soviet Union is unlikely to continue because the independent republics will try to use gold as collateral and backing for their currencies.

Some bankers and bullion dealers, however, believe that the reserves have been understated to draw attention to the Soviet Union's financial crisis.

By downgrading gold reserves, say these bankers, the Soviet Union, might be hoping for more aid from the West.

Glitter going out of golds

S Times (BUSS) 6/10/91. 149

AT a gold price of $345 an ounce, 40% of SA's gold is being produced at a loss.

Something has to give, according to Mark Wilkes of stockbroker Hayes Cutten. Either the loss-makers have to close, the rand has to devalue, or the gold price has to go up.

Mr Wilkes' October gold report, Aurum, says the solution lies partly in each of the above. Perhaps a period of bridging finance will become necessary to see producers out of the woods, but Mr Wilkes recommends that the shares of high quality, low cost producers should be bought.

Losses

Aurum says that golds should not form more than 10% of a prudent investment portfolio, but that speculators could raise their weightings to as much as 20%.

Investors in a stale-bull position should cut their losses and switch to better shares.

Mr Wilkes outlines the factors affecting gold. Bearish ones include bullion pledging by the Soviets, central bank sales as well as those from the Middle and Far East, forward sales by our own mines, large amounts of hoarded gold and global recession in general. Gold has assumed a "useless commodity" status.

Weakness in the platinum and silver markets has rubbed off on gold, and until recent developments, gold bullion investment never earned interest.

On the bullish side, production and reserves are falling in the Soviet Union with lower production in SA and Australia. Gold is readily accepted as collateral by international banks. Jewellery demand is rising.

Several of these factors are coming together at the same time, including favourable prospects for platinum group metals.

Mr Wilkes also believes that central banks and governments have an underwritten commitment to retaining the value of hard assets and keeping inflation "locked in a safe".

Gold, he says, has too many short-term supply and demand problems to eliminate before it can discount future trends.

The useless commodity tag is largely unfounded, and Mr Wilkes says gold should retain the title of "global inflation commodity".

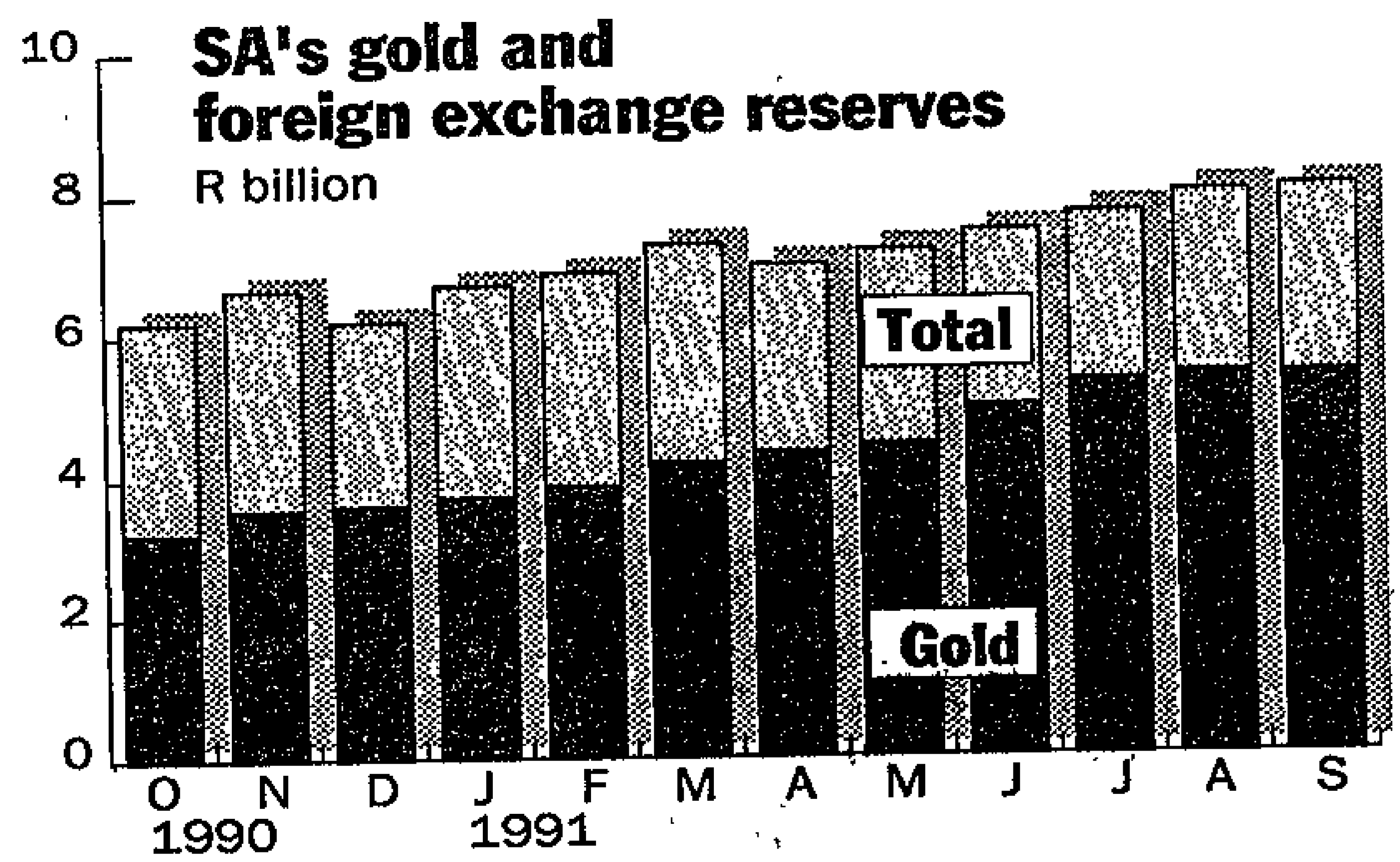
Several bullish bullion factors are converging on the horizon, and some potential trigger factors exist: Soviet problems, a tumble in Japanese property prices and a collapse within the US banking system.

Trouble

But, in the longer term, his view of the bullion market is bearish, as the world's monetary system becomes more effective at "monetarising" itself out of trouble. In the medium term he is mildly optimistic.

Among the recommendations for investors are Beatrix, Driefontein, ET Cons, Southvaal, Western Areas, Joel, Kinross, Kloof, Western Deeps and Winkelhaak.

● Gold rallied to $356 on news that the Soviets hold only 240 tons of gold, not the 3 000 tons widely thought.



Gold, forex reserves reach record high

Star 9/10/91.

By Sven Lünsche 79 (80)

Gold and foreign exchange reserves topped R8 billion for the first time in September, despite a substantial drop in the average rand gold price.

The Reserve Bank said yesterday that its total holdings had risen by 6,65 percent to R8,014 billion in September from R7,96 billion in August.

The net gold and foreign exchange reserves have risen steadily since the beginning of the year when they totalled R6,2 billion, boosting gross reserves to R8,7 billion at end-June.

This is equivalent to about seven weeks' imports of goods and services and just over half way to the Reserve Bank's target of three months of import cover.

The reserves are expected to continue improving over the next few months as the Government is succesfully rescheduling a large part of its foreign-debt commitments.

Furthermore, the trade surplus should continue at healthy levels for the remainder of the year as an improving world economy boosts SA's export volumes and lifts commodity prices.

In September, the foreign exchange content of the reserves rose to R2,63 billion from R2,55 billion in August, while gold reserves declined from R5,41 billion to R5,38 billion.

Reserves soar to R8bn new high

BDay 9/10/91

SHARON WOOD

SA's gross gold and foreign reserves soared to a new high of R8,01bn in September despite a weak gold price, Reserve Bank figures released yesterday showed.

A 6,3% month-on-month rise in reserves from R7,96bn was a result of a 3,1% increase in the foreign currency component, which rose to R2,63bn from R2,55bn in August.

The Bank continued building up its gold holdings, which rose to 6 070 721 oz from 5 934 948 oz. However, the rand value of gold reserves fell by 0,6% to R5,38bn from R5,41bn because the Bank's gold price valuation plunged R24,94 to R886,82.

Economists said the uptrend in reserves was welcome. Reserves were edging closer to the Bank's aim of providing three months' import cover and now provided about two months' cover.

Standard Bank chief economist Nico Czypionka said the improvement probably came from a better capital account and not current account, indicating improved access to international capital markets.

Proceeds from last month's Deutsche Bank-managed SA bond issue had not yet been accounted for in the reserves because the value date was after September 30, a Deutsche Bank source said.

Nedbank chief economist Edward Osborn said the Reserve Bank's policy to accumulate gold was sensible in a depressed market. The gold price declined markedly from an average of $368 in July to $349 in September.

The Bank's "other" liabilities had risen by a substantial 5,8% in September to R10,76bn from R10,17bn. Osborn said this pointed to possible Bank borrowing to meet foreign exchange requirements and to sustain gross reserves.

Gold producers digging their way out of trouble

Star 19/10/91 (79)

DEREK TOMMEY

SEPTEMBER quarterly results issued this week show that the R18 billion South African gold mining industry — the country's major economic stimulator — is in a much better shape than it was a year ago.

In the September quarter last year a large part of the mining industry was in crisis.

Sharply increasing costs and a slipping gold price resulted in 11 of the 32 major gold mines operating at a loss. In addition a further two also showed losses after after providing for capital expenditure

This time around only five of the 30 mines which have issued September quarterly reports report losses and of these one is a developing mine which is shortly expected to move into profit, and of the remaining three only Loraine can be considered a basket case.

But just as importantly, most of the other 25 mines are showing improved profits or expect to do so shortly.

This is partly reflected in the group profit figures. The three JCI mines earned R55,1 million in the September quarter against R39,6 million in the June quarter Available profit after providing for capital expenditure were R29,8 million against R11,7 million in June.

The Gold Fields group reports taxed earnings of R224,7 million for the September quarter against R245,7 million in June. But available earnings after providing for capital expenditure showed an encouraging increase from R112,7 million to R118,9 million.

The Gencor group's taxed earnings jumped from R52,0 million to R85,3 million, while attributable earnings rose from R24,9 million to R51,0 million.

At Anglo American available profit rose from R139,9 million to R162,2 million. At Anglovaal taxed profits dropped from R43,1 million to R36,4 million, but available profits after providing for capital expenditure dropped only from from R31,1 million to R29,7 million.

Clearly, the industry is not yet problem-free, but conditions have definitely improved, as Clem Sunter, chairman of the Anglo American gold and uranium division said this week: "We are beginning to see light at the end of the tunnel".

This is the result of the industry realising about 18 months ago that it had to drastically rethink its way of operating if it was going to survive.

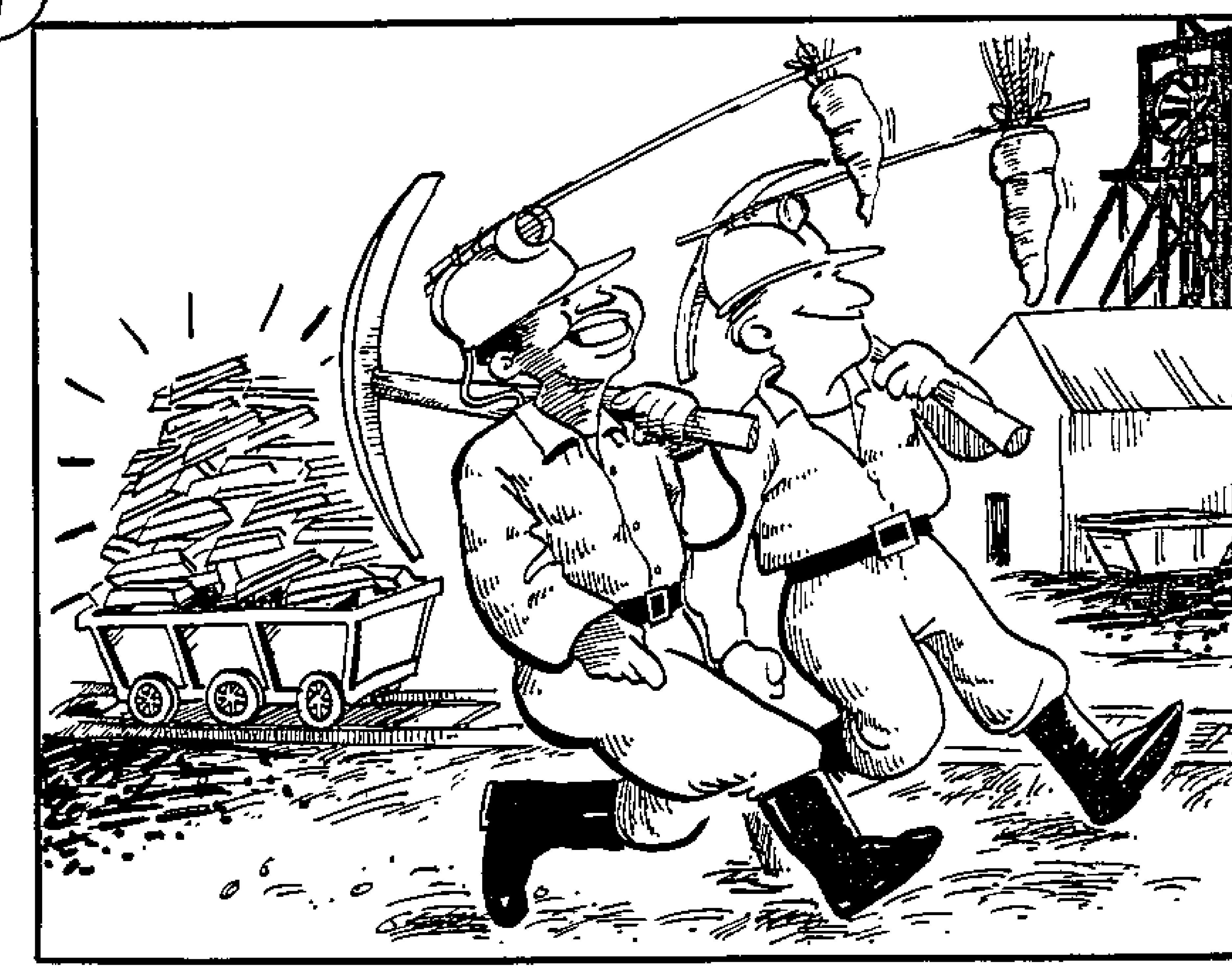
Spreading costs

Until then it had been trying to fight inflation and the low gold price by increasing production in order to spread overhead costs over a larger tonnage. Costs a ton was the industry's yardstick. But this policy was not successful and the mining houses realised that costs a kilogram was what they had to watch.

This meant that they had to mine higher grade ore. It meant that costs also had to be reduced. It brought home the fact that spending millions of rands milling marginal and sub-marginal ore was not very profitable.

The result was a major cost cutting exercise which among other things unfortunately led to the retrenchment of tens of thousands of workers. It also resulted in greater emphasis on selective mining and working higher grade ore.

One bright idea was the introduction of the bonus scheme, which holds great promise for the industry, as JCI is finding out.



The fruits of this policy now can be seen on many mines. Profits are strong and rising and the industry looks set to survive and prosper.

But it also means that any increase in the gold price could see gold mining profits jump. "Give us a small increase in the gold price and you won't recognise the industry," a mining official said this week.

With Mr Boris Yeltsin, president of Russia, reporting yesterday that the Soviet Union had "transferred" about 350 tons of a gold abroad in the past six months, an increase in the gold price in the coming months seems a strong possibility.

Analysts point out that if all this gold were sold, it means that the market has been absorbing an extra 1 800 000 ounces a month. This is some 300 000 ounces more than the monthly output of this country — the world's largest producer.

Analysts contend that if the market can absorb this amount of extra gold without the price gold falling below $340 an ounce, the prospects are good for a sharp recovery in the gold price once the Russian selling ceases.

But while the gold mines and their shareholders undoubtedly would like to see a rise in the gold price, there is a feeling among some economists that perhaps this time around any abnormal rise in the gold price should be sterilised or contained before it can harm the rest of the economy.

When a gold mine finds itself making sharply increased profits it can either spend the extra cash on new works to improve profits or give 50 percent (in some cases it used to be 77 percent) of it to the Government and distribute what remains to shareholders.

As nobody likes paying taxes the gold mines usually follow the first course. The result is that immediately after an increase in the gold price the mines place orders for billions of rands for new equipment. The result is that wages and other costs soar in the mining, manufacturing and construction sector, inflation accelerates, export industries collapse and the country is again heavily dependent for its prosperity on the uncertain prospects of the gold mining industry.

Next time around economists are hoping that steps will be taken to prevent such a situation developing — such as letting the mines to keep the extra cash in a reserve, so they neither have to spend it nor pay tax on it.

Growth potential and leverage now guiding investors in golds

Star 22/10/91

By Neil Behrmann (49)

LONDON — Gold share price leverage to changes in the bullion price is higher now than any time in the past, says Williams de Broe in a study of the mines.

This in-depth report is interesting because it is not based on wishful thinking about the gold price. In fact, there is an absence of any view about the price.

This appears to be the correct stance since the metal has mainly traded within a $350 to $380 range for several years and has broken out of the band for only brief periods.

Bullion market participants believe the trend will continue in the forseeable future but that sometime this decade gold will surprise the market and jump into a significantly higher trading band.

Given the extent of international disinflation and economic slowdown, however, it is premature to be over-optimistic about bullion in the short term. By the same token, one should not be too bearish.

So Williams de Broe's premise is probably the correct one. Applying the firm's assumptions, gold shares can be traded profitably.

The firm's criteria for recommending a South African gold share is for the mine to be able to raise cash flow and dividends during periods of unexciting gold movements.

For this reason the firm is particularly interested in South Africa's second generation mines such as Deelkraal and Elandsrand.

Reduce holdings

Growth of those mines will continue well into the 21st century, says the firm.

Other mines rated as a buy are Driefontein, Harmony, Kloof, Unisel and Western Deep.

The firm is advising its clients to sell Buffelsfontein, Southvaal and Winkelhaak and reduce holdings in Vaal Reefs and Kinross.

Applying present value calculations that do not factor in inflated annual gold prices to the end of mines' lives, Williams de Broe estimates that SA gold shares are discounting a bullion price of $410 an ounce.

Nevertheless, the calculations favour special situations that take into consideration growth potential and leverage.

A $10 change in the gold price, for example, has the same impact on earnings that a $180 change would have had in 1980, says the firm.

Putting it another way, a 3,5 percent move in bullion has the same effect on the share price as a 30 percent change a decade ago.

In the next two years, Williams de Broe foresees marginal increases in SA gold production because companies are adopting more selective mining practices.

"Mines such as Deelkraal and Winkelhaak have learnt to their cost, the pitfalls of keeping dividend cover low. They have been forced to shelve shaft programmes vital to their long-term existence.

"Two years ago, a mine might have boasted about its ability to maintain future gold production at current levels.

Market ratings

"These days, as managers pursue a higher margin, lower volume strategy, premiums are once again being awarded for growth potential.

"For confirmation one need only examine the market ratings bestowed on Kloof, Elandsrand and Western Deeps."

They trade on much higher price earnings ratios than other gold shares.

BUSINESS

Save the Soviets — by hiking the gold price

B/Day 23/10/91

79

Award-winning British financial commentator CHRISTOPHER FILDES reports from Bangkok and offers a golden solution to the world's money crunch.

LONG on goodwill but short on solutions, the 14 414 delegates have headed home from Bangkok. Time was when no meeting of the IMF and World Bank was complete without a plan. I now propose mine.

It answers the two questions that hung over the meetings, unresolved. What can be done for the Soviet Union? And what can stop one country's needs from scooping the pool?

My plan is twofold. The world's central bankers and finance ministers should agree to force up the price of gold and to move the World Bank to Bangkok.

Gold is the Soviet Union's best bet — its most saleable export and its only bankable asset.

Soviet gold production is second only to SA's. Grigory Yavlinsky admitted to the IMF that the Union had been selling its reserves to pay its bills, but it still claims to hold 240 tons, and surely has more under the bed. The KGB is thought to have a reserve of its own.

For a dozen years the Soviet Union has watched the price of gold fall by almost two-thirds. At first the IMF and its member countries, prompted by the US, conspired to drive the price down, dumping gold on the market in a series of auctions. Then the gold mining companies learned to sell their production forward as security for loans. Then came the forced Soviet sales.

The world's biggest holders of gold, the central banks, have let it happen. For years now they have sold little gold and bought less or none. They just sit on their reserves like self-satisfied hens sitting on addled eggs.

The IMF's figures show that since 1987 the industrial countries' gold reserves have fallen by just over 1%. Their value, however, has fallen by a quarter. On the IMF's calculations, these countries' loss on their holdings of gold is more than $40bn.

You might have thought that the central banks, holding investments on this scale, would have condescended to manage them to protect their value. You would misunderstand their attitude to gold. They resent it, as a competitor to their own branded products.

How agreeable for a central bank to have a monopoly over the supply of money.

How agreeable, too, for the IMF to issue its own reserve currency — the special drawing right — designed and described as "paper gold." How inconsiderate of providence to have stopped the earth with the genuine article, and what a shame that, for most of history, most people have learned to prefer it.

Providence though, may have known best.

A higher price for gold would be the quickest way, and now almost the only way, to help the Soviet Union. It would, of course, help SA too — and, on the cusp of change, how perfectly timed that would be. Many other deserving causes stand to gain, including sub-Saharan Africa.

Ghana, Sierra Leone, Mali, Zaire and Zimbabwe all mine gold. Sierra Leone might even be able to pay off its debt to the IMF and borrow some more.

The biggest gainers would be the central banks themselves — and they, too, could use the money. They stand behind banking systems which show ominous signs of strain.

While the bankers were talking in Bangkok, Norway's second bank was declaring insolvency and the US's biggest bank, having lost a billion dollars, was passing its dividends. A world with a shortage of credit must want to see its lenders build up their reserves. Western central bankers used to operate a cartel to hold the gold price down — until, 25 years ago, they were driven off, defeated. Now they should come back together and buy.

That, though, will not placate the developing countries without gold in their vaults or the ground. In Bangkok, they grumble: why could the Soviet Union, which has not even joined, be allowed to take over the meeting of the IMF and World Bank? It may suit the superpowers, but what is in it for the members?

The World Bank's formal title is the International Bank for Reconstruction and Development. It is, though, based about as far as possible from a developing country — in Washington. The US is its biggest shareholder, with a blocking vote, its chairman is by tradition an American.

Time after time the US installs a new chairman with a brief to sort out the World Bank. Every chairman then falls out with the government, and vice versa. Lewis Preston, the newly-installed chairman from Morgan, has already slapped down the US Treasury: "You don't run this bank. I run this bank." His office and the Treasury are four blocks apart. It is as if the World Bank had opted to live next to its mother-in-law.

The arrangement suits neither side, and it leaves the World Bank looking like a company with an old-fashioned grand head office.

It is large, it is compendious, it has a department and a policy for everything, it generates a vast amount of paper and spends a fortune on air-tickets. A group within the bank has been trying to move it to Bonn.

The World Bank should go all the way — to Bangkok. The shake-up would bring the bank to its markets and its membership.

The members would learn in Bangkok something they will never learn in Washington — what a developing country can do for itself. The Thais have sustained a growth rate of between 6% and 10%, and over time have kept their inflation below that of the US. It can be done without gold.

For myself, I should need to make periodic visits of inspection, to call on Preston and see how my plan is getting on. No doubt the World Bank could run to an air ticket. — Daily Telegraph.

Gold steady amid flurry of interest

B Day 23/10/91

JOHN CAVILL

LONDON — Growing credibility over claims that Soviet official gold reserves are only 240 tons, plus news that Newmont Mining of the US has stopped hedging forward in bullion, kept the metal's price above $360/oz for the third day running.

Speculative interest in New York is rising. In a week of buying interest on the futures market the Commodity Exchange (Comex) has lifted the open interest in gold positions by 18% to nearly 103 000 contracts of 100 oz each — equivalent to 10,3-million oz of "paper" bullion.

The main drive has come from the Soviet Union. Comments by former Soviet prime minister Nikolai Ryzhkov confirmed the claim by the economist Grigory Yavlinsky that the country's gold reserves were only a fraction of outside estimates.

Meanwhile in London, Gordon Parker, chief executive of Newmont Mining and its 90% owned subsidiary Newmont Gold, said: "The outlook for the physical gold market has never looked better."

Options

79

The group, which has made $80m profit from selling forward in the gold futures market since 1988, stopped buying put options "a considerable time ago".

In the first six months of 1991 it made $31/oz from gold options and payments on a 1-million oz bullion loan taken out when the price was higher.

The Newmont admission came as volume of trading on Comex picked up — from 23 000 contracts a day to 28 000 — and indications that it was on new investment rather than covering in short positions.

London traders said that producers were now holding off forward sales after a flurry last week when the gold price approached $360/oz.

"The Russian bear is a vanishing spectre and producers are beginning to realise there really is a cushion below $350," said one analyst.

"What Newmont's decision means is that they reckon there is more to be made out of selling on the spot market because the maximum available through the contango (premium over spot) on six months' forward sales is around $10/oz.

"We could be seeing a change of mood even though there will be profit-taking," he said.

East holds key to gold prospects

BDay 30/10/91 (79)

MATTHEW CURTIN

THE booming economies of the Far East and Southeast Asia hold out the best prospects that gold jewellery demand will take off in the next few years, and with it the prospect of better gold prices, says Johannesburg Consolidated Investment (JCI) gold division chairman Kennedy Maxwell.

Maxwell said yesterday that in countries like Thailand and Malaysia, people placed a high premium on acquiring gold jewellery as an investment once they were able to clothe and feed themselves adequately.

He said the economies of the East were looking at growth rates exceeding 6% a year. He noted that in the increasingly prosperous southern regions of China, demand for 24-carat gold jewellery from Hong Kong would be about 150 tons this year.

The World Gold Council had recently set up offices in several countries like Thailand and was successfully promoting gold jewellery.

The Far East accounted for 660 tons of gold fabrication demand — more than 80% of which is made up by gold jewellery demand — in 1990. Total world demand (excluding the Soviet Union and China) was 2 400 tons, of which Europe accounted for the lion's share of 730 tons.

Maxwell said he was not confident the European and US ecomomies were pulling quickly out of recession, and jewellery demand from these countries would be flat.

Speaking at a JCI gold division presentation to members of the Investment Analysts' Society yesterday, Maxwell reiterated that the group's proposed South Deep mine would not be given the green light until market conditions improved.

South Deep project GM Thys Lourens said work at the potential "super-mine" focused on improving its prospects through development work. JCI was determined to have as accurate a picture as possible about the underground conditions which would be met when the mine went ahead.

He said latest results from South Deep's "high density drilling programme" had confirmed original grades which in some cases turned out to be better than expected.

Speaking on the scope for innovation in SA gold mining, JCI technical spokesman Lester Napier said the South Deep mine would require new approaches to make mining operations as efficient as possible.

If South Deep went ahead, it would be one of the deepest mines in SA, exploiting the Elsburg reefs at depths of up to 2 750m.

An innovation which would be applied to the new mine was hydrohoisting, whereby material was pumped to the surface with water.

AT THE FM CONFERENCE

Gold set for long-term trade below $400 level

(79)

Star 1/11/91

The price of gold will show an upward trend within a range of $350 to $400 — but it will not maintain a level far above $400 for a prolonged period, says Swiss Bank Corporation director Alfred Schneider.

Speaking at the Financial Mail's Investment Conference today, Mr Schneider said the liberalisation of financial markets internationally and the creation of innovative financial instruments reduced the demand for gold.

In addition the ability of the international community to contain political conflict had also dampened the attractiveness of gold as witness during the Gulf crisis and the collapse of the Soviet empire.

It raised the question whether precious metals, particularly gold, had finally ceased to function as a safe haven in times of crisis.

"There is no doubt that gold no longer glitters as brightly as it once did," he said.

However, at the same conference Gengold MD Gary Maude said South Africa needed a gold price of $650 in order to introduce a new mine such as Beatrix.

He said yesterday that the new mines must produce at least 6 g/t per ton in order to be profitable.

From an industrial point of view, Mr Maude said managment had to walk a delicate path between looking after interests of shareholders and workers.

Mr Maude warned of the following danngers facing the industry:

- A rand/dollar exchange rate, which he sees at above R3,20 during 1992.
- A retrenchment rate which is among the highest in the world.

Giving reasons for the the demise of gold as an investment vehicle, Mr Schneider said monetary policy in the 1980's had become increasingly stable and reversed the previous trend of negative long-term interest rates, which provided investors with attractive alternatives to the metal.

Gold holdings

The trend by several central banks to become more active in the management of their reserves also led to a reduction of gold holdings in an effort to reduce external debt and finance budget deficits. As a result more than 200 tons have been placed on the international market in 1989 and 1990.

Another negative blow to its performance was the practice by producers to sell forward.

Mr Schneider said critics of forward sales pointed out that for every additional five tons of gold sold forward, the price fell by $1.

He added the downward trend in the gold price, particularly in the long term, generated uncertainty among potential investors who gradually lost confidence in gold.

"It is more probable that gold prices will increasingly reflect the fundamental relationship between supply and demand, as is the case with base metals," he emphasised.

However he dispelled any fear that the gold price might plunge below unacceptable levels saying that despite wide fluctuations a minimum price level could be established.

This level, he said, was reached when profitability of mining companies was no longer guaranteed.

In this regard he said South Africa had experienced great difficulties with some 50 percent of producers falling into the high-cost porducer category — and could not make a profit if gold was below $380 for a prolonged period.

Mr Schneider said he was optimistic about the long-term prospects for gold with demand "quite favourable".

"Although speculation is likely to play a secondary role, demand for gold fabrication will continue to grow," he said.

The gold price had bottomed out and would, apart from brief relapses, not decline any further.

But, despite his optimism, he conceded investor demand would probably be conservative for the time being.

"This all leads me to believe that the future outlook is more favourable, but that we can probably not expect a sharp rally," he concluded. — Sapa.

GOLD QUARTERLIES (99)

Well held, sir! FM 1/11/91

The slightly higher rand gold price, smooth passage of this year's wage negotiations and overall good cost control contributed towards favourable and, generally, better-than-expected September quarterly results.

Coming after the turnaround in June, this underlines the resilience of the industry and its successful adaptation to strained circumstances. However, steps such as cutting capital expenditure to the bone have worrying medium-term implications, though the mines have no alternative if they wish to survive beyond the short term.

A higher gold price is desperately needed. When it comes, shareholders cannot expect to reap immediate benefits, as mines will have a lot of catching up to do on capex and will also face renewed union wage claim pressure.

Average gold revenue of R1 046/oz was 2% up on the June quarter's average of R1 028 and about 5% up on the R998 of September 1990.

Ed Hern, Rudolph gold analyst Grahame Graham-Parker says average industry production costs rose just 2% to R823/oz (June quarter: R808). That compares with an average of R812 for the 1990 September quarter. Capital expenditure of R455,2m is 1% down on June's R460,5m and 27% down on

Continue →

 FM 1/11/91. (99)

R624m in the 1990 September quarter.

Moving to the bottom line, Graham-Parker says industry net profit is 6% up at R348,2m (June: R329,1m) and 142% up on the R144,1m earned in September 1990.

Those figures reveal the dramatic turnaround achieved by rationalisation of operations, cost-cutting, retrenchments, raising grade and cutting capex. They also show the industry's gearing to the gold price, with a 2% increase in revenue resulting in a 6% rise in net profits.

So far, so good; but unless the gold price improves markedly a number of mines will start running into the medium-term consequences of their actions. Pushing up grade reduces payable ore reserves available, which is compounded by cutting the development work needed to open up new reserves.

Eventually, a mine which allows these trends to run too far will not be able to maintain production rates, which will play havoc with cost control and threaten its continued life. **Leslie** is finding it increasingly difficult to maintain gold output at current pay limits while **West Rand Cons** is back to the brink of closure because it's fast running out of payable reserves. The underground yield slumped 18% to 4,5 g/t (5,5 g/t).

Chopping capex has a number of adverse implications for the longer-term life of a mine because stopping work on, for example, a new shaft means delays in getting at the ore reserves intended to be mined from that shaft. If those new ore reserves are earmarked as replacement tonnage for areas being worked out then, once more, long-term viability is at risk.

At best, capex delays mean higher costs because of inflation when work is eventually restarted and lower profitability from the project.

Deelkraal was a star performer during the September quarter but work remains suspended on the new No 3 shaft, intended to allow further expansion and ensure the mine's long-term future by gaining access to deep-level ore reserves.

Vaal Reefs has taken advantage of current gold price levels, which are higher than initially forecast by Anglo American management, to re-instate some suspended capital works. Capex is now forecast to reach R310m for the year to December compared with the previous estimate of R276m.

Any resurgence in the gold price must trigger heavy catch-up spending, particularly by mines like **Harmony,** which spent a mere R500 000 on capex in the past six months.

Other outstanding performances came from **Harmony,** where underground rationalisation seems to have started delivering the goods, **Randfontein, Deelkraal** and **Unisel** which, at last, appears to be matching management's optimistic forecasts.

Poor results came from **Loraine, West Rand Cons** and **Venterspost,** while **H J Joel** turned in a frustratingly mixed performance. Gold production jumped 17% to 1 524 kg as grade and throughput increased but unit working costs also soared 17%, which was attributed to "the annual wage increase and higher-than-expected machine maintenance costs."

Brendan Ryan

ANC secretary-general Cyril Ramaphosa chats to Mr Justice Cecil Margo during a break at yesterday's FM investment conference in Johannesburg. Picture: ROBERT BOTHA

Govt interference 'will jeopardise gold's future'

B/Day 1/11/91 (79)

MATTHEW CURTIN

A FUTURE SA government would jeopardise the prosperity of the gold mining industry as prices improved in the '90s if it did not resist the temptation to interfere in the running of the gold mines, Gengold MD Gary Maude said.

Maude said he was "not downhearted, but apprehensive" of the industry's future.

Demand for gold would overtake supply in the '90s, pushing the price up to $450/oz or more.

However, the interests of all parties involved in the industry would have to be balanced if the gold mines were to survive.

Maude said he was not concerned with who came to power in the new SA, but with how competent the government would be.

Policies aimed at devaluing the rand — Maude welcomed the Reserve Bank's reluctance to do so in recent years — and the imposition of expensive requirements on the industry would be damaging. It was up to the mines to decide levels of spending on education, safety and the environment, as well as controlling employment and rates of pay.

Inflated manning levels, minimum wages and retrenchment pay-outs had typically scuppered mines in the rest of Africa, and they were now approaching SA to help them back on their feet.

Maude said that today he was most concerned about the use of the mines as a battleground for political groups.

The violence and unrest which two mines within the Genmin group, Impala Platinum and Winkelhaak gold mine, had experienced could not be resolved by the companies and were potentially disastrous.

In the past 20 years, the rise in the cost of producing gold in SA had outpaced inflation, whereas there had been a substantial redistribution of mine profits to black mineworkers through improved wages.

Black wages in the industry were "pathetic" before Anglo American took the lead in raising wage rates as the gold price rocketed at the end of the '70s.

One consequence was that in the current times of a low gold price it was harder for the industry to survive.

In 1990 17% of gold production and 22% of gold mining jobs were at risk.

The steps the industry had taken in the past year meant that now only 5% of gold production was in jeopardy, with only 7% of jobs on the line. Many jobs had been lost, but fewer mines were likely to go out of production, so there was a nucleus from which the industry could expand when conditions improved.

"The industry is now in a difficult but manageable position," Maude said.

While he was "bullish" on the gold price in the '90s, Maude said it would have to improve substantially for new mines to be developed.

Chinese and Russians go for gold

79

S Times (BUSS) 3/11/91

DIAGONAL STREET by Julie Walker

CHINESE and Russian demand for gold will certainly help to narrow the gap between supply and offtake in the next few years.

This is the finding of JCI gold division chief Kennedy Maxwell, who has returned from a tour of the Far East and South-East Asia.

Mr Maxwell and management from the gold division gave a presentation on gold and JCI's prospects to the Investment Analysts Society in Johannesburg this week.

He reports that Chinese demand for 24-carat Chuk Kam jewellery from Hong Kong, particularly out of the more affluent Canton, is expected to reach 150 tons this year.

In addition, China will probably produce 100 tons of gold, none of which is expected to be exported.

Mr Maxwell believes that gold demand from the large Muslim population of the southern Soviet Union will grow.

He says that after basic necessities of food and clothing, gold is the most popular purchase by Chinese and other Asians and a similar trend is likely to emerge in the southern Soviet states.

Also on a positive note, Mr Maxwell notes a reduction in forward sales of gold and gold loans particularly in America, both of which have hitherto depressed its price.

Promotional efforts by the World Gold Council have resulted in increased sales in those areas of the East where it has been active. This year it has opened offices in Thailand and Taiwan. It is looking at Indonesia, Malaysia and Singapore. Vietnam will have to wait.

The economic growth rates of almost every country in that region exceed 6% a year. Japan is predicted to grow at 3,5% off a huge base.

Mr Maxwell says that if the Soviet economy disintegrates, the dollar will climb and he expects gold to do the same.

Russian gold production is suffering and recovery of metal is poor.

Production by the top five gold nations is expected to level and decline in the next few years.

JCI's team presented recent technical developments. Most interesting was the enforced conversion of underground cooling from soon-to-be-outlawed CFCs to ammonia.

Ammonia was used for 32 years until the introduction of CFCs in 1972. Why ammonia was dispensed with is a mystery — its performance beats CFCs hands down from both capital and operating aspects.

The risk involved in its use is supposed to be higher than with CFCs, but not one ammonia-linked fatality was recorded in its 32 years of use in SA.

Progress in labour relations was also highlighted. Human resources chief Andre Geldenhuys spoke of

KENNEDY MAXWELL

the improvements achieved through participative management.

He said that although the hostels of Randfontein Estates miners were in a hotspot, there had been no trouble on the mine for two years — a fact he attributed to the improved industrial relations environment.

Although miners came from a broad political spectrum, employees recognised that company policy was to be adhered to in working relationships.

Progress at South Deep confirms the values forecast in the prospectus.

Mr Maxwell said the venture would get the green light only when the market could provide the capital required to establish the mine.

An outline of longer-term plans at Randfontein's Doornkop South Reef project was also given.

Randfontein shares added 50c to R14,50 on Wednesday even though Doornkop is only on the drawing boards.

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eople make ade- nt and they are rusts are a great way to long-term growth and post-retirement capital.

This will become even more important if certain pension funds do not pay the full benefits that are currently relied on.

Several trusts were launched in the past few months. The Board of Executors introduced a unit trust-linked investment that hedges equity exposure with risk-free holdings in gilt stocks.

Syfrets launched its second general unit trust, the Trustee Trust, to serve the beneficiaries of many of the trusts which form a large part of the company's original business.

Last week, Old Mutual launched a blue-chip-only fund excluding gold and property investments. It gives portfolio managers more scope with liquidity levels.

Dr Lambrechts hears that Sage is to establish an income fund.

● Gad Ariovich, economist from stockbroker Fergusson Bros Hall Stewart & Co, is to replace Chris Mostert as deputy registrar of unit trusts.

Dressin

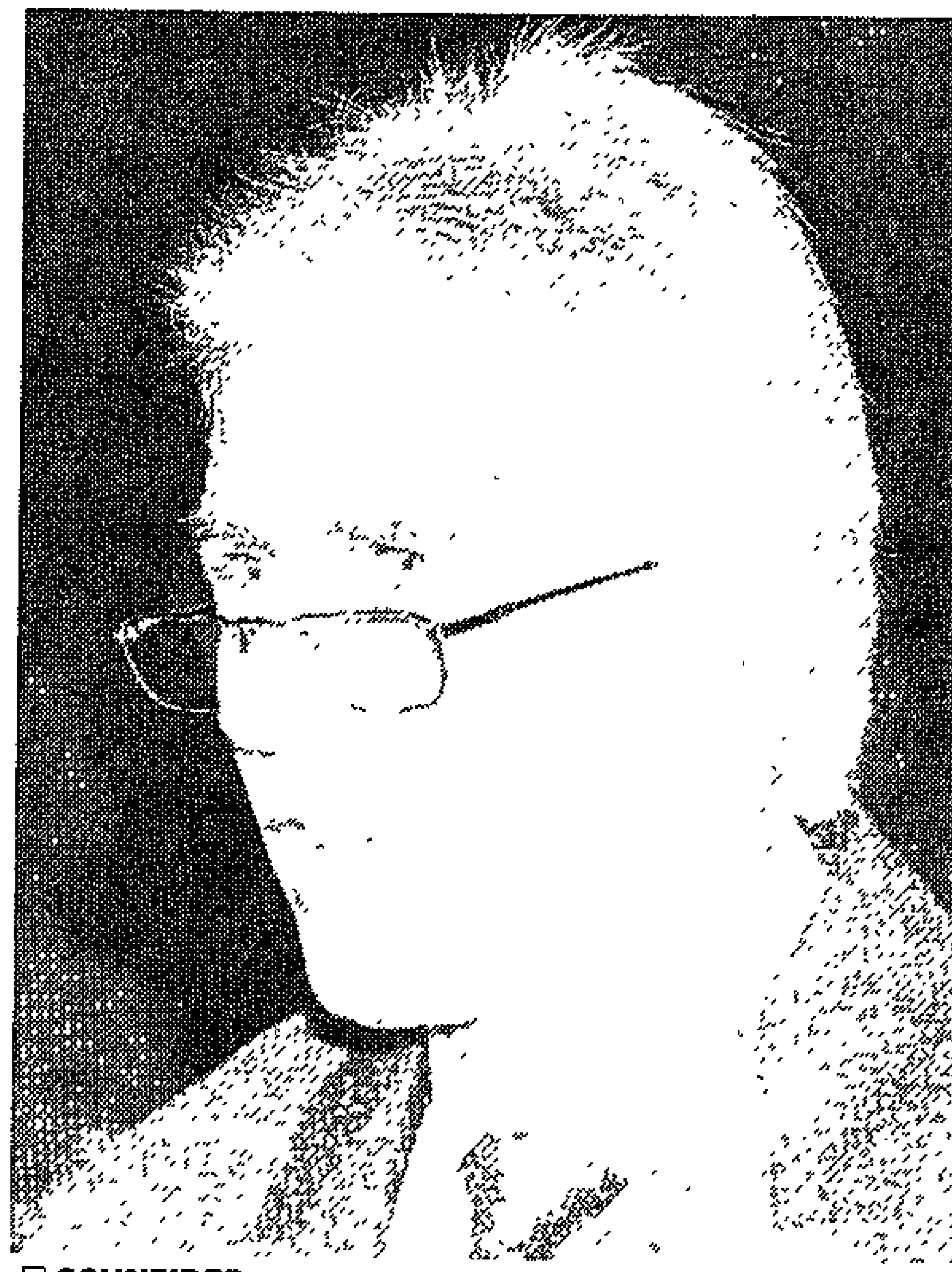
SOME furniture retailers are br

FM INVESTMENT CONFERENCE

Outlook for gold good in long term

(49)

BDay 4/11/91.



SCHNEIDER

Picture CATHERINE ROSS

THE gold price will show an upward trend within a range of \$350-\$400 — but it will be difficult to maintain a level much above \$400 for a prolonged period, says Swiss Bank Corporation director Alfred Schneider.

He told the FM investment conference on Friday that liberalisation of financial markets internationally and the creation of innovative financial instruments reduced demand for gold.

He posed the question of whether recent structural changes in the international gold market had tarnished the role of the metal, reducing it to a commodity with a value determined mainly by the jewellery industry.

The international community's ability to contain and control conflict was illustrated by the non-reaction of the price of gold and other precious metals during the Gulf crisis and the collapse of the Soviet empire. This raised the question of whether precious metals, particularly gold, had ceased to function as a safe haven.

The end of the Cold War and the assumption that international conflicts could be controlled, coupled with the fact that markets had shown no expectation of a dramatic acceleration in inflation or economic destabilsation since the last oil price crisis more than 10 years ago, had reduced the importance investors attached to gold.

In the '80s monetary policy had become increasingly directed at maintaining stability and inspiring greater confidence, while the reversal of negative long-term interest rates, because of high inflation, provided investors with attractive alternatives to gold.

Central banks' tendency to become more active in the management of their gold holdings had led to a reduction of such holdings in an effort to reduce external debt and finance budget deficits. More than 200 tons of gold were placed on the international market in 1989 and 1990.

Central banks' increased gold dealing activities had affected the metal's performance, Schneider said.

Forward selling knocked a dollar from the price for every five tons sold.

Gold's downward trend, particularly in the long term, generated uncertainty among potential investors. The metal's price was likely to reflect supply and demand, as was the case with base metals.

Despite wide fluctuations a minimum price level could be established. This level was reached when mining companies' profitability was no longer guaranteed.

Schneider said he was optimistic about the long-term prospects for gold.

"Demand for gold fabrication will continue to grow," he said. The gold price had bottomed and would not — apart from brief relapses — decline any further. However, investor demand would probably be conservative for the time being. "This all leads me to believe that the future outlook is more favourable, but that we can probably not expect a sharp rally." — Sapa.

THE WEEK AHEAD by Simon Willson

Build-up in gold and forex reserves likely to continue

(79) (4)

Biday 4/11/91.

OCTOBER's SA gold and forex reserves, due out on Friday, should show another sizeable improvement and continue the figure's year-long build-up.

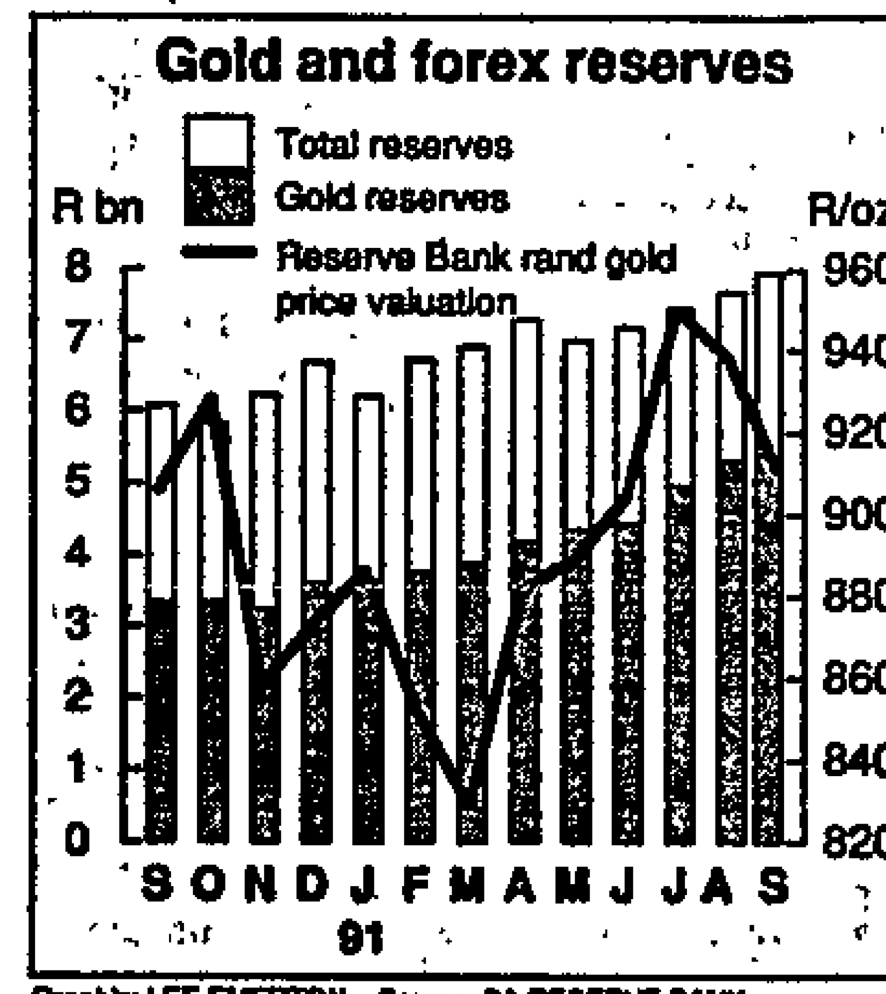
The September reserves level of R8bn was itself a dramatic jump from the R6,2bn level posted 12 months earlier. Indeed, the performance of the reserves remains one of the most tangible signals that the economy is emerging from the bleak years of the mid-'80s.

At R8bn, the reserves in September stood at a record total in nominal rand terms. But, as the Reserve Bank Governor reminded markets last week, the total is still only around two-thirds of the way towards the Bank's target. The authorities' aim is that reserves should cover three months' imports — a common "good-housekeeping" benchmark for the variable that is widely observed as a minimum in many other countries.

The Governor may have needed to raise the profile of the reserves target to dispel any complacency that may have been spreading in the wake of the remarkably steady improvement in the reserves total since mid-1989. But, as the Governor also mentioned last week, the reserves could hardly have gone anywhere but upward in the two years since the dark days of mid-1989. At that stage the meagre total of gross reserves was barely R5bn and was, in effect, already spoken for by the Bank's own outstanding short-term foreign liabilities.

The big difference now is not only the higher reserves total at R8bn but also the fact that there are no foreign liabilities to set against these reserves. Even this sharp turnaround in what used to be a fairly dismal set of figures is not, however, enough for the conservative economic management now being practised by the Bank. The authorities are on a longer-term drive to rebuild reserves and are confident they can do so given the positive outlook for the current account surplus next year.

The Bank is expecting an appreciable increase of about R500m in the October reserves, taking the total for the month to R8,5bn against September's R8bn and R5,8bn in October last year.



Graphic: LEE EMERTON Source: SA RESERVE BANK

Internationally, the US authorities made their move on interest rates in easing the overnight Fed funds rate last week by a quarter of a point to 5%. The cut in US rates, together with the absence this week of any significant US economic statistics, shifts the limelight to Germany as a host of fresh data on the newly unified state is due to hit the market.

Economic activity has been slowing in western Germany since mid-calendar year, and analysts are not as confident as they used to be that there is another hike in German interest rates still in the pipeline. A slowdown in domestic orders has been part of the story, and this may continue later this week when September manufacturing orders are expected to turn negative.

German industrial production for September is also expected to be downbeat. German September retail sales, due at the end of the week, may be only very narrowly positive after August's 2% fall. Western German unemployment in October, meanwhile, is expected to be steady or to tick up from September's 6%.

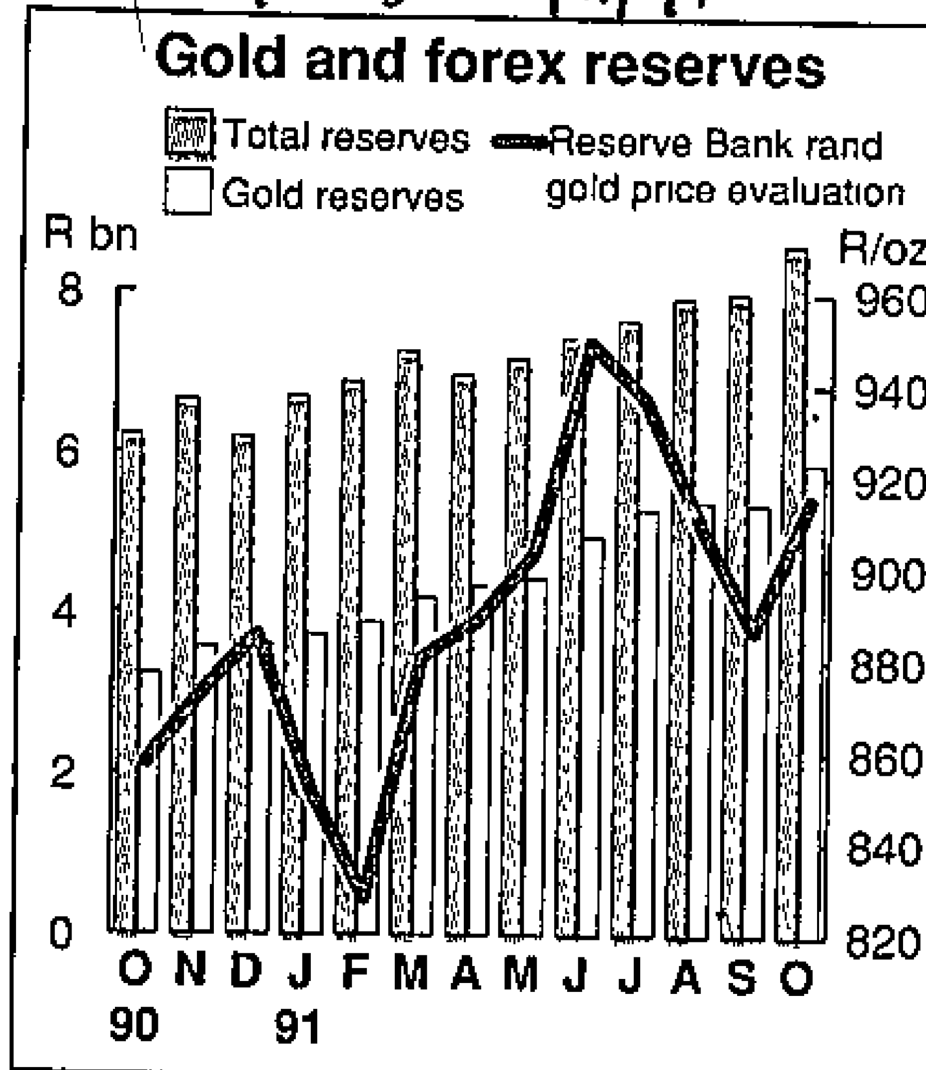
The net effect of this batch of figures will probably be to cool the keen expectations of a rise in German interest rates before the end of the year. Thursday's meeting of the policy-making council of the the Bundesbank is, accordingly, likely to leave rates unchanged.

The key economic event of the week in the UK is the Chancellor's autumn financial statement to parliament on Wednesday. The Chancellor of the Exchequer will be updating the government's fiscal plans for the second half of the 1991-92 financial year and, as with many of the other recent political events of significance, the statement will be the last before the general election that must be held by next July.

As such, it is another vote-winning opportunity and may take the form of a slightly stimulatory mini-budget to prepare the ground for next year's poll. On Thursday the Chancellor's measures will be subjected to immediate electoral scrutiny in three by-elections which may show whether general election votes are likely to have been won over by the autumn package.

Reserves soar to new high

BDay 8/11/91 (49)



Graphic FIONA KRISCH Source SA RESERVE BANK

ANDREW GILL

THE Reserve Bank's holding of gold and foreign exchange reserves soared to a fourth consecutive new high in October aided by a significant boost from continued restocking of gold.

Total reserves increased by R612m to R8,63bn as gold holdings climbed R504,7m to R5,89bn and foreign exchange reserves jumped R107,3m to R2,74bn.

Reserve Bank Governor Chris Stals said at the recent Financial Mail conference he expected reserves to total about R8,5bn in October.

Physical gold holdings increased 360 869 oz (6%) to 6,43-million oz, representing the Bank's withholding of production. Of the 450 tons produced to the end of September, only 85% has been sold abroad,

□ To Page 2

Reserves

B Day 8/11/91 (49)

□ From Page 1

representing 64 tons of restocking.

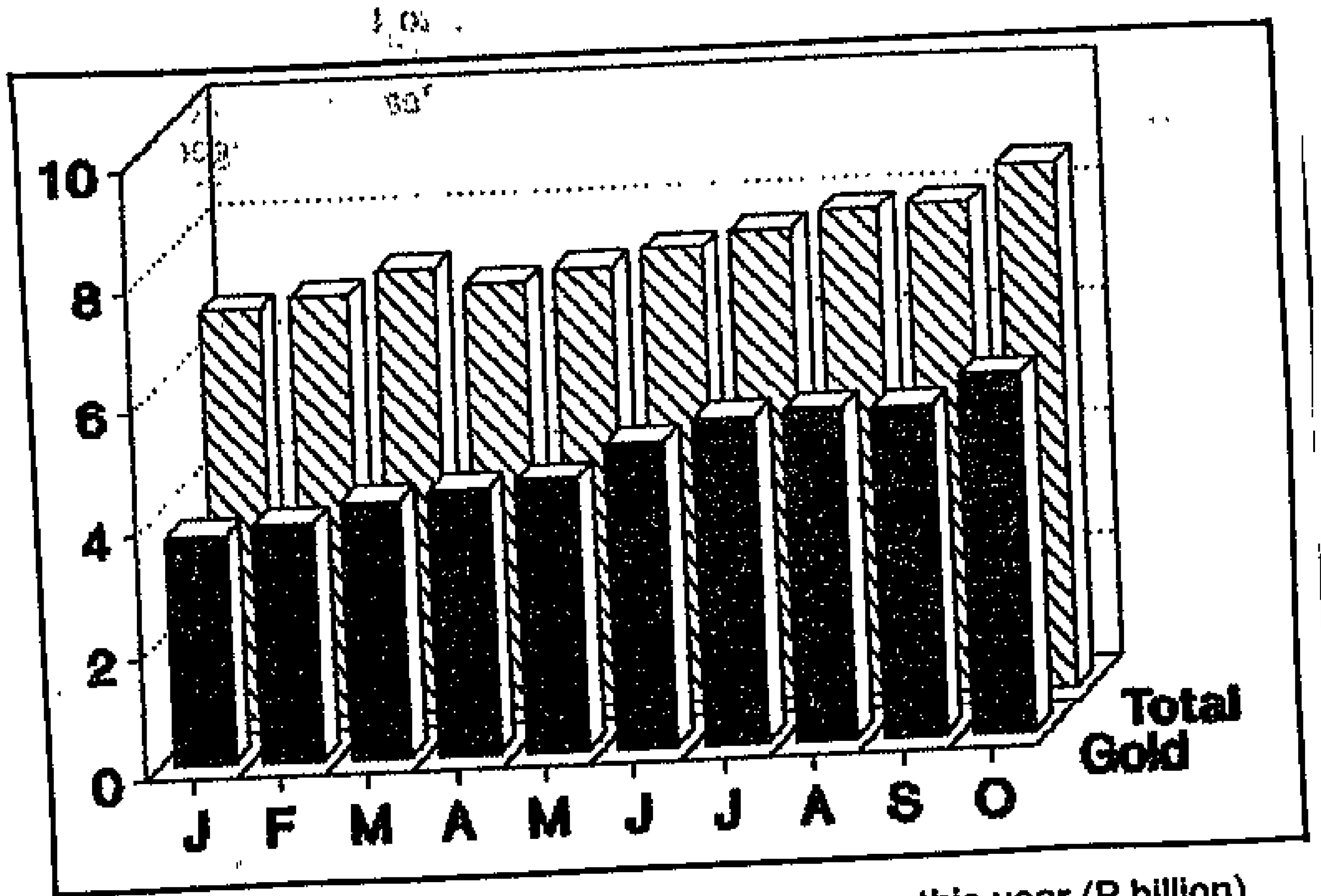
Since the end of 1990 the gold component of the reserves has risen to 68% from 58%. The Bank's gold price valuation (90% of the last 10 London afternoon fixes of the month) was R28,71/oz higher — at R915,53.

Nedbank chief economist Edward Osborn said although the figures were slightly inflated by the weaker rand (R2,832 to the dollar in October), even in dollar terms the rise was significant. Reserves rose $158m in dollar terms.

Reserves now comfortably cover two months' imports, one month short of Stals's three months' target.

Also on the balance sheet were government deposits at the end of October which climbed R1,87bn to R6,6bn, reflecting the Bank's liquidity-draining operations in the flush money market.

Osborn said it was possible that it represented increasing revenues in the wake of the implementation of VAT.



SA's monthly gold and forex reserves this year (R billion)

Gold and forex reserves rise again

By Sven Lünsche

SA's gold and foreign exchange reserves showed a further significant improvement last month, rising to a record level in nominal terms.

The Reserve Bank said yesterday the reserves had surged by over R600 million from R8,014 billion in September to R8,627 billion in October.

The gold portion of the reserves showed the largest increase from R5,384 billion to R5,888 billion on the back of an improvement in both the value and volume of gold held.

Gold holdings increased from 6,07 million ounces in September to 6,43 million ounces last month, valued at R915,53 per ounce (September: R886,82 per ounce).

The foreign exchange content of the reserves rose from R2,63 billion to R2,737 billion.

The combined reserves have shown a virtually uninterrupted rise since this time last year when they stood at just over R6 billion.

However, the level of the reserves is still only sufficient to cover two months of imports of goods and services, which is a month short of the internationally accepted guideline of three months.

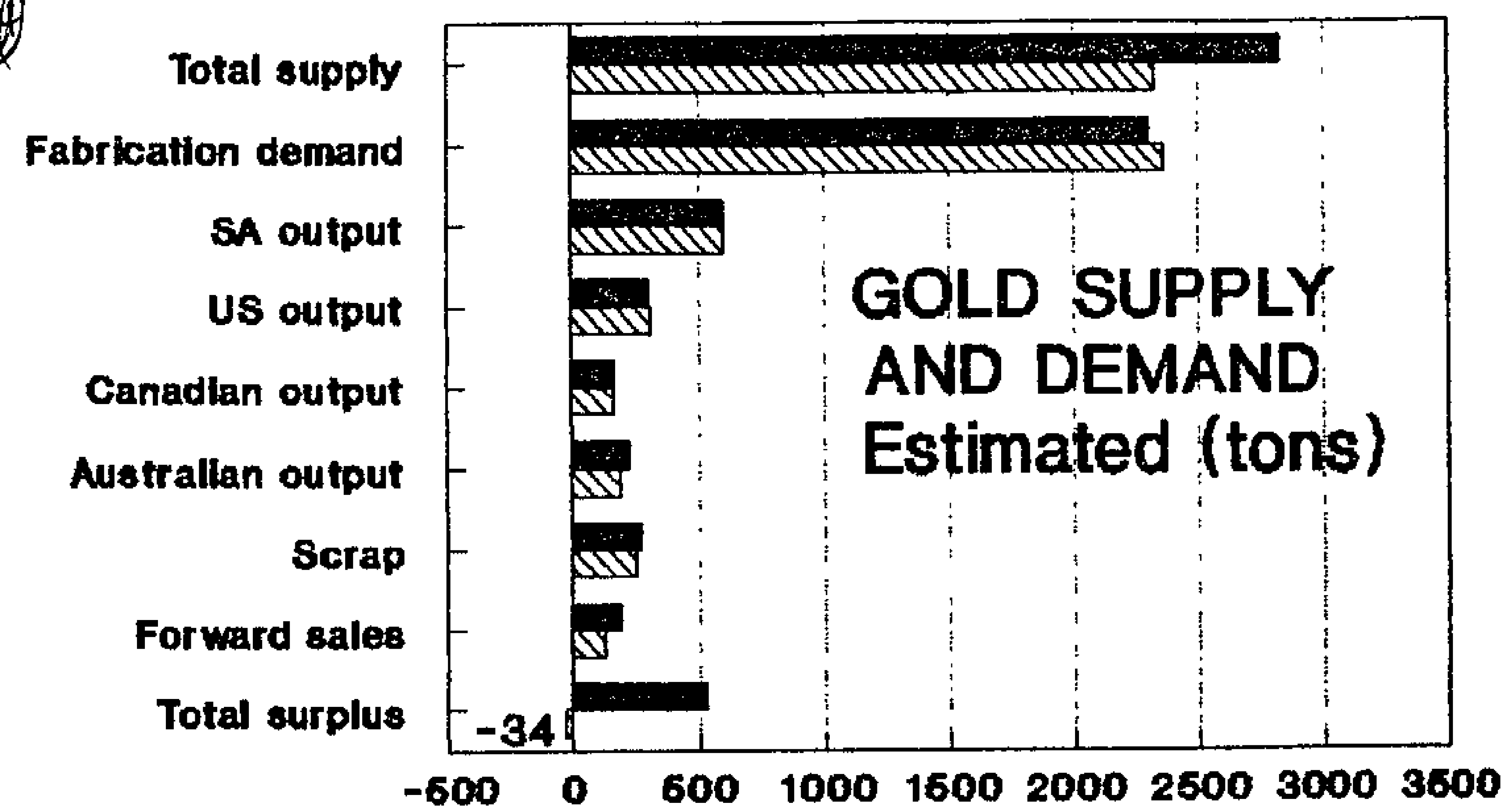
Nevertheless, the Reserve Bank must be pleased with the strong improvement over the past few months, particularly as the pressure on the country's foreign liabilities is rapidly subsiding.

SA borrowers have six foreign bond issues totalling about \$500 million maturing on European capital markets this year, but Director General of Finance Dr Gerhard Croeser is optimistic that all the bonds will be refinanced through new loans.

Analyst sees gold demand exceeding supply next year

Star 15/11/91

By Neil Behrmann (19)



LONDON — The gold market should be underpinned by tighter conditions in the coming year, says Jeffrey Nichols, managing director of American Precious Metals Advisors.

"Gold is approaching a crucial turning point," says Mr Nichols. "Fabrication demand will possibly exceed supplies next year — for the first time ever."

Large-scale Soviet exports will almost certainly end in 1992, while Western mine production, scrap sales and forward selling will be lower.

In the meantime, jewellery consumption is steadily increasing, despite recession.

Mr Nichols, an experienced gold analyst who was originally trained by J Aron, US precious metals dealers, estimates that fabrication demand will rise to 2 364 tons in 1992 from 2 299 tons this year.

Soviet sales

Total supplies, however, will shrink to 2 330 tons in 1992, against 2 824 tons in 1991.

Excluding central bank transactions, coin and bullion investment, the surplus of supply and demand totalled 526 tons in 1991.

Next year, it will rapidly shift into a deficit of 34 tons.

Large-scale Soviet selling can be blamed for gold's lethargic performance in the past three years, says Mr Nichols.

He estimates that Soviet sales jumped to 501 tons this year, against 401 tons in 1990, 320 tons in 1989 and only 230 tons in 1988.

The estimates of recent years are well above those of Gold Fields Mineral Services.

But the key point of the analysis, says Mr Nichols, is that Soviet gold sales have been significantly higher in the past few years than anyone had previously imagined.

"This helps explain why the price of gold has been under almost constant pressure in recent years, despite the continuing tightening in other sectors of the market."

Since exports are well in excess of production, Soviet gold reserves will soon be completely spent, contends Mr Nichols. Thus within a few months, Soviet gold sales are likely to drop sharply.

Exploitation

Meanwhile, Western output is likely to fall marginally to 1 745 tons next year.

As a result of aggressive exploitation of higher grade ores, South African output will remain around 600 tons this year and the next.

US production, mainly as a result of expansion at American Barrick, will climb to 314 tons in 1992 from 299 tons in 1991. Canadian production will remain around 165 tons, but Australia's output is forecast to fall to 187 tons in 1992 from 224 in 1991.

Gold scrap from dishoarded jewellery, coins and electronics equipment will fall to 249 tons in 1992 from 264 tons in 1991.

Although South African companies have stepped up hedging during the past year — to as much as 10 percent of production — net forward sales and gold loans are expected to decline to 124 tons next year from 187 tons in 1991.

Low bullion prices are a powerful disincentive for hedging.

Newmont, for example, has recently announced that it is no longer selling forward. It previously hedged its gold output at much higher prices.

Repayments

Meanwhile, gold loan repayments are rising as production comes on stream.

Despite weaker business conditions in several important consuming countries, demand for gold from jewellery manufacturers is still likely to rise this year.

This strength in worldwide gold jewellery demand is a reflection of continued buoyant economic growth in many of the developing and newly industrialised nations.

Manufacturers in Italy, by far the leading centre for gold jewellery fabrication, have enjoyed a particularly good year.

Compared with the same period the previous year, first nine months gold demand from Italian manufacturers rose 7 percent.

Jewellery usage in the US and UK is down about 5 percent to 10 percent this year. But there has been good demand in the Middle East and several Asian markets.

Mr Nichols expects a further 3 percent growth in worldwide gold jewellery demand to 2 115 tons in 1992 from 2 052 tons in 1991 and 1 984 tons in 1989.

All in all, the gold market appears to be far more promising in the coming 12 months, provided Mr Nichols' projections turn out to be correct.

All eyes on gold rise

Business Staff (79) ARG 18/11/91

ALL EYES were fixed on gold shares on the Johannesburg Stock Exchange today as global bullion prices showed sharp rises on news of a dramatic shrinkage in gold supplies to world markets from Russia.

Bullion was quoted early today at $360,77 an ounce in Hong Kong, the first international market to react to reports that the Russian state bank had run out of gold reserves.

The jump of almost $5 an ounce reinforced gains that began last weekend in New York when the Wall Street share market took a bad knock and investors started to shift funds into bullion to protect themselves from further losses.

The new surge in investor interest was sparked when Kremlin economist Mr Grigory Yavlinsky disclosed that gold reserves held by the Soviet Union had shrunk from over 2 000 tons in 1953 to only 240 tons. ● See page 10.

$360 support level within reach

Gold surges after Russia cancels deals

B/Day 18/11/91 (79)

MARC HASENFUSS

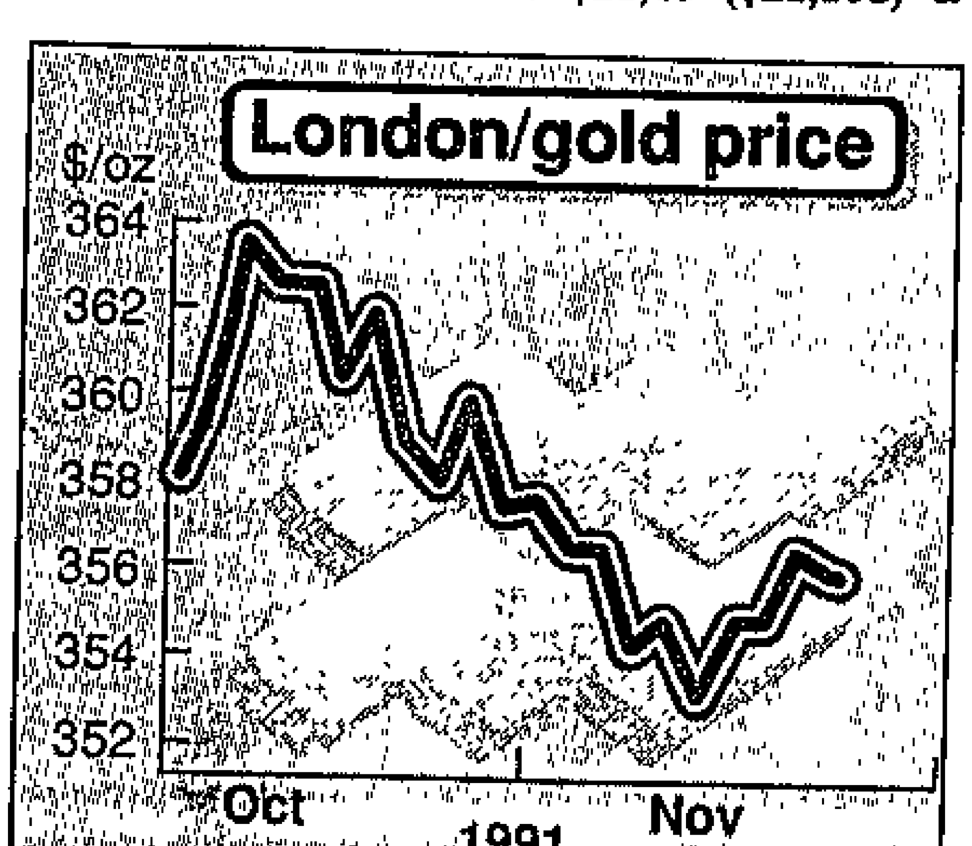
THE latest surge in the gold price could signal the start of a sustainable bull run for the precious metal, analysts said yesterday.

Gold jumped $4,10 to $359,10 in New York on Friday following reports that Russia had cancelled export licences for international oil contracts and was reviewing licences for precious metals, diamonds and coal.

The price held at the higher level in Hong Kong on Saturday, closing $4 up at $359,65 — within striking distance of the $360 support level.

Russian President Boris Yeltsin said on Friday that from next month exports of oil and oil products from Russia would be limited in order to meet the republic's own requirements, particularly during the current winter, Reuter reported.

In reaction, North Sea Brent climbed 33c in London to close at $21,43 ($21,10c) a barrel at the weekend, while in New York West Texas Intermediary closed the week up 30c at $22,67 from $22,37.



Graphic LEE EMERTON Source I-NET

Yeltsin also said Russia was taking control of all oil, gold, diamond and precious stones on its territory.

Reuter reported that it was not clear what the implications of this would be for the current policy of pooling and sharing gold reserves among all the Soviet Union's republics.

Local and international gold analysts said the jump in the gold price supported market perceptions that the price was steadily strengthening.

"The rise is exactly what the gold mining industry needs now ... and we could start seeing a positive trend in the gold price," one analyst said.

Despite the recent volatility in the gold price, analysts were confident it would maintain its stronger showing.

The price is determined by the quantity of metal that comes into the international market and recent reports have suggested that fabrication demand for gold could exceed supply next year.

Gold's weak performance over the past three [illegible] has been attributed to bulk Soviet selling.

Soviet gold sales rose to 501 tons this year, against 401 tons and 320 tons in 1990 and 1989 respectively.

The exclusion of Soviet gold supplies would create a serious supply shortage and continued strong demand, particularly from South East Asia, could spur a signifi-

☐ To Page 2

Gold

B/Day 18/11/91 (79)

☐ From Page 1

cant price rise next year, analysts said.

"The gold market is in balance at the moment ... but if we get a swing toward gold we could see a strong run in the price," one analyst said.

Representatives of SA's gold mining industry took a more cautious line yesterday. JCI gold division chairman Kennedy Maxwell said the rise was nothing to get excited about as economic conditions in Russia remained uncertain. Maxwell said it would be extremely positive news for the mining industry if Russia announced it was withholding the sale of its gold reserves.

Analysts said the gold price was further reinforced by the sharp decline in the US stock market.

On Friday, the New York Stock Exchange's Dow Jones industrial average showed its biggest decline in two years when it fell 120,3 points to close at 2 943,2.

Wall Street analysts ascribed the drop to a "topping action", based on fundamental factors such as there being little money left to be invested in the market.

Observers said it appeared as if the US economy was not coming out of the current recession with the gap between interest rates and inflation narrowing.

● See Page 5

Gold strengthens as Wall St weakens

Star 20/11/91

By Sven Lünsche 79

The gold price continued its firmer trend yesterday after another slump on Wall Street and receding fears of a flood of Soviet gold on to world markets.

The price rose $2,65 to a close of $363,25 in London yesterday, bringing its gain in the past week to about $10.

It rose further in New York last night to $363,90.

Its initial rise last Friday was sparked by Wall Street's biggest one-day crash since 1989 and a volatile currency market leading investors to seek alternatives to equities.

As Wall Street's Dow Jones index fell a further 41 points yesterday, analysts saw renewed interest in the metal from US institutions.

However, a major factor underlying the firmer trend is the market belief that gold sales by the Soviet Union will dip over the next few month.

Jon Bergthiel, gold analyst at James Capel in London, said yesterday news of the Russian state bank running out of gold reserves had boosted prospects for the metal.

The Russian Federation has claimed control over most of the country's foreign currency reserves and its most profitable exports — oil, natural gas, gold and diamonds.

Mr Bergthiel said the Group of Seven industrialised countries was insisting on using the gold reserves as collateral for further credit arrangements with Russia, which further limited the prospect of gold sales.

The higher price lifted the JSE's gold share index 17 points yesterday to 1113 on top of Monday's 27-point gain.

However, the overall and the industrial indices continued their recent falls, shedding seven points to 3457 and nine points to 4195 respectively.

Dealers said foreigners were in the market to reduce their holdings in companies with international exposure, such as De Beers and Richemont.

As a result, the financial rand weakend 4c yesterday to 3,03 from its record level of 2,99 against the dollar on Monday.

The commercial rand shed 5c, from 2,78 to 2,83.

Platinum shines as gold fails to make headway

79

MERVYN HARRIS

PLATINUM overshadowed gold on bullion markets yesterday with gold failing to make much fresh headway as global stockmarkets stabilised to give reassurance to jittery investors.

The rise of platinum to $369,50 from Tuesday's close of $366,50 came on continued speculation that Japan was importing more of the metal than was previously considered, and talk that the Russian Republic would soon release information on its level of stocks.

In Zurich platinum finished $3,50 higher at $369,50. BDay 21/11/91

Analysts said that when official data on Soviet gold reserves was released recently, the figure was much lower than estimated in the West and the same could apply to platinum.

Gold firmed $0,35 to close in London at $363,15 yesterday as the metal inversely tracked the performance of Wall Street and acted as a form of hedge after recent share losses.

On the Hong Kong market gold ended at $362,55 compared with a previous close of $360,35, and New York's Tuesday finish at $363,75, which analysts see as an important resistance level. The upside target is seen in the $373,50 area.

Tuesday's sharp downturn on Wall Street created another nervous trading session on Diagonal Street with attention focused on London, which in turn was waiting to see how Wall Street would perform.

The JSE overall index closed 10 points lower at 3 447 with gold shares again defying the easier trend as the all gold index gained 27 points to 1 140. The industrial index swung from the previous close of 4 195 to touch a low of 4 167 in early trading, then bounced back to 4 190 before easing to close 23 points down at 4 172.

While there was no selling pressure, buyers remained wary with institutions remaining on the sidelines and nibbling at selected shares on a downward trend.

"Everybody is looking over their shoulder to see what is happening on other markets as they wait for a lead," a dealer said.

Modest gold price rise is expected

(79)

B/Day 21/10/91

MATTHEW CURTIN

THE prospects that the Russian foreign trade bank will default on gold swaps and that Western central banks will dispose of their gold holdings threaten to undermine the upward mobility of the gold price, says Deutsche Bank director Fritz Plass.

People had underestimated Soviet and Russian gold holdings, he said.

However, through forward gold sales, gold producers had shored up gold prices which would make modest gains in the coming year if all went well.

Interviewed in Johannesburg yesterday, Plass said that although the Soviet Union had said it had gold reserves of 240 tons, total reserves held by the Kremlin and the individual republics were closer to 750 tons. Large amounts were held by Russia, Kazakhstan and Usbekistan.

The Bank for Foreign Economic Affairs (Vneshekonombank) had deposited gold with Western commercial banks in the form of gold swaps.

Amid the confusion which had paralysed Soviet marketing operations, these gold holdings put no immediate pressure on the market.

However, there was a risk that if Vneshekonombank went bankrupt commercial banks would be forced to liquidate the gold swaps. Some banks had panicked in the wake of the Soviet coup and offloaded gold deposited as swaps. Only by other banks buying the metal was a price crash avoided.

Plass said the practice of hedging gold production was misunderstood.

Forward sales, in which producers secured higher gold prices for future production, stabilised prices.

Hedging had put a floor to the gold price because producers were delivering metal which had already been sold, as opposed to coming to the market in search of fresh buyers. If current production had not already been sold, it might have knocked prices below current floor levels of about \$350 to \$360 to as low as \$320.

Reports that US producers were reducing hedging were misleading, as the tendency was to cut gold sold forward and increase options contracts when the price trend was up, and vice-versa when it was down.

Gold producers had to sell gold forward voluntarily to maximise profits or involuntarily to enable their marginal operations to survive.

As Western economies pulled out of recession, boosting demand for world jewellery, and world supply fell, the gold price would recover from 1991 levels of about \$364 on average to 1990 levels of \$383, he said.

● See Page 9

GOLD FM 22|11|91

Adding value (79)

The World Gold Council, the producers' organisation, has changed its marketing strategy. It previously focused broadly on the US, Japan, France, Germany, Italy and the UK as the six most important national jewellery markets. Now it has switched its attention to specific metropolitan areas, a number of which do not fall within any of the six former target markets.

The council has identified 27 metropolitan market clusters and has given each a strategic weighting in terms of its importance to the council's promotions strategy. The producers that back it seem convinced the council's efforts are being rewarded.

In those developed-industrialised countries where the council has been active, gold jewellery sales have jumped by 35% in the past four years. In markets where it has not been promoting gold, the rise was only 14%.

It is launching an international promotional symbol, similar in concept to the Woolmark, to boost gold's share of the jewellery market. It has registered the new Goldmark in 60 countries. The symbol is being introduced in North America and Europe during the important Christmas sales period and will be launched in Japan and South East Asia in the first quarter of 1992.

The council has linked up with a broad range of jewellery retailers to promote the symbol — it will be used at about 3 700 shops in North America alone — and will spend about $US2m on print advertising in national US magazines. It will share the cost of TV advertising with jewellery retailers.

It is backed by nearly 100 gold-producing companies from 14 countries, including the USSR, which pay a levy of $2,50 for every ounce of gold they produce. At present the council puts most of its efforts behind gold jewellery promotion. ■

FM 22/11/91

THE CRASH OF '91?

Maybe not — but be warned

The illusion that exchange controls and all the other barriers with which we have surrounded ourselves can insulate us from the vagaries of the outside world has again been exposed this week, as the JSE — like its big brothers in Tokyo and London — slavishly followed Wall Street down.

At the same time, the gold price is struggling yet again to break above US$360/oz; and the financial rand discount, after widening on the recent economic scare stories from the ANC, has again narrowed to levels which have seldom been seen since the 1985 reintroduction of a dual exchange system.

On the conventional wisdom that the discount measures foreign perceptions of the political risk of investing in SA, this joins gold as a positive influence (though, in currencies other than the US dollar, gold has not performed so well).

As far as gold is concerned, while an interruption of Soviet sales (if indeed the USSR has run down its stock almost to nil, and its mines are suffering increasing production problems) is insignificant in relation to total stocks overhanging the market, a reduced flow of new supplies is not only influential in itself, but also an indication that the rate of new supplies in recent years was artificially high. It follows that the bullion price may have been depressed below the natural, market-clearing rate of current supply and demand.

None of this, however, can reverse the underlying change for the worse in the fundamentals of the gold market, triggered by lower worldwide inflation, positive real interest rates and the spread of other hedging instruments.

What is more important is whether this is the onset of a new bear market — or, some would say, the resumption of the bear market that never really developed in 1987. Certainly, grounds can be advanced for this fear, and attempts by major markets to return to a positive mood this week have not convinced.

Economic recovery in the US, for instance, is distressingly fragile. In scandal-ridden Tokyo — the one market that never remotely looked like regaining pre-1987 levels — it's a matter of wonder that the system has averted the collapse of any financial institution. And though western Europe remains relatively healthy, the cost of rehabilitating not just the USSR, but ex-socialist eastern Europe, is astronomical.

Neither separately nor jointly is it inevitable that these factors will push the world back into recession. It is still possible that 1992 will bring some advance in world economic growth; but it may not meet optimists' hopes.

The relevance of this is that hopes for a revival of the SA economy based on a pick-up in world commodity prices may also be over-optimistic. In turn, this is bad news for those who argue that redistribution through growth will be more beneficial than attempts to redistribute existing wealth.

There is no need to adopt a doomsday scenario yet; but, at the very least, the events of the past week are a salutary warning not only to investors worldwide, but in particular to us in SA that, even if we arrive at a political settlement, the economic prosperity needed to make a settlement stick cannot be taken for granted.

Let's hope this sinks in even with those whose public utterings rate political point-scoring more highly than the creation of a confident business mood that is another prerequisite of a healthy economy. ■

(19)

Gold price rides on back of Soviet reform

Star 22/11/91

By Neil Behrman

LONDON — Gold is recovering because the market believes Soviet sales will dip in the coming months and weak and volatile stock and currency markets are also encouraging buying.

The price rose $3,90 in New York last night to close at a four-month high of $368,20. Platinum also firmed, gaining $3,50 to $373.

Dealers said gold drew support yesterday from a Group of Seven proposal that the Soviet Union use its gold reserves as collateral for loans from the West.

Later reports said the Soviets were resisting this plan. However, analysts are encouraged by other signals from the Soviet Union which indicate that the Russian Republic intends centralising the sale of its commodities to maximise export revenue.

Licences

This view follows Russian announcements that it intends cancelling oil export licences and is examining exports of precious metals, diamonds and coal.

As a result, key exports such as gold, platinum, aluminium and nickel will be lower in the coming year, say dealers.

Soviet commodity export policy has been so confused in the past year that its dealers flooded world markets with aluminium, nickel and platinum.

"After the break-up of the Soviet Union, unexpected and unpredictable surges of supply emanated from newly independent mines, enterprises and stockpiles," says Robin Bhar, an analyst at Carr Kitcat.

He reckons Soviet aluminium and copper exports this year will be double the levels of 1989, while nickel exports will be up by a third.

Exports of Soviet gold soared in the past few years and were 319 tons in 1991, 475 tons in 1990 and 246 tons in 1989, according to Soviet Finance Ministry estimates published in the Moscow News, a weekly publication.

A sizeable proportion of exports in 1990 came from stocks.

Soviet platinum sales are estimated at a record 930 000 ounces this year, more than double the levels seen in the Eighties, says Johnson Matthey.

Edwin Arnold, metals specialist at Merrill Lynch Pierce Fenner & Smith, says: "Soviet commodity export policy was so chaotic that international mining companies and metals merchants approached its commodity organisations and told them that they were killing their own markets.

"The latest announcement is a logical capitalist move.

"It appears that Russia intends maximising revenue by organising the sale of metals and other commodities into central units.

"This is better than the present disorganised system where merchants around the world are contacted by various competing Soviet businessmen offering commodities at discounts."

Commodity merchants are hoping that deals with large numbers of commodity export and import agencies that represent either the union, individual republics or the producers of raw materials will be replaced by single or at most two to three specialist entities.

	Mine Production	Domestic Consumption	Sales to West	Year-End Reserves
1980	220	50	70	1 800
1981	225	55	280	1 690
1982	230	60	220	1 640
1983	235	60	140	1 675
1984	240	70	200	1 645
1985	250	70	240	1 585
1986	240	75	390	1 360
1987	230	75	280	1 235
1988	220	70	300	1 085
1989	200	65	300	920
1990	190	60	460	590
1991*	150	20	480	240

* October 1991

Source: Franklin Max Pollak Vinderine

Soviet gold production, consumption, sales to the West and year-end reserves.

So far, however, sales of gold, diamonds and platinum continue under the auspices of centralised foreign trade authorities, despite reorganisation of Russian ministries.

Vneshekonbank, the Soviet's Bank For Foreign Trade, remains in charge of gold sales from offices in Moscow and Zurich.

So far, sales policy is continuing as normal, say bullion dealers.

Vneshekonbank also sells Russia's platinum.

It controls foreign loans backed by collateral of around five million ounces of gold, dealers estimate, while 750 000 ounces of platinum and deposits of rhodium and palladium are collateral for loans estimated at $500 million.

Vaults

The metals are in the vaults of Swiss banks.

Although dealers are worried about the extent of Soviet monetary gold reserves and sales, Vneshekonbank certainly has not dumped, nor is it likely to dump Soviet gold.

Instead, sales are likely to fall gradually and might help boost bullion.

For example, Norilskiy Metals, the leading Soviet nickel producer, said recently it was considering temporarily halting sales on the foreign market because of low international prices.

The $5 billion contract negotiated last year by De Beers to buy Russian diamonds over five years is continuing as normal, dealers say.

Gold jewellery in demand

(79)

MATTHEW CURTIN

GOLD market analysts have seriously underestimated the resilience so far in 1991 of world gold jewellery markets on which the strength of the gold price increasingly depends.

Demand for gold jewellery in Europe and North America may again reach 1990 levels despite the depth of recession in those countries, while steady growth from the jewellery and investment sectors is predicted this year and next in Pacific Rim countries, say World Gold Council (WGC) officials. B/Day 22/11/91

WGC Americas division CE Michael Barlerin said yesterday gold jewellery sales up to the end of October were only 1% down year on year in the US, whereas diamond jewellery sales had fallen 16%.

Council CE Elliot Hood said year-end figures for sales in developed markets such as the US and Europe would show surprising resilience in face of recession, with the key Italian market as well as France and Germany showing good growth.

Far East manager Geoff Toshima said although the Japanese investment community was increasingly disaffected with the lacklustre gold price, private sector imports were up 14% this year and gold buying remained steady in the investment community. Middle-income investors in Japanese banks' gold accumulator schemes bought two tons of gold in 1987, 15 tons last year and were expected to buy more than 20 tons in 1991.

Addressing Chamber of Mines officials and stockbrokers yesterday, Hood said since succeeding the defunct Intergold, the council had first narrowed the focus of its operations to six countries, but then expanded again to concentrate on cluster markets where its marketing resources could be best applied.

Hood said suggestions by some gold producers that jewellery consumption would be boosted if margins in Western countries were slashed were without merit.

Jewellery manufacturers had little room to reduce prices. Margins averaged only 7%, major retailers had posted multimillion dollar losses in the past year, while no retailer had yet tried to grab market share by cutting prices.

Gold rises as G-7 eases Soviet debt

(79) S/Times (Buss)

By JOHN CAVILL: London

WORLD markets are nervously watching for signs of producers cashing in on the surge in the gold price.

Gold was boosted this week by the Group of Seven (G-7) agreement to rescue the Soviet Union from its debt crisis.

Gold rose to $368,60/oz in New York on Thursday, taking platinum and silver with it, on a big rise in turnover.

Relief

Volume in futures contracts increased to 8-million oz (in 100 oz contracts) against only 3-million the day before and an average of less than 2-million last week.

The deal struck by the US, Japan, Germany, France, Italy, Britain and Canada allows the USSR to defer repayments of $3,6-billion for a year.

If other creditors follow suit, the relief could exceed $6-billion — the USSR's total debt is estimated at $70-billion.

But the main factor in precious metals markets is the provision of a standby emergency fund of $1-billion by the G-7. If the USSR takes up this credit, it will have to deposit 104 tons of gold as collateral with the Bank for International Settlements — sterilising almost half of the Soviet reserves of only 240 tons.

"Effectively it means that all the Soviet reserves are potentially sterilised," says Stewart Murray, head of Gold Fields Mineral Services which publishes the most authoritative annual survey on gold. 24/11/91

"Markets were anaemic in their response to September's report that the Soviets only held 240 tons in reserves — bullion jumped up from $350 to $362 an ounce. But there was no follow through to what was the most bullish news this year.

"They were sceptical and also worried about liquidation of 100 to 150 tons held by Western banks in currency swops.

"There obviously may be a risk of producer selling on this rise because mining companies have to think of their shareholders. But we have been seeing less because the contango is not as attractive as it was a few months ago," says Mr Murray.

In August, the premium over spot price (the contango) of six-month forward gold contracts on the Commodity Exchange (Comex) in New York was $10/oz and that for a year $20/oz.

This week the six-month contango was down to $6 and the 12-month at $13.

Ted Arnold of Merrill Lynch, the giant US investment group, says: "At this level we have to ask whether producers won't put a cap on the price by selling forward — as they have done before. What the Soviet has done, however, is to make $360 a good floor. But getting through $375-380 might take some doing.

"The real test will be physical buying. We've seen a lot of paper gold bought on

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Gold firms

(79)

☐ From Page 1

Comex — mainly by investment funds which will take profits — but it has not been backed up in the physical market. S/Times (Buss)

"I am looking for gold to trade in the $360-380 range. I don't think that there is any reason in the short term to get wildly excited. Nor is there any cause for a lot of pessimism. Gold is an industrial metal as far as I am concerned," says Mr Arnold.

But Jon Bergtheil of brokers James Capel says the sharp reduction in Soviet sales plus modest growth in jewellery demand will lead to a shortfall in supply to be met out of disinvestment next year. 24/11/91

"We could see gold at $390-420 in the first half of 1992 and rising another $40-50 later as the jewellery industry bids up to obtain supplies.

"The pressure is off the Soviets to sell gold. In 1990, they sold 475 tons. This year it is down to 320 tons.

"Gold has performed strongly if you consider that jewellery had a weak year, offtake rising only half a percent against an average of 14% in the previous four years.

"I estimate that next year, assuming growth of only 2,5% in jewellery consumption, there will be a deficit of 217 tons to come from investment holdings, forward sales — or central banks."

Gold at best will not top $500

STAR 25/11/91

By Sven Lünsche (79)

Gold will show no more than an average $20 price rise in 1992 and is unlikely to exceed the $500 level over the next few years.

This is the sombre analysis of Fritz Plass, the director of the giant Deutsche Bank with responsibility for metal trading and investments.

Deutsche Bank is one of the key players in the gold bullion market, through, among others, its exposure to 25 percent of the Soviet Union's foreign gold dealings and the fact that it is one of the top three buyers of SA gold.

In contrast to local gold analysts he takes a sceptical view of the upward potential of the gold price.

In an interview on Friday Mr Plass said there was little evidence to indicate that the metal would move out of its narrow trading range of between $340 and $420 in the short to medium term.

He suggests, however, that gold could average around $385 in 1992, an improvement of about $20 on this year's expected average of $365 and a return to the 1990 level.

This forecast is based on an expected slight improvement in fundamentals. On the supply side, he says that both South African and Australian gold producers would not significantly cut back either this year or next year.

However, there is every indication that supplies to the West from the Soviet Union's producers could fall well short of the 300 tons which has been the average of the past two years.

"Sales by the Soviet Union, excluding those from stockpiles, were only 230 tons so far this year and already we are facing a reduction of about two million ounces.

"Given the chaotic state of their economy it is highly unlikely that similar amounts will be forthcoming next year," Mr Plass says.

There is also a slightly improved picture on the demand side. Sales of jewellery are expected to pick up next year — after a decline of about five percent this year — even though the economic recovery by Western countries is forecast to be sluggish.

These improved fundamentals are, however, unlikely to boost the price substantially above the $400 level, as long as the threat of a Soviet default on its gold swops hangs over the market.

These gold swops, entered into between leading Western commercial banks and the the Soviet's Bank for Foreign Trade, Vneshekonbank, total about 200 tons.

Many analyst fear that a substantial portion of this amount could be sold on to the market if the bank became bankrupt.

Mr Plass says there is only a 10 percent likelihood of this happening, but he adds that three major Western banks sold the gold committed to them during the August coup when the Soviet's could not meet certain technical requirements.

"In the unlikely event of a collapse of Vneshekonbank we could see substantial sales to the market and the price fall to a level approaching $300."

He ascribes last week's gold price rise to four months highs to the fact that Soviet sales were set to fall in the wake of the credit arrangements with the G7 and more centralised commodity selling structures through the Russian Republic.

Gold gets its own promotional symbol

STAR - 28/11/91 (79)

A new strategy by world gold producers to boost the metal's share of the jewellery market includes adoption of a Goldmark symbol for promotions and advertisng.

LONDON — Gold producers are launching an international promotional symbol, similar in concept to the Woolmark, to help boost the precious metal's share of the jewellery market.

The World Gold Council, the producers' organisation, has registered the new Goldmark in 60 countries and the symbol is being introduced in North America and Europe during the important Christmas sales period.

The Goldmark will then be launched in Japan and south-east Asia in the first quarter of 1992.

The WGC has linked with a broad range of jewellery retailing groups to promote the symbol — it will be used at about 3 700 shops in North America alone — and will spend about $2 million on print advertising in national US magazines.

The council will share the cost of television advertising with jewellery retailers in key target areas in the US and Europe.

Elliot Hood, chief executive of the Geneva-based council, sees the goldmark as "a really significant strategic move towards more effective gold jewellery promotion.

"It has the potential to provide huge added value to gold jewellery promotional activities once it is established and recognised as the mark for gold worldwide".

The WGC is backed by nearly 100 gold-producing companies from 14 countries — including Russia — which pay a levy of $2,50 for every ounce of gold they produce.

At present the council puts most of its efforts behind gold jewellery promotion because for many in the industry healthy jewellery demand is a matter of commercial life and death.

Last year jewellery absorbed a record 1 986 tons of gold, according to the Gold Fields Minerals Services consultancy group, or more than all 1 734 tons newly mined in the western world.

The new Goldmark was designed for the WGC by Landor Associates of New York. As seen here, it features a variation of the infinity symbol and incorporates the word gold on an oval background.

The council explored the possibility of using it to guarantee the gold content of jewellery but drew back from this idea because of the cost of policing the system and providing management for it.

Instead, the new symbol will be used as a communications mark in advertising, promotion and retail point-of-sale.

Launch of the Goldmark coincides with a change in the WGC's strategy in the light of low gold prices and the virtual disappearance of investor demand for gold bullion bars and coins in North America and Europe.

Total funds for promotional work spent under the WGC's aegis have increased from $66,4 million in 1988, when the council was set up to take over from Intergold — which was backed exclusively by South African gold producers — to $8,7 million last year.

During that time the proportion contributed by the gold trade in partnership with the producers rose from 27 to 30 percent.

But this year's budget is about $75 million and even the key jewellery promotion budget has been cut by 16 percent from the 1990 level.

Previously the council's operating strategies were broadly focused on the US, Japan, France, Germany, Italy and the UK as the six most important national jewellery markets.

Now it has switched its attention from broad national markets to concentrate on specific metropolitan areas, a number of which do not fall within any of the six former target markets.

The 27 markets have been evaluated in terms of their strategic importance in gold promotion as determined by the WGC.

Greater Tokyo heads the list with a rating of 100. New York comes next with 55, while London rates only 10 and most other European cities only five.

Brian Parker, planning manager, jewellery, says the 27 "clusters" contain 62,5 million target consumers, or 37 percent of the total.

However, his chief executive, Elliot Hood, says: "The new plan has two central thoughts — that resources should be very precisely applied to those places and target audiences that offered the best returns and that results should have a much shorter-term orientation." — Financial Times.

Soviet gold at discount

MATTHEW CURTIN

THE SOVIET Union has been selling diamonds and gold at a discount to world market prices, incurring millions of dollars of losses in the process, says a senior Russian official.

However, SA industry sources dismissed the Russian claims as "ignorant" yesterday.

Tass reported on Tuesday that Vitaly Mezrin, general director of the Republican Industrial Innovations Fund, said the diamonds and gold had been sold in 1990.

Mezrin said the Union sold $990m worth of diamonds through De Beers at an average price of $90 a carat. The Soviet state bank, Gosbank, had sold 220 tons of gold in Switzerland and Britain at $202 an ounce when the market price was $367 an ounce.

Mezrin said the way to end these detrimental policies was to set up gold and diamond selling companies, monitored by Russian parliamentary bodies.

De Beers spokesman Andrew Lamont said yesterday that such information had been given "on the basis of ignorance of the diamond industry".

Lamont said the agreement between De Beers Centenary and the Soviet selling organisation Glavalmazzoloto had proved timely given the state of the Soviet economy.

Whereas the increase in Soviet gold sales had affected gold prices, the Centenary agreement to market the Soviet Union's rough diamond production for five years in exchange for a $1bn trade advance had not upset the diamond trade.

Bday 28/11/91

THE WEEK AHEAD by Simon Willson

Gold and forex reserves set to rise

(79) BDay 2/12/91

CONTINUING its unbroken six-month uprun, the level of SA's gold and foreign exchange reserves for November is set to show another strong rise when the figure is released this week, probably on Friday. Indications are that November reserves will top R9bn against October's R8,6bn as the year-long rise from January's R6,7bn extends into the final quarter.

Ahead of the October reserves outturn, Reserve Bank Governor Chris Stals was confident enough of the uptrend's durability to forecast a R500m increase over September's total a full week before the October figure's release. Optimism has similarly coloured each of the authorities' latest references to the likely reserves trend for the rest of the year.

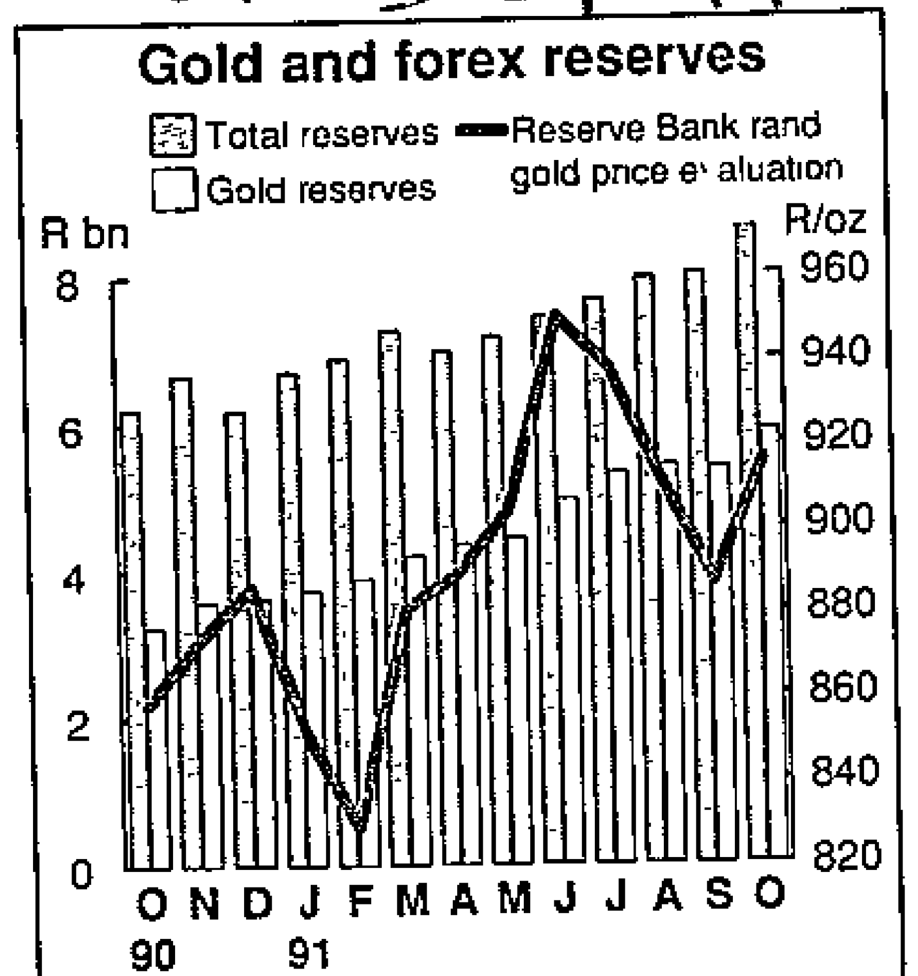
Briefed by the Bank, President F W de Klerk told an audience of businessmen at the beginning of last week that total reserves would probably reach R10bn by the end of the year. Elaborating later on the broad outlook in the president's speech, Stals forecast a rise of about R600m in November's reserves, which would take the total due out this week comfortably above R9bn.

Little let-up can be expected in the Bank's drive to build reserves, even if the total tops R9bn in November and comes close to the projected R10bn mark in December. Last week's pronouncements from the authorities on the prospects for reserves were accompanied by reminders that three months' import cover — reserves of at least R16bn — was only the first benchmark the Bank had in mind.

Additional objectives lie beyond the attainment of this basic minimum reserves level; one is that the reserves are ultimately substantial enough to allow the authorities to contemplate easing exchange control regulations.

Internationally, more US economic indicators emerge this week and may help to show whether the American economy is poised to dip back into recession. After eight successive monthly rises the purchasing managers' index, which measures orders, production and deliveries in US manufacturing, fell in October. Another fall is expected for November's figure, which is due out later today.

A further drop from October's 53,5 level for the index will take the figure close to the 50 level. At levels below 50 the index is held to portray a contracting manufacturing sector, and today's outturn could leave it perilously close.



Graphic FIONA KRISCH Source SA RESERVE BANK

US leading indicators are also in the doldrums after a consistently strong showing in the six months following the end of the Gulf War. The figure has been becalmed at 0% and -0,1% for two consecutive months and analysts are expecting no change for tomorrow's October figure either — an outturn that will confirm the view that the US economy is in a stall.

The first revision to the preliminary 2,4% US third-quarter GNP growth rate is released on Wednesday, and is thought likely to push the figure up towards 3%. Market concern, however, focuses on the current fourth quarter and whether it will show a relapse into GNP contraction, so the third-quarter revisions will have limited impact.

The US November employment report is scheduled for publication on Friday and, whatever the movement in the overall national unemployment rate that stood at 6,8% in October, attention will be concentrated on trends in manufacturing jobs. These are measured in the change in non-farm payrolls, which showed a reading of -1 000 in October. Expectations are that non-farm jobs will have shrunk by around another 10 000, reflecting problems in the manufacturing sector.

The policy-making arm of Germany's central bank, the Bundesbank, meets on Thursday to decide whether to change its monetary stance. Although the German inflation rate jumped to 4,1% in November from 3,5% in October, the Germans are thought unlikely to raise interest rates this week ahead of next week's summit on European monetary union. A rise in German rates is still, however, thought likely before the end of the year.

COMMODITIES

Financial markets whisper of gold

(79) B Day 3/12/91

Own Correspondent

LONDON — Golden the prospect is not. But across financial markets the furtive whisper is of gold — and what could be about to happen to its price.

For we are facing the possibility of an international financial debacle. The super powers are both in deep crisis: their troubles are of different origins, but are combining in a form which could profoundly damage the world economy.

The livelihoods of hundreds of millions of people are being reshaped in an economic upheaval unprecedented for a generation. Not just how we think financially, but how we live, may be undergoing a profound change. On Friday the Soviet Bank for Foreign Economic Affairs placed restrictions on access to hard currency amid growing concern that the country is headed for Weimar-style hyperinflation.

The start of this drama came last month when Russia's Grigory Yavlinsky told the IMF its gold reserves had plunged to just 240 tons from more than 1 000 tons in the mid-1980s. The Soviet Bank for Economic Affairs is suffering a liquidity crisis of such severity the Moscow Narodny Bank in London was spared closure last week only because the Russians said they would provide financial support.

But the overall picture is more serious. So dire is the economy that inflation is running at 200% and foreign currency reserves are close to zero. Russia is facing a collapse so advanced that last week the head of Gosbank said the finance ministry had just three billion roubles in its coffers — enough to cover the budget for two days. A loan from the Bank of International Settlements will be needed to help the Soviet Union service its $60bn foreign debt. To get this sum the Russians would need to put up the equivalent of 216 tons of gold, leaving it a derisory 35 tons. America is opposed to a debt rescheduling and Germany is in no position to countenance one.

With such a supply constraint on the world's second largest gold producer little wonder we have seen a spike in the gold price and followers talking of a scenario more bullish than for many years.

Meanwhile, what is unfolding in the West is a persistent failure of confidence in Europe and America. This is causing investors to sell dollar assets and analysts to scale down hopes of recovery.

It is events in the US that are the proximate cause of recent exchange-rate mechanism jitters. US consumer confidence has fallen below the Gulf war trough and the lowest point in the last recession. Consumer spending fell 0,3% in October, spelling a grim Christmas and orders for non-defence capital goods — a guide to investment intentions — fell 1,9%.

The seriousness of this situation has not yet sunk home. Despite 20 cuts in the Federal discount rate the economy is still weakening with a renewed downturn feared in the fourth quarter.

Three factors suggest something more serious than just the stuttering at the bottom of a cycle. The first is debt aversion — where the reluctance of people to borrow is matched only by the collapse of will (or balance sheet inability) of banks to lend.

The second is the absence of external kick-start to lift the world economy out of what appears to be an L-shaped gloom. The third is the political cycle: US President George Bush faces an election next November and UK Prime Minister John Major an election by June.

Around Washington the air fills with talk of fiscal stimulus.

But against a background of a US budget deficit of $400bn, eight times the level of the previous recession, resort to fiscal stimulus now would be like letting a pyromaniac loose in a kerosene plant.

To slow the flight to security compounding debt deflation, US political pressure is building to stop a slide into depression. It is not just that governments tend to overreact triggering high inflation that makes the case for gold. In periods of deflation it also prospers. — Daily Telegraph.

R1-bn Soviet deal with G7 helps to underpin gold price

(191)

STAR 3/12/91

By Neil Behrmann

LONDON — The gold price continued its recent firmer trend yesterday when it added a further $2 an ounce after equities retreated on international stock markets.

Gold was fixed in London yesterday afternoon at $368,35 compared with Friday's close of $368,30.

Downturns on world markets have always been good for gold but the recent improvement in the metal's price is largely attributed to subsiding fears of a flood of Soviet gold to the market.

The Soviet Union's proposed $1 billion gold swop with the Group of Seven nations in particular would be mildly positive for bullion, according to an informal survey of European bullion traders.

The G7 agreement has already boosted the market, they say, and will counter much of the uncertainty among investors.

Dealers said the credit was unlikely to generate a bull trend in gold in the short term because of the unfavourable international economic climate.

But it was likely to underpin the price and gold's trading range could rise to around $355 to $380 from the previous depressed level of $345 to $365.

From the second half of next year prospects may be better, particularly if a US and Japanese economic recovery materialises.

Then any price rise could be more substantial, if Russian sales tail off and supplies fail to match jewellery and investment demand.

The most postive factor of the G7 agreement with the Soviet Union is that it will reduce pressure on the various Soviet republics to sell more gold and indeed other commodities, ranging from platinum to aluminium and nickel.

In terms of the agreement, the Soviet Union will swop 104 tons of gold for $1 billion. The effective price of the gold in the swop is $299, giving an 18 percent discount to the present market price.

In addition the G7 has agreed to defer $3,6 billion of foreign debt that it is owed. If commercial banks agree, debt deferral could exceed $6 billion on foreign debt of $70 billion.

Collateral

When the expected transaction materialises, it may be carried out through the Bank for International Settlements, the central banks' central bank.

The gold would thus be held as collateral by the BIS on behalf of G7 central banks, so the gold will bypass the marketplace. It is thus not a normal market swop where the gold is sold spot and rebought forward.

Since central banks are now involved, the agreement should lower market tension about sales from gold swops that were negotiated with commercial banks.

These banks have reduced their gold swop exposure with the Soviet Union from around 225 tons to varying estimates of 100 to 200 tons, although recent estimates place commercial gold swops at around 180 tons.

Major bullion players, such as the Swiss reduced gold loans because they were concerned that the Soviet Union could not meet credit conditions.

As a result, the Soviet Union approached other institutions. Some were not normally connected with the bullion business.

Gold has thus been under pressure, in recent months, partly because the market feared that these players would withdraw from the swops and sell the collateral.

The threat remains.

The commercial banks might demand a wider discount to market price on their gold collateral, in line with the conservative conditions on the G7 loan. If the Soviet Union disagrees, the gold might be sold.

The G7 agreement, however, helps counter the possibility and will at least discourage the Soviet Union from negotiating more unstable swops with the commercial banking community.

Knowledgeable gold market participants believe that Soviet monetary gold reserves are between 700 and 1 000 tons, including amounts at the Finance Ministry, Gosbank, Vneshekonbank and individual republics.

They also contend that Soviet production is around 250 tons.

The G7 agreement means that the Soviet Union need only sell its annual production.

Gold price (79) retreats

Finance Staff STAR 4/12/91

The gold price fell \$3,50 to close at \$363,50 in New York last night after dropping nearly \$4,50 in London yesterday to \$363,60.

At the London afternoon fixing gold had eased further to \$362,90 after a round of Middle Eastern selling in Europe and lower prices in Asian markets.

Gold's retreat was in line with a \$6 drop in the platinum price, which closed in London at \$363,50.

John Taylor, analyst at London brokers James Capel, said the sell-off in platinum was started by US investors following the release of statistics showing low US consumer confidence.

Fundamentals

"Analysts drew the conclusion that this would limit the upward potential for sales of US cars, which use platinum-based catalytic converters to meet environmental standards."

However, fundamentals still favoured a stronger platinum price as demand from European car manufacturers was expected to pick up, while at the same time large-scale Soviet dumping of the metal had largely subsided.

The fall in the gold price brought a sell-off of gold shares on the Johannesburg Stock Exchange and they gave up much of their recent gains.

The JSE all-gold index closed 41 points lower at 1216, after a 17-point gain on Monday.

Leading platinum shares also eased and the index dropped 85 points to 4523.

Brokers predict gold upswing will boost economy next year

(19)

BD 5/12/91

The bare Russian gold cupboard should put the bear to flight and see golds stage a strong recovery in 1992. In the second of a series of articles **MERVYN HARRIS** reports on the views of leading brokers for next year.

MAX Borkum of stockbrokers Davis Borkum Hare & Co said it was common knowledge that Russia had disposed of large amounts of gold on world markets in the past two years.

"For practical purposes the cupboard is now bare. Jewellery demand for gold is holding up comparatively well despite the world recession and is likely to remain at around current levels next year.

"With no major increase in production likely, the only other possible source of supply will be from private holdings and central banks. Next year is therefore likely to see a substantial shortfall between supply and demand.

"I expect therefore that there will be a strong recovery in gold and gold-related assets, including gold shares, with a beneficial effect on the whole South African economy."

Borkum said there were obviously two other factors that could not be ignored; the direction of First World economies and SA's political situation.

"I believe that world economies will have seen a turnaround by the middle of next year. I have always been an optimist regarding the long-term political future of our country and I believe the negotiating process will be sufficiently on course over the next six months for the remaining sanctions to be lifted."

Borkum said this should make it possible for the SA Reserve Bank to follow less restrictive policies.

He added: "The driving force in the markets during the past year — the institutional cash flow — will continue to be a major factor in our market in the absence of structural changes, of which there is presently no indication.

"My forecast, therefore, is for a strong and broadly based market but with more emphasis on the mining and financial boards, and on other export industries."

Edey Rogers & Co's Franco Busetti said the industrial market was very expensive by all historic yardsticks, having been driven by perceptions that the next economic upswing would be of unprecedented strength and duration.

It was discounting dividend growth of more than 30% a year for the next five years, while the highest level ever achieved previously had been 21% a year. An investment in the industrial index at current levels was likely to result in negative real returns in the long term.

"In the year ahead it is difficult to see this market's rating improving much further, so the upside potential will be in line with forecast dividend growtn of about 14%.

"On the downside, the market is very vulnerable to any negative rerating; if its yield subsides only halfway back to its historic average, a 33% fall in the index would result," Busetti said.

Gold bullion, however, could be at the start of a new upswing. Worldwide economic worries and the absence of Russian supplies were a formidable combination.

"However, we remain cautious, partly because gold has been such a consistent underperformer for the last 10 years and partly because gold needs a background of generally strong metal prices to rise materially.

"Metal prices, in turn, cannot perform well until the industrialised economies have recovered. The very worries that are making bullion a little stronger at present will also diminish its upside potential over the medium term.

He said a high degree of liquidity was advised. "Cash is not an unattractive alternative investment at present."

Frankel Max Pollak and Vinderine's Sidney Frankel said the mood, performance and asset allocation of the JSE in 1992 would probably be determined by formula investments.

"The proven route for institutional investors — and remember the annual net cash flows of the major financial institutions and the yearly turnover of the JSE are roughly equal — is to invest in the high market capitalisation stocks, which offer trading mobility, and to stick to companies with an established record of earnings growth at least equal to SA's long-term inflation rate.

Frankel said that should the South African economy exhibit signs of reasonably sustainable economic upswing next year and should interest rates come down, there was little reason to doubt that investors would cast their eyes beyond the limited number of blue chip index stocks and look for buried treasures.

"A number of second liners have shown consistently good earnings growth in recent years or have been restructured to provide interesting recovery potential."

"The post-sanctions bonus has yet to be reaped by the JSE, at least in terms of the volume of foreign participation in our market. The number of active foreign investors, who have benefited from the JSE being the top performing major international stock market over the past year, would probably not fill a decent sized restaurant."

Frankel said the generation of "mass appeal" for SA investments among foreigners would probably require the establishment of a workable political accord and the lifting of all sanctions barriers. "Until then SA will be largely regarded as a non-establishment market.

"A recovery in the gold price to a trading range at least above its 10-year average price of around $385 is also required," Frankel said.

"Some, if not all, of these factors may be in prospect for 1992. If so, the international investor will return and help provide the liquidity and volumes necessary to allow the JSE to more actively fulfil its role as a mobiliser of capital for the new SA."

Gold, forex reserves top R9-bn mark

STAR 9/12/91 (74)

By Sven Lünsche

The record trade surplus in October and generally favourable position of the balance of payments boosted gold and foreign exchange reserves to more than R9 billion last month.

The rise of almost R500 million was forecast by Reserve Bank Governor Dr Chris Stals late last month, showing the confidence the improvement on the external accounts is causing.

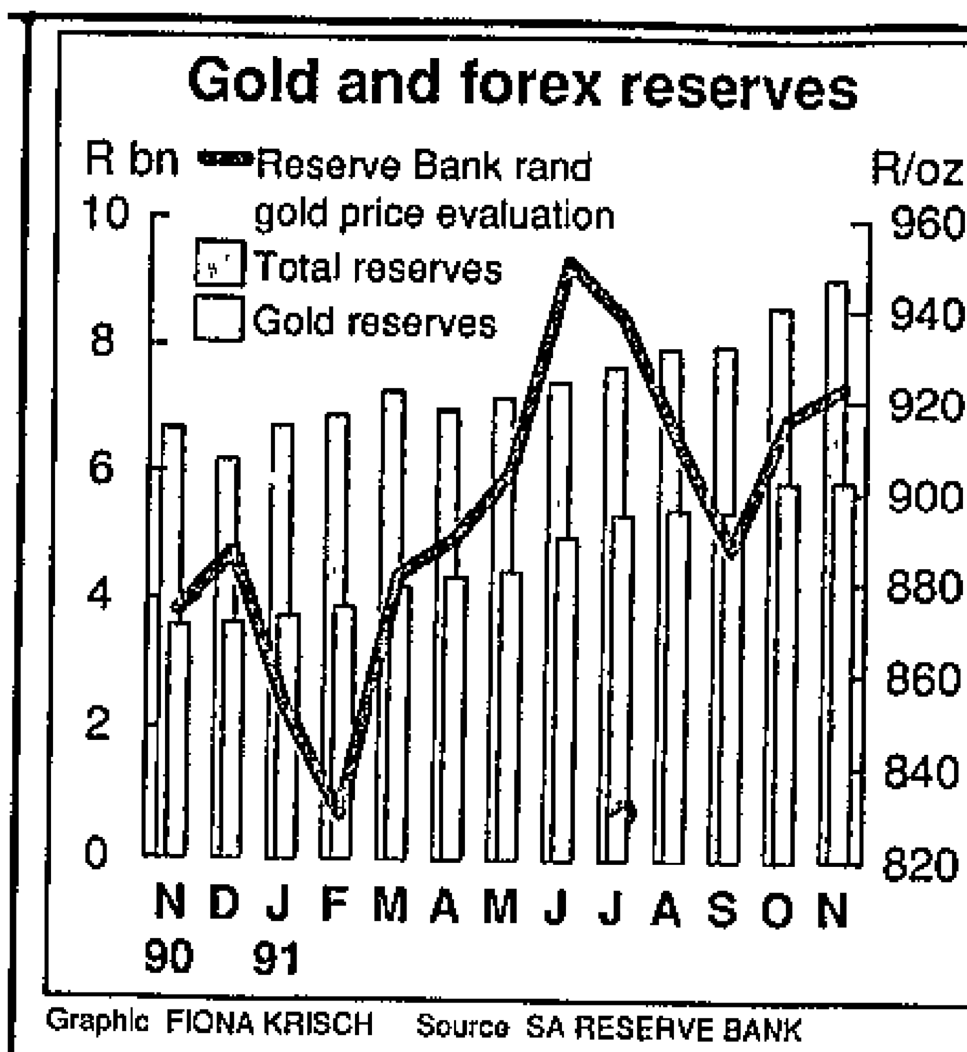
Economists say it is now possible that the reserves could reach R10 billion over the next two months because the Bank is not likely to let up in its effort to boost reserves to levels equivalent to three months of imports.

They now cover about two months of imports — a major improvement over the beginning of the year when they were equivalent to about four weeks.

The statement of assets and liabilities released over the weekend shows that reserves rose from R8,626 billion at the end of October to R9,071 billion in November.

The gold portion was little changed, rising from R5,888 billion to R5,897 billion as a higher price of R923,27 per ounce (October: R915,53/ounce) was partially offset by a decline in the physical volume of gold held to 6,388 million ounces (6,432 million ounces).

However, the favourable trade position boosted the foreign exchange portion substantially from R2,738 billion to R3,173 billion.



Graphic FIONA KRISCH Source SA RESERVE BANK

Total reserves rise to R9,1bn

BDay 9/12/91

SHARON WOOD

RESERVE Bank gold and foreign exchange reserves continued steaming ahead in November, rising by 6% to R9,1bn from R8,6bn in October.

Total reserves were boosted by a R425m rise in the foreign currency component to R3,2bn, Bank figures released on Friday disclosed.

The rand gold price rose by R7,74, outweighing a drop of 43 963 ounces in gold holdings, and gold reserves rose by R9,2m to R5,9bn.

The ratio of reserves to imports grew further and covered about 2,2 months in November.

Analysts expect the Bank's three months' import cover target to be reached in about five months' time.

Import cover of three months in reserves is recognised as a comfortable level for meeting import payments.

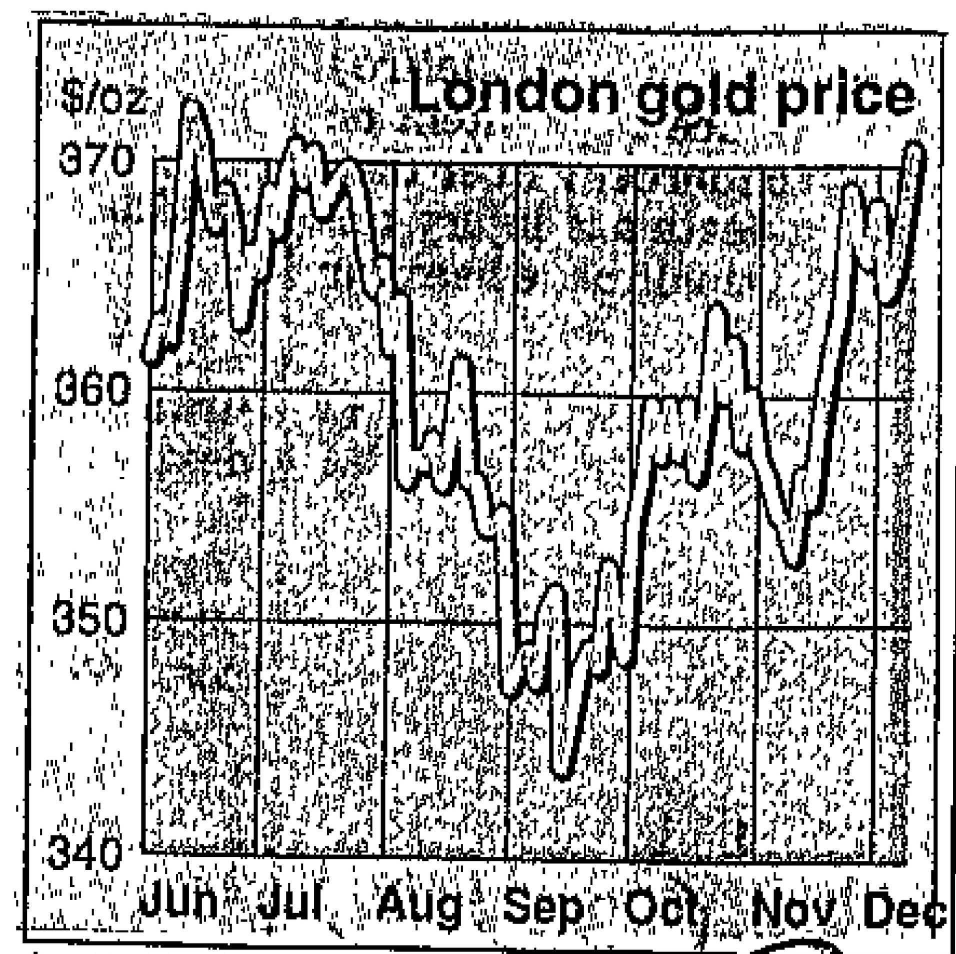
Notes and coins in circulation shot up by 8,8% ahead of Christmas, after remaining flat from July to October.

But the increase was still lower than the rise of 27% at the end of 1989 and was a good indication that conditions remained very tight, an analyst said.

The Bank said in its latest quarterly bulletin that below-inflation growth in notes and coins could be interpreted as mildly encouraging.

Nedbank chief economist Edward Osborn said gold reserves were virtually unchanged because the higher valuation of gold had offset a lower gold holding.

The Bank had sold all of November's gold production, he said.



Graphic: FIONA KRISCH Source: I-NET

49

Gold up on fears of Soviet chaos

Bday 10/12/91

MERVYN HARRIS

GOLD breached the important $370 resistance level on bullion markets yesterday to post its highest level in six months on concern that the breakup of the Soviet Union could lead to chaos.

Sentiment turned bullish when producer selling failed to materialise as gold edged above $369 on Friday after the metal had been underpinned by weakness on Wall Street and a sliding dollar on bearish fundamentals for a US economic recovery.

Gold closed at $371,25 in Zurich, its highest level since early June, and in London at $370,80 from $367,80.

Analysts said the declaration of a commonwealth of independent states by Russia, Ukraine and Byelorussia heightened worries of inter-republic tensions. Speculation that Soviet President Mikhail Gorbachev might resign helped fuel gold's rise to a high of $372 in early New York dealings before slipping back slightly.

Some dealers said gold could consolidate around current levels before making an assault on the next resistance level of $375.

The improved sentiment spilled over to platinum, which rose nearly $3 to $374 in London yesterday afternoon.

On the JSE, there was at first some hesitancy by investors, but buyers entered the market in some force in the afternoon.

The JSE all-gold index closed almost 4% or 49 points higher at 1 288 with quality gold shares in the forefront of the price rises. Mining financials also benefited to enable the overall index to end 27 points up at 3 522.

All smiles on JSE as gold tops elusive $370

(77)

STAR 10/12/91.

By Derek Tommey

The atmosphere in the Johannesburg Stock Exchange visibly brightened yesterday when the gold price broke above $370 for the first time since mid-July.

The cynical saying that in South Africa happiness is a rising gold price still has much merit in it.

Gold shares showed a general improvement and the gold index gained almost four percent.

However, while there are hopes the improvement will continue, mining analysts did not appear too excited about the price rise.

"Say we are just cautiously optimistic," one said.

The reason is that much of the apparent strength of gold appears to be caused by the weakness of the dollar.

Gold has shown little improvement in other major currencies. This also goes for the rand, which has firmed against the dollar as well.

Analysts said the improved gold price had probably come too late to help the mines show better results this quarter.

An analysis of gold price movements shows that it averaged R1 015 an ounce in October, R1 009 in November and R1 020 so far this month, bringing the quarterly average to date to R1 013.

The figure compares with an average gold price of R1 059 in July, R1 022 in August and R990 in September, or R1 025 for the whole three-month period.

From the average price so far this quarter, it is clear the mines will need a further rise if they are to beat their September figures.

In fact, because working costs continue to increase, even if the gold price doesn't, most are probably having to work harder than ever if they have any hope of simply matching last quarter's results.

The going may be a little easier for those marginal gold mines which sold gold forward in exchange for a premium. But even they must be struggling.

The centre of attraction when quarterly results are issued in January will be West Rand Cons, which ran up a working loss of R2,7 million in the September quarter.

This mine has been threatened with closure if it doesn't do better.

Results from Loraine will also be scrutinised; it lost R5,1 million last quarter.

However, it said recently it could probably keep going for a another year if the the current gold price is maintained.

Other mines to make losses in the September quarter were the Leeudoorn section of Kloof, Libanon, Venterspost and Stilfontein. However, none of these losses are seen as life-threatening.

One mine expected to show a substantial loss is Doornfontein.

It reported a working profit for the September quarter. But labour unrest, which has led to the closure of the mine, is expected to affect earnings drastically.

Bullion dealers say it appears that the improvement in the dollar gold price is mainly the result of speculative buying in the US, possibly triggered by the weak dollar and fears that the US recession could be prolonged.

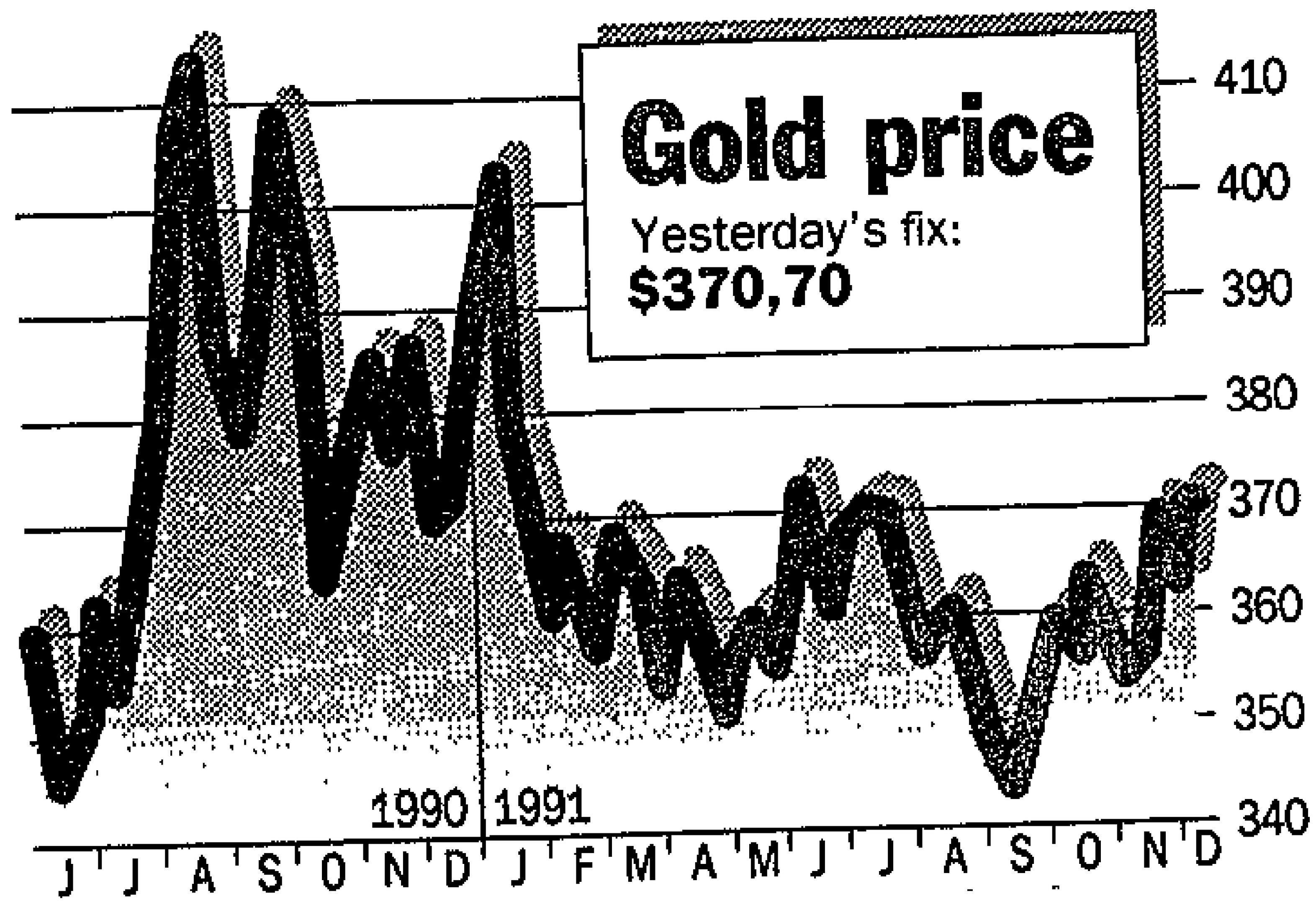
However, there are reports that jewellery demand has remained fairly strong, despite the recession, which is also helping to underpin the market.

The way the price has held up this year in the face of heavy Russian sales is seen as bullish for gold in the long run.

Although this has led many people to claim there is now little downside for the metal, bullion dealers remain chary.

"Telling people there is no downside is like telling them there is no risk.

"As a result, they pile into the metal. Then, if it tumbles $20, they are caught out, panic and stop buying — which the industry does not want," one said.



Static gold price and rising working costs hit Gazgold

11/12/91

MATTHEW CURTIN

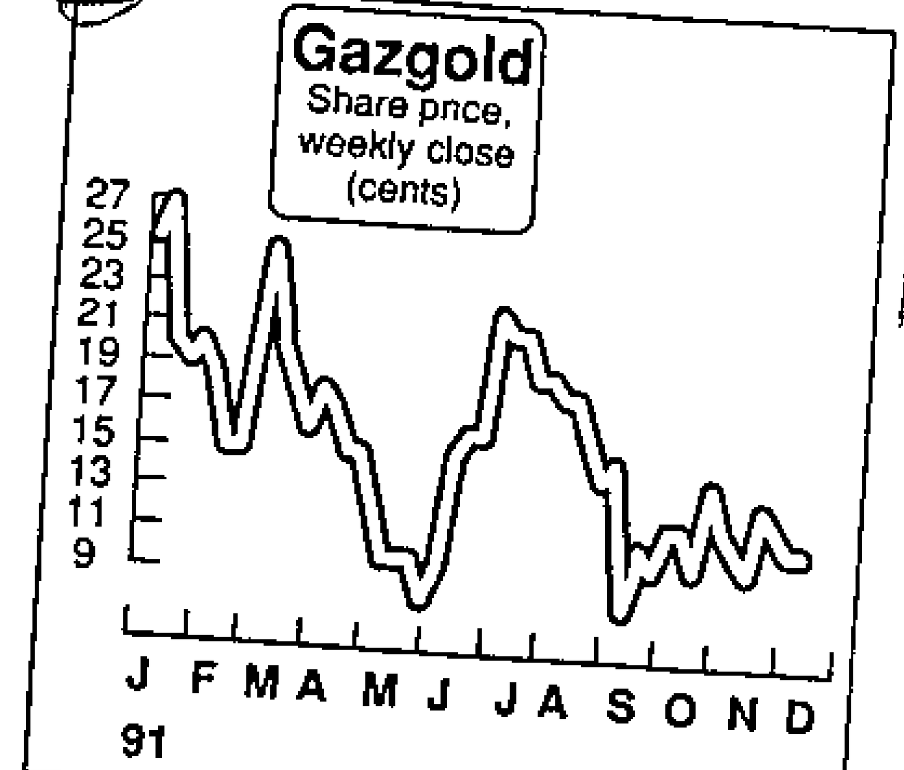
RISING working costs and a static rand gold price clobbered results at small independent gold mining company Gazankulu Gold Holdings (Gazgold) in the September quarter.

Gazgold's performance was also hit by the hiatus concerning the financial restructuring of the company.

The mine posted an operating loss of R13 000 against an operating profit of R34 000 in the previous quarter.

MD Hugh Newman said in a statement yesterday that the quarter's results were knocked by "uncertainties prevailing during the negotiation period leading to the finalisation of state assistance". Gazgold had R16m in liabilities as of October 31, of which the government has guaranteed R10m secured by the company's moveable assets and mining rights.

He said there had been changes to some minor management positions and "the situation has now stabilised". The mine was on line to reach budgeted production and recovery targets.



Graphic LEE EMERTON Source I-NET

The amount of ore milled in the quarter fell from 20 155 tons to 19 248 tons. Although development at the Franks mine continued apace in the quarter, poor ground conditions saw work aimed at re-opening the Klein Letaba mine grind to a halt, while a shortage of ore reserves saw production stop at the Birthday mine. Development work continued there.

Gold production fell from 65kg to 53kg in the quarter.

Gold price plunges

(79) CP 13/12/91

JOHANNESBURG. — Gold plunged on world markets late yesterday as investors turned against the metal in a wave of selling in New York, London and Zurich.

It ended more than $6 lower in London at $360,20, bringing its losses since the beginning of the week to $9. It closed in New York at $357,15, down $8,85 from Wednesday's close of $366.

● Gold plunges as investors rush to sell — Page 8

RESERVES: MOPPING UP GOLD

(79)

FM 13/12/91.

The build-up in official gold holdings from 4,1m oz at end-1990 to 6,4m oz at end-November reflects a loss of investor confidence. The Reserve Bank *Quarterly Bulletin* says the Bank bought a large number of Kruggerrands from the domestic private sector, not as an active policy, but in response to investors' desire to sell; the Bank is obliged to accept the coins as legal tender.

The bulletin records that another reason for the accumulation is that part of mines' production was not sold concurrently on international markets.

"The main reason," says Deputy Governor Chris de Swardt, "is that rising foreign exchange reserves obviate the need to sell all output. A second is that lower sales support the weak gold market. A third relates to the Bank's stated preference to build up the gold component."

Official reserves rose R444,7m in November, to R9,1bn (US$3,3bn). Despite a small drop in physical gold held, its value rose R9,2m to R5,9bn ($2,1bn); foreign assets rose R435,5m to R3,2bn ($1,1bn).

GOLD

Small earthquake in bullion

(79)

FM 13/12/91

Analysts are cautious about renewed prospects of a price breakout

Two perspectives prevail on gold as 1991 draws to its close. One is that the metal has performed surprisingly well in the face of recession and high levels of supply. The other suggests it would be doing a lot better were it not for producers selling forward into every half-decent rally and the almost total lack of investment interest.

As a purely industrial metal, gold has fared relatively well. After the recent bounce off the year's low of US$353,55/oz, bullion is only 6% below the high inspired by the start of the shooting war in the Gulf crisis. In comparison, for example, aluminium has fallen by 31%, nickel 23% and copper 17%.

Crude oil has taken a 34% dive and the extent to which the jewellery trade was correctly bearish about the prospects for their market was amply reflected in the 16% droop in Central Selling Organisation sales of rough diamonds in the first six months.

The latest set of economic data from the US is gloomy, confirming for some the reality of a double-dip recession. Third-quarter GNP growth has been revised down from 2,4% to 1,7%; nonfarm payrolls declined by 241 000 in November — eight times more than expected; and the Federal Reserve again cut interest rates — for the 21st time in 33 months.

Its quarter-point shaving of the Fed Funds' rate at the end of last week is widely seen as the precursor to a reduction of the discount rate from 4,5% to 4% next Tuesday when the Fed's Open Market Committee meets. Thanks to the break up of the Soviet Union, formally announced by the "commonwealth pact" involving the Russian federation, the Ukraine and Byelorussia, the dollar survived.

Underpinned by some of the scarier headlines about the USSR turning into a nuclear Yugoslavia, and dire warnings that the deal signed at the weekend will prove the last straw for the demoralised — and, perhaps now, unpaid — Red Army, the dollar held at above DM1,57 and 128 yen. Without the news, the dollar would have been looking at DM1,52 and Y125 and a possible retracement to the lowest 1991 levels.

But, at least as the *FM* went to press, nobody was talking about Soviet worries spilling over into the gold market. Bullion seems happily buoyant between $360 and $370, in spite of a deflationary outlook in the US, a weakening Japanese economy (*Economy* December 6) and precious little cheer anywhere else.

The reason, according to fundamental analysts, is simply a tightening of supply. Apart from a brief blip above $362/oz, the market at first distrusted the claim of Soviet economist Grigory Yavlinsky that the Kremlin's gold reserves were a scant 240 t with another 150 t out in currency swaps.

That distrust has faded after the Group of Seven bailout of the USSR last month — especially the $1bn standby credit which would entail the deposit of 104 t in the sterile vaults of the Bank for International Settlements. The Soviet Finance Ministry revealed that gold exports jumped to 475 t in 1990, from 246 t the previous year, and that 319 t had been moved in the current 12 months.

Production has fallen to 230 t, from around 300 t in the past, and the Russian Federation, now seemingly master of its own gold fields, has no more reserves to deplete.

The latest attempt to estimate the supply-demand balance from Jon Bergtheil, of brokers James Capel, projects a growing shortfall over the next three years or so that will have to be met out of investment hoards — which absorbed a net 2 717 t over the past decade. On the supply side, Bergtheil assumes Western production slipping from 1 730 t in 1990 to 1 588 t and East Bloc sales dwindling from 490 t to 250 t.

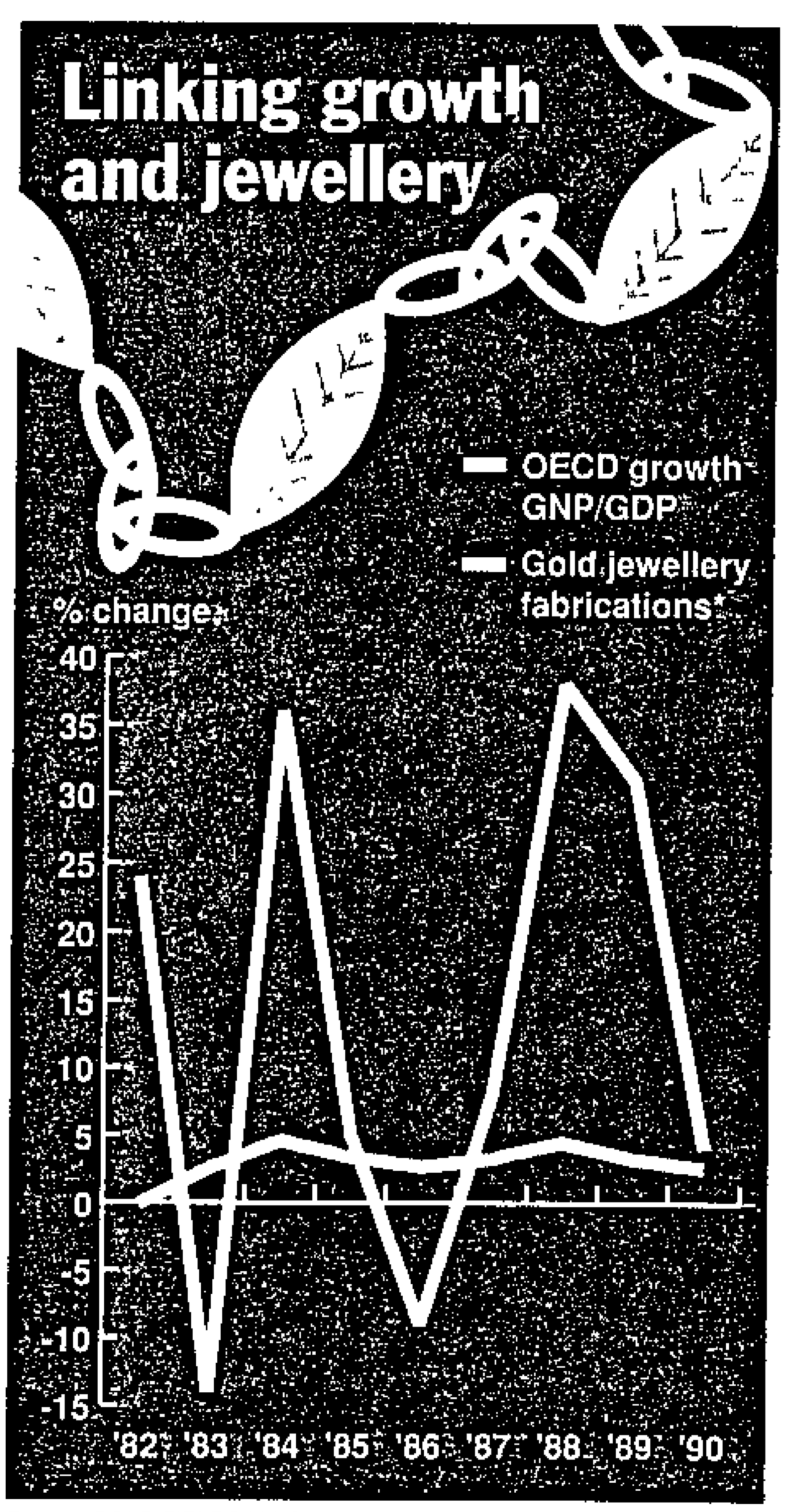
Total physical supply thus falls about 20%, from 2 660 t to 2 133 t. It is also assumed there will be no big sell-off from central banks, who are put in as buyers of 40 t a year Central banks, according to Gold Fields Mineral Services, have changed tack on balance during the Eighties, accumulating a net 1 038 t against net disposals of 977 t in the Seventies — after the death of Bretton Woods.

On the demand side, the analysis estimates that after this year's small drop of 0,5%, jewellery offtake will respond to resumed growth in the main economies of the OECD with an annual increase of 2,5%. This raises physical demand 10% by 1995 to 2 662 t. After deducting forward sales — which may diminish — Bergtheil posits a deficit to be bought back from investors starting at 217 t next year and rising progressively to 528 t.

There is clearly a correlation between OECD growth and jewellery fabrication, though (see graph) it can waver. In 1982, when the OECD was in recession, gold jewellery fabrication rose sharply — but inflation was high in the wake of the second oil price shock — before falling during the following year in spite of economic recovery.

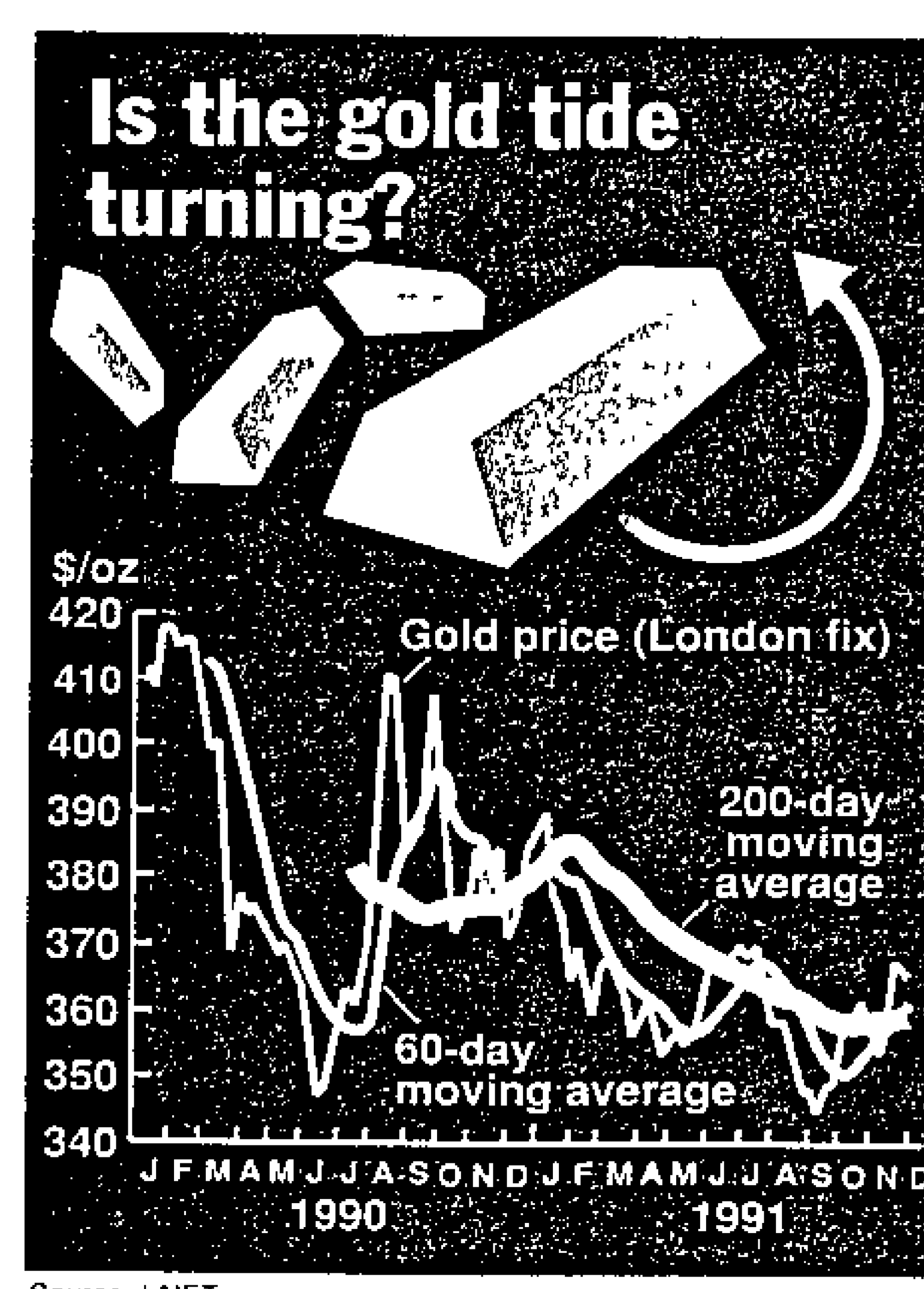
The big leap of 36% in 1984 was consistent with 4,6% OECD GNP growth and the weakness during 1986 reflected the oil price slump of that year and, with it, the rate of inflation. Jewellery boomed again in 1988-1989, overhauling new Western mine supply — but East Bloc gold sales, rising scrap recovery and bullion loans prevented the yellow metal from enjoying the surges elsewhere which, for example, propelled aluminium up by 130% and copper 77%.

The big question which is not answered is what price gold will have to rise towards to



Source GOLD FIELDS MINERALS SERVICES & OECD

*Excluding scrap



Source I-NET

attract metal from hoarders? And can it be assumed jewellers are less price-elastic than they were, even if in real terms bullion is 47% cheaper than it was in 1981, adjusted for US inflation? Analysts are reluctant to stick out their necks and even Bergtheil speaks only of $500-$600/oz by 1995, by which time a cumulative 1 600 t of physical demand will have been met from sources other than production.

Meanwhile, the market seems to be in the hands of the technicians, and even they are ultra-cautious. The Aden Sisters — Mary Ann and Pamela, who once forecast gold at $3 000/oz from their Costa Rican lair — are now tepidly optimistic.

On their judgment, if gold holds above $370/oz and the 65-week moving average, and then shifts to $390-$400, the 10-week rally could turn into a bull market. But there have been two such breakouts in the past two-and-a-half years: the minibull run of 1989-1990 followed by the even shorter-lived spike induced by Iraq's invasion of Kuwait.

With inflation in a downward trend and investors more worried about getting income than anything else, the Adens are not looking for anything extending beyond a few months. The $250m outflow from US precious metals and gold funds in the first nine months confirms the sentiment which has halved their total size of $2,8bn since the start of 1990.

Brian Marber, of Marber Associates in London, agrees: "All the relevant moving averages from one month to 12 months are slightly on the right side of neutral. Historically, being above the long-term average, gold should have a bit of a rally.

"But I don't think it is possible for any long-term view to have much validity when we have bull markets which last for just a few weeks. Gold needs much more than jewellery demand; it needs people to want to hold it in lumps and they don't seem to be around any more."

There, however, is consensus on the downside potential: $340/oz is the long-term bottom from which gold can launch a rise if this rally peters out in the new year, especially if jewellery shops have a lousy Christmas and have to destock. ■

Gold plummets as investors back off

B/Day 13/12/91 (79)

ANDREW GILL and MATTHEW CURTIN

GOLD plunged unsupported on world markets late yesterday as cautiously optimistic investors turned against the metal in a wave of stop-loss selling in New York, London and Zurich.

It ended in New York at $357,10, almost $9 off its previous close and $12 lower than its opening level this week. It ended more than $6 lower in London at $360,20.

Some commission house selling in afternoon London trade, which dealers described as thin, started the drop in the metal and investors liquidated positions speedily in anticipation of heavy losses.

Dealers said early selling of platinum might have triggered the commission house selling. Also, the houses may have been ensuring they sold out at levels higher than they had bought in at, which was said to be about $363.

The fall in gold mirrored nervousness about other metals, including platinum and silver. Silver dropped to $3,86c before making a slight recovery.

Platinum also made dramatic falls, shedding $7 to just above $360.

Rhodium prices have fallen nearly $1 000 or 36% in less than a month, rocking investor confidence in the platinum sector on the JSE.

The metal is trading at a quarter of its price in January this year.

The plunge in rhodium prices this week to the $1 500 level, against $2 350 an ounce in mid-November, knocked the JSE platinum index, which fell to 4 196 yesterday, a 7% drop after rising to 4 511 points last Friday.

Market leader Rustenburg Platinum (Rusplat) has shed 500c in a week, and closed down at R62,50 yesterday. Impala Platinum (Implats) also shed 100c yesterday and ended the day at R49.

Lebowa Platinum led the fall in shares on the platinum board, dropping 10c or 5,6% to close at 170c, after touching its low for the year during the day.

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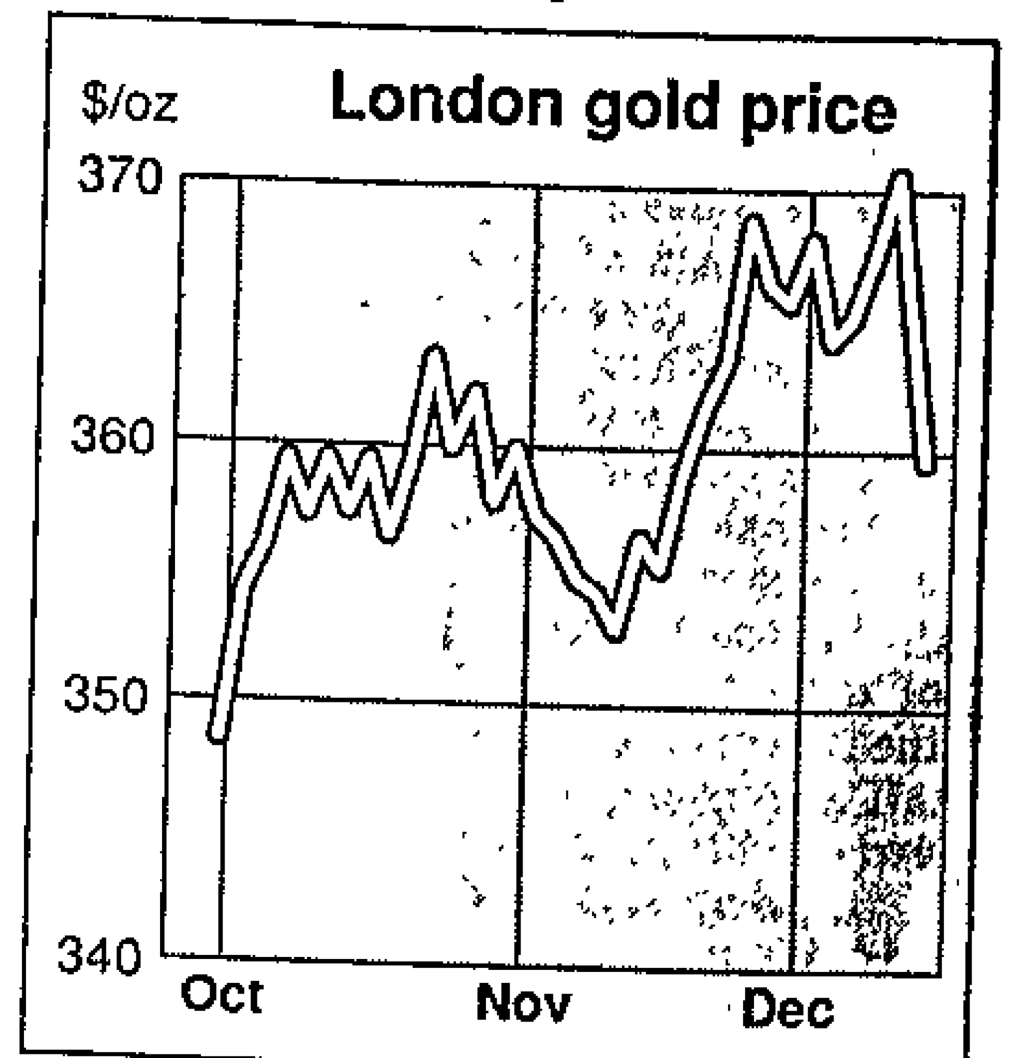

Graphic LEE EMERTON Source I-NET

Gold

B/Day 13/12/91. (79)

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Only Potgietersrust Platinums rose against the trend, moving up 5c to 625c yesterday, but that was after falling nearly 10% on Wednesday from 675c to 620c.

Although platinum prices have held up well this week, the sagging rhodium price has hit confidence in the platinum producers because of their reliance on rhodium revenue.

Implats derived nearly 30% or R623m of its mining revenue from it in 1991. A market source said yesterday Rustplat derived about 25% of its revenue from rhodium in 1991.

Then, the average prices the companies received for rhodium were $3 700 and $4 601 an ounce respectively.

One analyst attributed falling rhodium prices to the prolonged recession in the US and signs of one in Japan, affecting the fortunes of their motor industries.

Although interim results from platinum producers would be poor, he said, the reaction of investors to the price fall was short-sighted.

Platinum prices were stable, and would rise sharply in the longer term, while rhodium should regain levels of about $2 750 an ounce next year.

Jewellery set to rescue gold price

MATTHEW CURTIN

THE cavalry, in the guise of mounting gold jewellery consumption worldwide, is coming to rescue the gold price. (79)

So says Chamber of Mines economist Ivor Leibowitz in the chamber's latest newsletter in which he predicts gold jewellery consumption in 1991 will overtake 1990's record level of 1 986 tons and firmly "underpin the gold market". BDay 24/12/91

Liebowitz said the chamber's optimism was adding weight to industry contentions that the ability of jewellery manufacturers to absorb gold production was showing no sign of slowing down.

His comments came after the World Gold Council briefed the chamber and SA's mining houses in November about prospects for the jewellery market and the council's marketing plans.

Council CE Elliot Hood said gold market analysts had seriously underestimated the resilience of the sector.

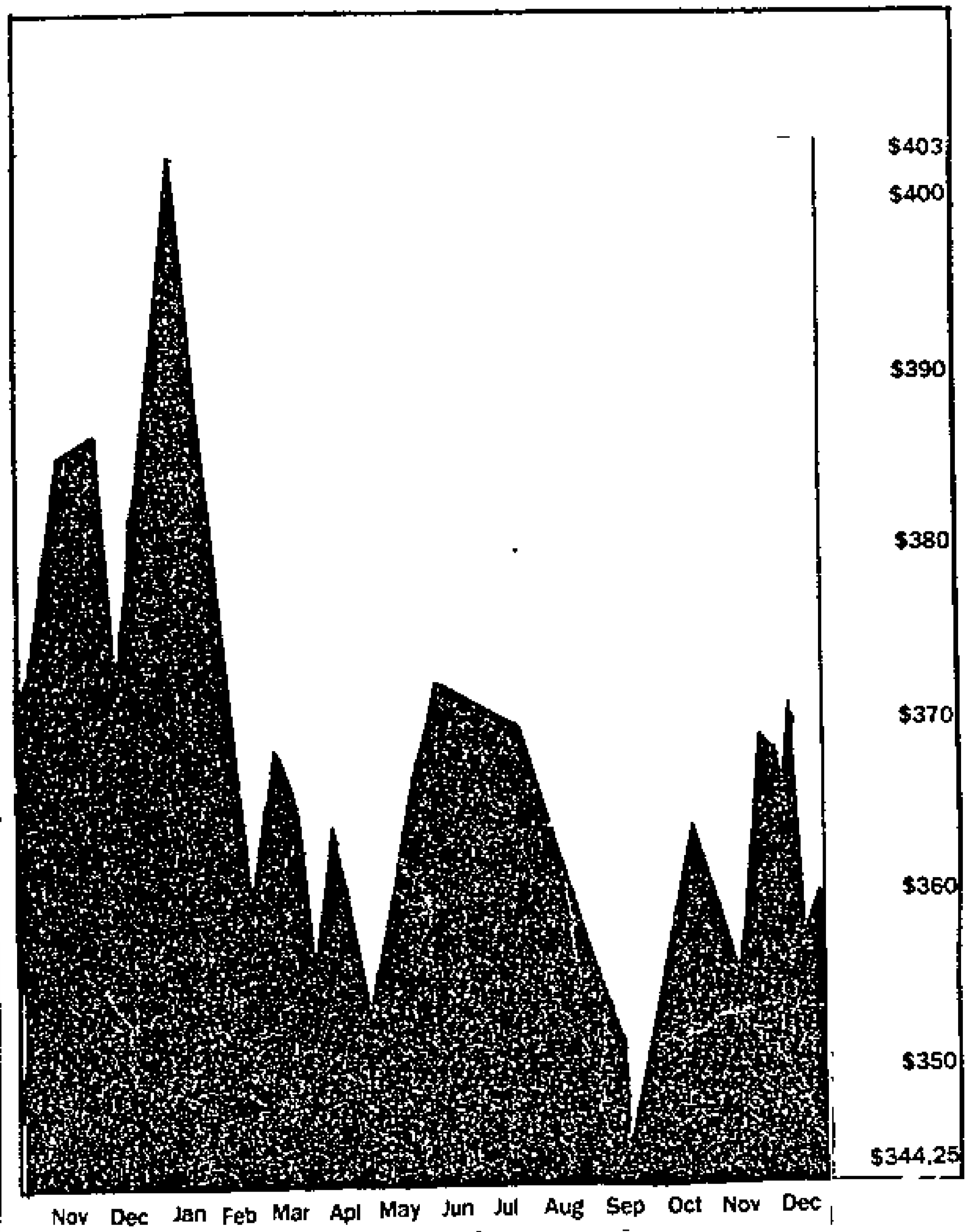
Chamber estimates based on compiled data of worldwide jewellery fabrication demand for gold in the first 10 months of 1991 suggested it was quite likely 1991 would end with jewellery's gold demand surpassing the 1 986 tons recorded in 1990.

Liebowitz said the jewellery sector's promising 1991 performance, after consecutive yearly rises in jewellery offtake since 1988, should do much to dispel gold market jitters about the staying power of jewellery fabrication demand.

The chamber's forecast echoes comments made several times by Anglo American gold and uranium division chairman Clem Sunter and JCI gold division chairman Kennedy Maxwell that mounting jewellery consumption, especially in the Far East, would bolster prices.

A year to forget for commodity futures traders

STAR 31/12/91. (179)



Gold price this year in US dollars.

LONDON — By the end of the Gulf War early in the year all trace of price gains had been wiped from the oil and gold markets, while the collapse of the Soviet Union has added to the bearish pressure on world commodity markets from the continuing recession.

Once again commodity producers must be wondering just when the prices they get for their raw materials will begin a sustained improvement.

The close of the year sees most base metal stocks at record highs on the London Metal Exchange and in view of the level of world stocks after eight years of overproduction, price rises of base metals will be limited at the most.

The precious metals market, which has seen several false dawns, reached its peak only a fortnight into the year, when the platinum price rose to just above $420 an ounce and the gold price closed at just over $400.

Confounding the forecasts of most pundits, the gold market then plunged on the opening of the Gulf war as the allies swept all before them. Gold appeared to have relinquished its role as a haven for funds in times of trouble.

By the end of February as a swift conclusion to the war seemed certain the gold price dipped below $360, the level around which it fluctuated throughout the remainder of the year.

Analysts said at the time that investors had become jaundiced about the yellow metal so that it reacted to events just like any other metal.

Speculation curbed

In the past 10 years a multitude of gold-backed financial instruments, such as gold options, have eroded the importance of the physical gold market and helped to curb the price volatility which used to attract short-term speculators.

Gold producers have also become increasingly proficient at using the complex financial markets to hedge their output, locking in certain profits but taking the steam out of any rallies.

Nevertheless there have been sharp movements, several connected with moves by a Middle East syndicate operating through the National Commercial Bank of Jeddah.

A wave of selling by the syndicate in September helped to push the price on London bulion market, increasingly nervous about the implications of the Soviet Union's break-up, to the year's low of $345,25, the lowest level for five years.

By October, however, fears that the Soviet disintegration would lead to heavy sales of gold were beginning to subside as a respected Soviet economist revealed that after vast sales in 1990, reserves totalled only 240 tonnes, roughly equal to the annual production rate.

This figure was greeted with some scepticism, as most analysts had been talking of reserves between 2 000 and 3 000 tons.

However, the World Gold Council soon accepted that figures below 1 000 tons for total Soviet gold holdings were credible.

The last rally to just over $370 earlier this month was undermined by weakness in the price of silver, now seen as an industrial metal and vulnerable, like platinum, to the continuing recession. Gold is currently trading at just over $353.

Platinum lost its premium over gold in July as disillusioned Japanese investors decided to take losses on contracts for future delivery.

The price had already plummeted in May when Nissan, the second biggest Japanese car maker, said it had developed an exhaust catalyst which used neither platinum nor rhodium, but the cheaper palladium.

Discount to gold

Exhaust catalysts are the main use for the white metal. Bearish sentiment was further influenced by soaring exports from the Soviet Union in the first half.

The market hit the year's low of $331,50 in August when industrial disruption ended at Impala of South Africa, which produces nearly 40 percent of the world's platinum. — Financial Times