

GOLD - 1993

July - DEC

# Gold shares <sup>Start 11/7/93</sup> pay higher dividends

By Derek Tommey

The fruits of the higher gold price are beginning to reach investors in gold shares.

Two JCI mines have announced dividends that should please shareholders.

Randfontein has almost doubled its final dividend, paying 110c against 60c a year ago.

Altogether, the mine is paying a total of 145c for the 12 months to June (85c previously).

Western Areas, whose last dividend was 16c for the 1986-87 financial year, is paying 25c for 1992-93.

The Randfontein dividend was not too much of a surprise, Nick Goodwin, gold analyst with EW Balderson, said yesterday.

At the current gold price, the mine is earning big enough profits to pay dividends of 250c to 270c a year.

The Western Areas dividend did catch the market unawares. The mine had been expected to use its greater profits to build up a cash reserve.

## Attractive

Presumably this was not considered necessary, given the current gold price, said Goodwin.

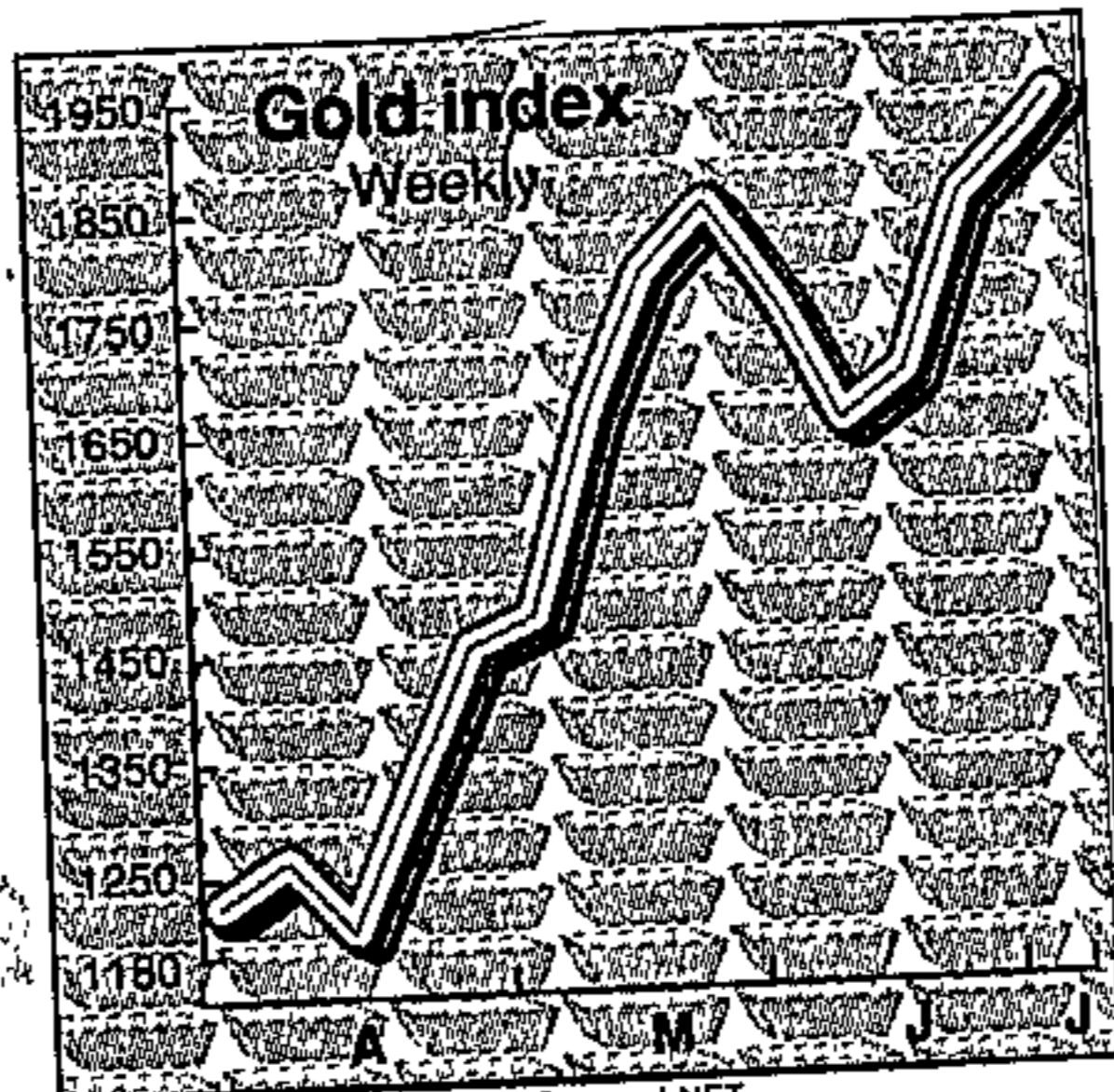
Randfontein's share price rose 55c to R37,80 on the dividend declaration, while Western Area's price jumped R1,65 to R16,75.

Goodwin said that while the higher dividends were putting gold shares on an attractive 7 percent dividend yield, or a yield of around 10 percent if bought through the financial rand, this was not what attracted foreign investors.

They buy on price, and with many shares one-and-a-half times what they were earlier this year, foreigners are more likely to sell than buy at this stage.

Investor attention is now likely to centre on the five Gencor mines which should announce their dividends on July 21, on the five Anglo American mines on July 22, and on the four Rand Mines operations on July 26.

The rand gold price continues to hover just below its high at R1 260 an ounce — indicating that gold mining profits should remain high.



Graphic: RUBY-GAY MARTIN Source: I-NET

## Soaring gold price buoys JSE trade

*Risak* 217193  
MELVYN HARRIS

AFTER repeated unsuccessful assaults this week, gold breached the key \$380 level on global bullion markets yesterday, nudging gold and related shares to fresh peaks in buoyant trading on Diagonal Street.

Gold was catapulted \$9 higher to close in New York at \$387.25. Comex gold, boosted by initial dollar weakness and the German rates cut, surged to its highest levels in two-and-a-half years in late trade, with most-active August up \$8.80 at \$388.00. Earlier in London the metal closed \$2.45 higher at \$381.20. (19)

Dealers said bullish sentiment was reinforced by news that Anglo-French financier Sir James Goldsmith might use some of the proceeds from the sale of Newmont Mining shares to buy physical gold.

Sentiment on the JSE gold board was boosted by rand weakness against the dollar, which lifted the rand gold price to a record R1 269.19. Strong demand for shares saw the all gold index climb 33 points to a new high of 1 943 and dealers expect the upward momentum to be maintained if gold's breakthrough is sustained.

The rally lifted bellwether Vaal Reefs almost 3% or R10 to R348 in the session's heaviest trade, with shares worth more than R24m changing hands in 45 deals. Shares of lightweight mines made steeper gains as they are expected to benefit most.

Bolstered by good demand for mining financials and market leader De Beers, the JSE overall index surged 33 points to surpass Monday's high to reach 4 086. Industrials were the laggard as the index declined 14 points to close at 4 682.

# Last-minute jitters for gold investors

JOHANNESBURG. — Gold shares soared to sharply better levels in strong trade yesterday before investor nerves gave in ahead of the weekend and amid a lack of immediate foreign interest.

Dealers said the market was extremely volatile with gold's brief spurt above \$390 an ounce dragging some buyers back into the market before late selling resumed.

"A lot of players wanted to offload ahead of the weekend," a senior dealer said. The Gold Index started sharply better, hitting a 2 044 high in morning trade before coming back to close 49 points higher at 1 992 — a 2.5% gain on the day.

The Industrial Index, under pressure from a sagging Richemont, lost seven points to 4 675. The Overall Index added 48 points to 4 147.

Market leader De Beers posted steady gains despite a strong financial rand rally, adding R2 to R82.50. Associate Anglo's rallied to R148 — up R6.50.

Richemont fell R1.50 to R40.50 and Barclays lost 25c to R46.75. Other industrials showed strength, SA Breweries adding 75c to R61.75 and Remgro

but divs

'likely to be

enormous'

collecting a steady 50c to R27. Lonrho rose 10c to R8.55.

Bankers were a firm spot, Firstbank and Stanbic adding 50c each to R85 and R98.50 respectively. Absa turned around after weakness early this week, rising 5c to R9.25.

In golds, "class shares" failed to make a major impression on the leader board but smaller operations made strong gains.

Vaal Reefs ended only R8 higher at R356 and Kloof rose 75c to R59.50. Lorraine posted a strong 65c gain to R9.85.

Gold Fields rose R8 to R110 and Amgold climbed R18 to R354.50.

Glenn Moore, economist with Personal Trust, said yesterday the turnaround in dividends on gold shares on the back of a

## Closing prices

(In \$ an ounce)	
NEW YORK:	LONDON:
385.50/90	387.80/388.30
	Fixing am: 390.00
ZURICH:	Fixing pm: 388.10
387.50/390.50	— Reuter

higher gold price would be enormous.

Moore said he remained bullish that gold would touch \$400 before falling back.

"The rand return is currently more than R1 300 an ounce and the type of dividends coming out of gold shares will be astronomical," he said.

Randfontein, for example, he said, had just declared a 100% increase on last year.

David Mohr, Old Mutual's chief economist, said that it was encouraging that gold had stood up in spite of the strong dollar and this confirmed that international sentiments towards gold had turned.

This positive sentiment could drive gold higher in the short term.

However, he said, he was still apprehen-

CT3 7/93

sive about the long-term fundamentals that were required to sustain gold at \$400 an ounce for the balance of this year and next.

The benefits of the higher gold price for the mining industry and the economy in general were high and could hopefully contribute to an improvement in the gold and forex reserve position.

This in turn could pave the way for Reserve Bank to reduce interest rates which would benefit the man in the street.

Gold and forex reserves figures for June, which are not yet out, could however show a further weakening.

The higher gold price, coupled with a lower rand was good for both substitution and export industries.

A higher gold price should eventually support the rand as would the expected International Monetary Fund loan \$850m.

There was still upside potential for the dollar and the rand could expect to lose further ground against the greenback but would hopefully stabilise against sterling and other European currencies, he said.

Dealers say declining foreign interest in recent weeks after the hefty buying earlier this year has taken some spark out of the gold share rally.

# Your Money

## Gold's bull run could be near end

**W**HILE this week's soaring gold price was good news for the share market, it should not have been seen as a signal for investors to plunge headlong into gold counters.

This was the warning from E.W. Balderson's Nic Goodwin, who said the shares could be in the final stages of their bull run and that caution was probably the best approach to the market at this stage.

"I believe the gold price could even reach the \$400 mark and the index the region of 2 300, but we should remember that the market is totally dominated by American investors."

While the rand/dollar exchange rate makes the rand price of gold unattractive from the point of view of investors chasing dividends, the Americans simply do not think like that. And remember, they are watching the dollar price of gold. If they decide to take profits, they will dump the shares overnight, with a sharp drop in the market being the natural consequence."

Yesterday the all gold index traced ahead, gaining 49 points to close at 1992 after rising more than 100 points at one stage.

In the afternoon, the gains were trimmed back to below the level of 2 000 as investors indulged in customary pre-weekend profit-taking.

**WHILE** the gold price soared beyond the R1 300 level this week, sparking hopes for mining shares, jobs and expansion programmes, caution should remain the name of the game, writes DAVE CUMMING.

However, should the gold price remain firm at the weekend, further rises in share prices are expected.

When the market closed yesterday, the gold price remained firm at \$388.05 after rising \$11 to a morning fix of \$390 an ounce in London.

The all gold index has jumped nearly 300 percent from a November low of 739, and many marginal shares have recorded increases exceeding 2 000 percent.

### Passed R1 300

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Local share prices are being boosted by the sharp drop in the rand and the solid rise in the dollar gold price.

Yesterday the rand gold price passed the R1 300 level for the first time, touching R1 303.

Goodwin said the sharp increase in the rand price was good news

for the mines, which would probably embark on capital investment if the price levels were maintained, to avoid tax if for no other reason.

Tony Twine of Econometrix said sustained performance at current levels could see new jobs created even before the mines embarked on capital spending programmes.

"They will be eager to take advantage of the current price and will probably opt for more or bigger shifts, which will translate into new jobs."

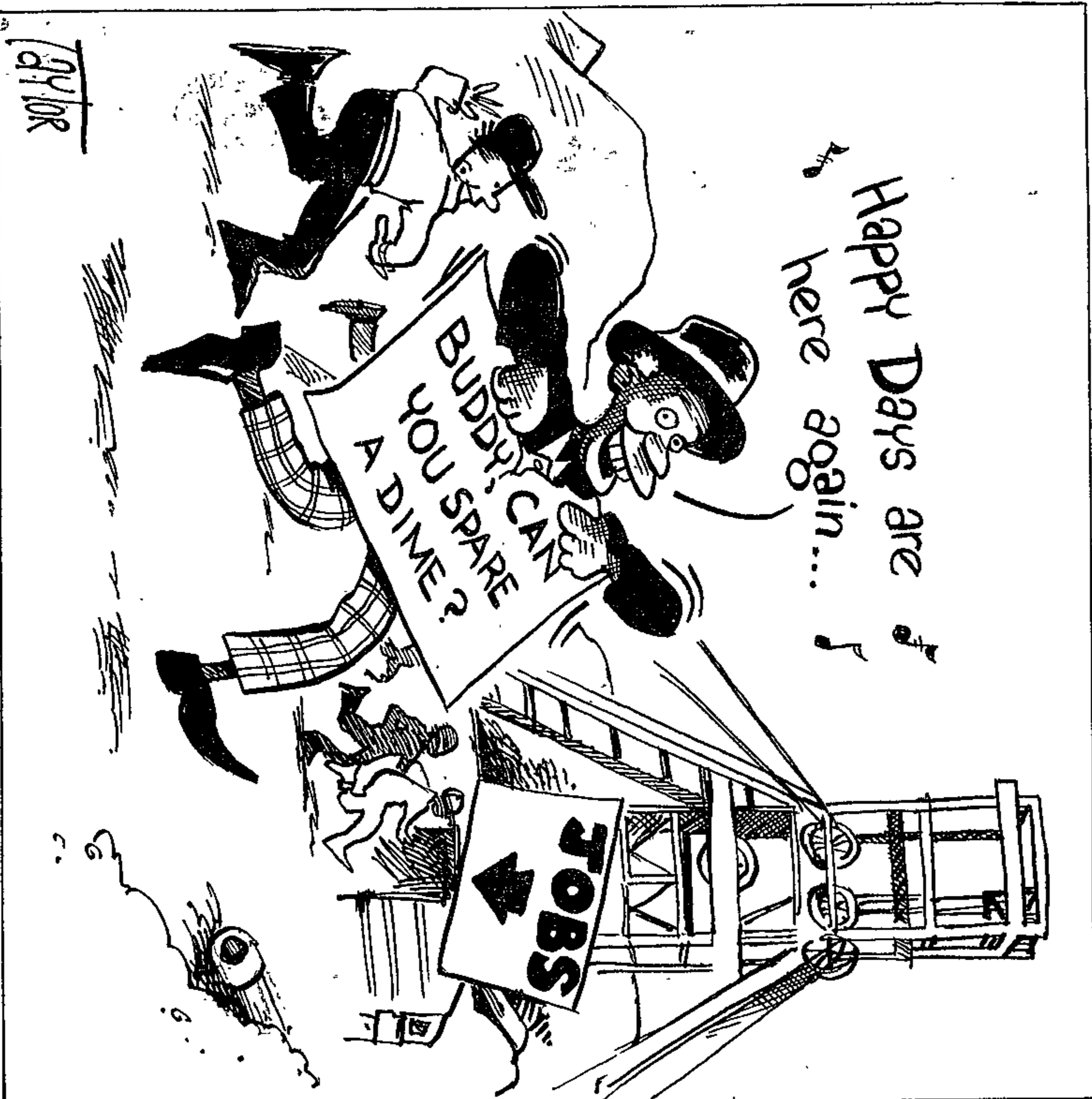
"The consequent rundown in their inventories of supplies will create a vacuum, with the consequent spin-off benefits for supplier industries."

He said the mines were likely to wait some months before starting new capital projects, to ensure the price was no flash in the pan.

He cautioned against over-optimism. "The consensus is that this is indeed no flash in the pan and I would like to believe that. But remember, at the beginning of the year the consensus was that gold could reach \$300 this year."

The benefits of the rising rand gold price are already starting to filter through in the form of higher dividends to local shareholders. Randfontein this week announced substantially higher dividends, while Western Areas announced a dividend of 25c — its first since 1986.

Gold mining analysts are expecting substantially higher dividends from Anglo American mines when they report later this month.



### Good advice on investment

The second edition of Magnus Heystek's book, *World of Money*, is available from The Star at an inclusive cost of R35. It offers everything you need to know about unit trusts, the JSE, retirement planning, secrets of successful investment and the effects of inflation. Send your cheque or postal order, made out to The Star, to: The Star, Finance Dept., Box 1014, Johannesburg 2000. Or call at 47 Sauer Street between 9 am and 4 pm.

# Gold hits

## 2½-year

### high of <sup>(79)</sup>

### \$392

AR 3/7/93

#### BRUCE CAMERON

Weekend Argus Business Staff

BUOYANT bullion prices and agreement on next year's April 27 election date have jolted the economy, pushing the share market to new recent highs and pulling the pound back from an all-time low against the dollar.

Gold hit a 2½-year high of \$392 yesterday but sank back to be fixed at \$388.10 at closing yesterday afternoon in London after heavy profit-taking.

The Johannesburg Stock Exchange also rose to higher levels, easing off before the close for the weekend.

But dealers are preparing themselves for another busy day on Monday with overseas sentiment supporting a gold price pushing through the \$400 resistance level.

The shot-in-the-arm bullion price comes after two weeks of economic indicators showing South Africa rigidly stuck in its four-year recession.

The higher gold price brings a number of benefits for South Africa, including:

- Relief for the hard-pressed balance of payments;

- A possibility of a further drop in interest rates;

- Greater income for the mines, which will benefit employees and increase inventory and capital spending;

- Higher prices for the platinum group of metals, which have risen in tandem with gold. Palladium, used in electronics, dentistry and catalytic converters for car-exhaust systems, hit a four-year peak of \$146 an ounce and silver was fixed at its highest for almost three years at 483.50 cents an ounce yesterday;

- Some relief for the government's depleted tax coffers as the contribution from mines increase from the low level of less than 1 percent of the total tax contributions of last year; and

- A psychological boost for business confidence, which dropped to an all-time low on the South African Chamber of Business business confidence barometer after the assassination of Mr Chris Hani.

The recent poor economic indicators have included an inflation rate slowed by the contracting economy and indications that the government has again underestimated revenue collection as consumers spend less and less.

# Golden peaks — and red herrings

THE JSE All-Gold index topped 2 043 points on Friday, its highest since early 1990 as gold hit a post-Persian Gulf war high of \$392 an ounce. It closed at 1 992 points.

The index was a low of 743 last November.

The rand's fall against the dollar meant that the gold price approached a record R1 300/oz. It has languished well below that for years.

Dealers — they attributed gold's earlier climbs to global inflationary fears — said its \$10-plus rise on Thursday was caused by Germany's cut in Lombard rate. A rate cut is usually interpreted as a sign that inflation is under control.

There was something of a red herring on South African Reuters screens on Thursday morning. The report — not seen outside the country and never confirmed — said that a company owned by gold bug Sir James Goldsmith was lowering its stake in Newmont Mining in favour of physical gold.

Slipping such items to the media tends to underline the view that rampant ramping of gold is taking place.

Much of Thursday's climb was on the purchase of call options for gold. The issuing banks have to cover their risk by buying gold, hence the rise in demand and jump in price.

This has happened several times in the past few months,

By JULIE WALKER

always in New York where trade is visible. A group of traders spots an opportunity to move gold which quickly gathers momentum.

Americans are usually reluctant to go into a long weekend (Independence Day this time) with open positions when other markets are trading. If gold falls while US markets are closed, losses could be made. Gold fell to \$388 when US markets opened on Friday.

Dealers usually punt strong physical demand in the Far East as fundamental in gold's future. Reports indicate that demand is not as high as is made out and that some investor gold is returning to suppliers.

The authoritative Mining Journal Gold Service says that in the quarter to March 1993, production costs of every South African gold mine other than South Roodepoort were below \$390/oz.

International investor favourites on the JSE were wanted. They include Amgold, Vaal Reefs, Driefontein and Anglo American among the good-quality counters and Western Areas, Doornfontein and Cons Murch.

The finrand firmed 12c on Friday to 460c and the commercial rand to 333c.

# Market in two minds over sustainability of higher gold price

Star 5/7/93

By Derek Tommey

Gold's \$11 rise to \$392.10 on Friday has led some bullion analysts to say that the metal is now poised to break through the \$400 barrier and go even higher.

However, this view is not shared by everyone. There is concern that any further increase could choke off demand, especially in the important Far Eastern markets.

Which of these views is the correct one remains to be seen.

The fact is that there are so many influences at work in the market that it is difficult to say one way or the other what is likely to happen.

But an analysis of these influences suggests that gold should at least maintain its present levels.

One major influence on the price at the moment is the tight supply/demand position.

While supplies of newly mined gold have shown little growth in recent years, demand for gold jewellery, partly for use as a store of wealth and partly as a hedge against inflation, has soared in the Far East, particularly in China.

The recent huge increase in wealth creation there, together with a high inflation rate, has resulted in the Chinese making huge gold purchases.

Some analysts maintained at the recent World Gold Conference in Istanbul that but for some central bank selling of gold, which helped ease the supply/demand position, the price could have soared last year.

The fear that central banks might sell more gold this year is one of the factors keeping many people out of the market.

Altogether, central banks

have about 35 000 tons of gold; the sale of only a small portion of this would depress the price.

But several major central banks have said publicly they have no intention of selling gold this year.

This makes sense because in the current world recession no central bank is likely to want to reduce the value of any of its assets. So fears of central bank selling have faded.

The other question is whether the Chinese can keep up their gold purchases?

## 79 As hedge

The high inflation rate there continues to favour the buying of gold as a hedge. But the government is talking about introducing an austerity programme in a bid to control inflation.

This, with the possibility of a levy on every worker to raise funds for the state, might reduce the ability of Chinese to buy.

Another factor fuelling the heavy demand has been the operations of US money and investment funds. They buy anything which they think they can sell and make a profit.

Their entry into the market played an important part in the price rise and helped generate huge profits. But investors must be aware they could also depress the price when they start offloading.

Another factor said to be affecting the price has been the cut in German interests rates. This has increased the attractiveness of holding gold as an investment thanks to the lower carrying costs.

● Gold retreated to an opening of \$385.45 in Hong Kong today.



# Randgold has lessons for investors

Star 6/7/93  
By Derek Tommey

Brokers say investors have learnt valuable lessons from the disappointing Randgold mining quarterlies issued yesterday — three weeks earlier than is normally the case.

With the gold price rising strongly, there was optimism that the group's four mines would produce attractive figures.

But after capital expenditure, Blyvooruitzicht reported distributable earnings of 6c a share for the quarter, Durban Deep a loss of 80c, Harmony a loss of 2c, and ERPM a loss of 111c.

The market's dismay at the Randgold quarterlies is reflected in the Randgold share price.

It fell 85c, or 13 percent, to 550c to show one of the biggest losses of the day.

Harmony's price dropped 100c to R24 and ERPM's 100c to R17,50. Durban Deep's was unchanged at R48 and Blyvooruitzicht's rose 25c to 825c.

Brokers said yesterday that one lesson was that a higher gold price may by itself not be enough to keep some of the more marginal mines going.

Operations at all four mines, and especially at ERPM, were affected by lower recovery grades.

Another lesson is that the practice of selling gold forward may save a mine when the gold price is low, but it can be a major drag on profits when the price rises.

All four mines have sold large amounts of gold forward.

This gave them a small premium on the selling price at the time of the sale. But the market price is now well above the forward price.

It is estimated that the average market price for gold for the quarter is around R36 973 a kilogram.

But Blyvoors received only R35 243 a kilogram, Durban Deep R34 635, Harmony R34 198 and ERPM R35 579.

And this depressed gold price situation will persist for some time, as they have all sold substantial amounts of gold forward at below the ruling price until at least the end of the year.

## Gold price up to \$394,25 in Hong Kong

ALIDE DASNOIS  
Business Staff

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CT 7/7/93

GOLD rose in Hong Kong today to R394,25, after heavy buying in New York and Europe pushed the price up again yesterday on world markets.

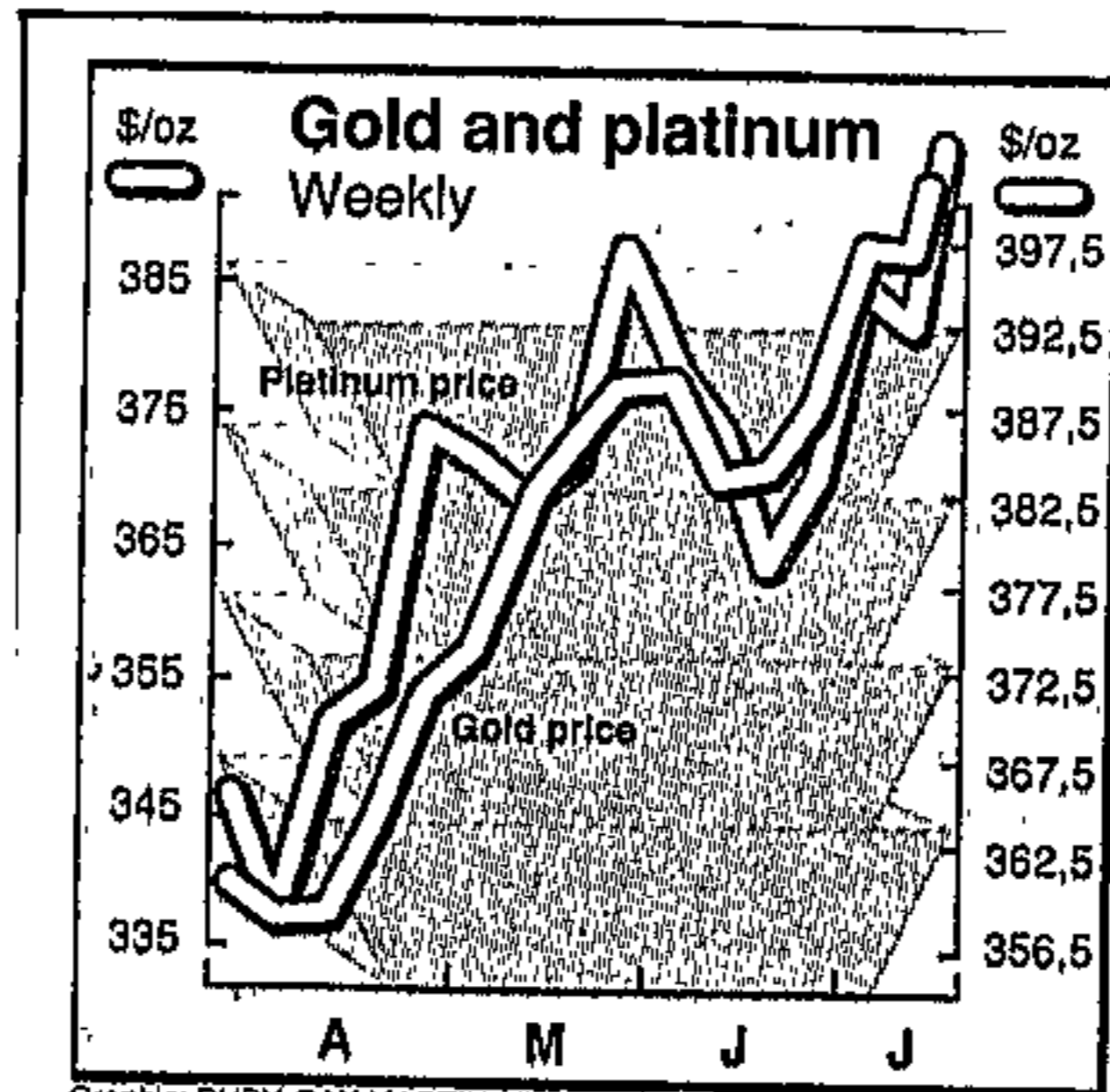
In London gold jumped \$6 yesterday to \$393 before dropping back slightly to close at \$391,60. In New York the metal closed at \$392,25.

Dealers said purchases by investment funds and by Chinese buyers looking for protection against inflation in their country pushed up the price.

But they warned that buying was mostly speculative.

The gold price had dropped back at the beginning of the week as investors cashed in profits after last week's highs.

On the Johannesburg Stock Exchange gold shares rose 3,5 percent yesterday, but weak interest from foreign buyers slowed price rises.



Graphic: RUBY-GAY MARTIN Source: I-NET

## Gold thrusts towards \$400

MERVYN HARRIS

GOLD was on track to the \$400 level on bullion markets yesterday, boosted by speculative demand from the Middle East and aggressive US fund-buying as New York opened again after the Independence Day holiday. *BiDay 7/1/93*

The metal rose to \$393 in London, its highest level since the Gulf war in January 1991, before profit-taking made inroads into the gains for the metal to close \$4.20 up on the day at \$391.60.

In New York, with trading energetic after the holiday break, gold closed \$6.55 up, at \$392.25. *(79)*

Dealers told Reuter that the speculative buying started with silver and spilled over to other precious metals, lifting platinum nearly \$11 to a London afternoon setting of \$404.25.

Rising gold and renewed rand weakness swept the rand gold price to a high of R1 314 to stoke demand for gold shares.

The rand gold price was at R550 when gold hit a record \$870 in January 1980.

The JSE all gold index closed 3.5% or 72 points up at 2 090 but was off a high of 2 112 after several bouts of profit-taking and futures-related activity, with near-term contracts trading at one stage at a 120-point premium to spot.

Futures dealers said there was "quite a big squeeze" in the market as domestic and foreign players bought futures and sold shares to hedge their positions.

Share gains on the JSE gold board extended to 25%, as in the case of Sallies, up 10c to 50c, with Modder hot on its heels with a rise of almost 23% or 25c to 135c.

To Page 2

## Gold

Fregold led the uptrend of quality shares, surging 5.4% (300c) to R58.25. *BiDay 7/1/93*

A dealer said: "People who have missed the boat are looking for a pullback in the market but declines so far have not been sufficient for them to take the plunge." *(79)*

Certain anomalies have arisen in the

wake of the euphoria on the gold board.

Mining holding group Randgold has tumbled 21.2% to 500c since reporting poor June quarterly results on Monday, but the four underlying mines in its fold were steady as the market turned its eyes to the next quarters.  From Page 1

# Gold tops \$390 as precious metals power ahead

AGGRESSIVE buying by New York funds, and by speculators in Europe, pushed precious metals to their highest levels for three years yesterday.

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In New York, with trading energetic after the holiday break, gold closed at \$392.25.

Dealers told Reuters that the speculative buying started with silver and spilled over to other precious metals, lifting platinum nearly \$11 to a London afternoon

setting of \$404.25. Silver was fixed at \$5.07 per ounce, a 35-month high and sharply up on Monday's setting of \$4.8850.

Rising gold and renewed rand weakness swept the rand gold price to a high of R1 314 to stoke demand for gold shares.

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The JSE Gold Index closed 3.5% or 72 points up at 2 090 but was off a high of 2 112 after several bouts of profit-taking and futures-related activity, with near-term contracts trading at one stage at a 120-point premium to spot.

The Industrial Index gained gaining 17

points to 4 719, while the Overall Index rose 36 points to 4 210.

Share gains on the JSE gold board extended to 25%, as in the case of Sallies, up 10c to 50c, with Modder hot on its heels with a rise of almost 23% or 25c to 135c. Fregold led the uptrend of quality shares, surging 5.4% (R3) to R58.25.

● A report on unit trusts by Hugo Lamprecht of the University of Pretoria shows that, although there was some buying by SA unit trusts in the last quarter, the unit trust industry in this country were net sellers of gold shares.

The SA institutions were slower than

those overseas to see that gold was in an upward trend early this year.

Personal Trust director Glenn Moore, who believes gold will break through the psychological \$400 level before falling back, commented yesterday: "As long as gold is going up, the SA institutions are on the wrong side of the market."

Moore said that if the unit trusts, which are the shop windows for the institutions, are an indication of investment by the pension funds, "the foreigners must be taking a lot of gold."

Graham Parker, gold analyst for stockbrokers Ed Hern, Ruddolph, says

in his monthly letter: "If clients are convinced that the bull market will continue we recommend that an exposure in gold shares at full weight — that is, 12% of balanced equity portfolio, must be taken."

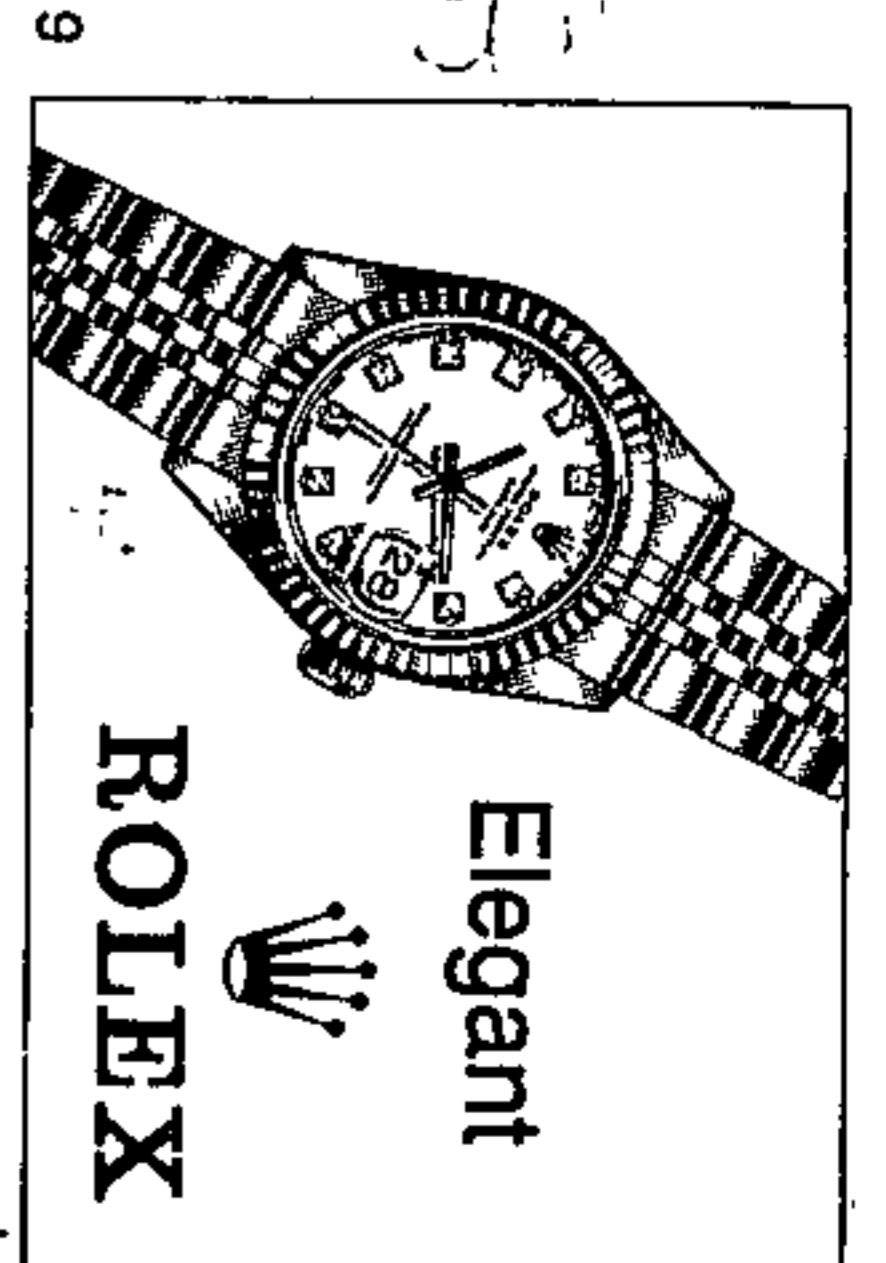
Pointing out that June was a period for much-needed consolidation, Graham Parker continues: "We believe investors can look to prices strengthening in the weeks ahead."

● Platinum share gains were a strong feature of the JSE day. Implants rose R3 or 4.85 to R66 while Rustenburg added R3.50 to R78.50. — Business Editor, Own Correspondent and Reuter

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# Business Report

THURSDAY, JULY 8 1993



Elegant  
ROLEX

## Gold within a whisker of \$400

JOHANNESBURG. — As gold came within a whisker of the key psychological level of \$400 yesterday, heavy profit-taking wiped out early gains on the JSE gold board.

Dealers said many investors had set a gold price of \$400 as the target to offload shares, but some players decided to preempt the move by taking profits earlier.

Gold surged to a 30-month high of \$399.25 in London before succumbing to profit-taking, closing \$2.40 up at \$394. In New York it closed \$4.60 up at \$396.85. In volatile trading, the JSE

Gold Index retreated from a high of 2149.2 to a session low of 2077.2, before edging up in heavy two-way trade to close two points up on the day at 2092.

"The gold market is looking very soft — it's gone too high, too fast," a dealer said. "Short of a dramatic move beyond \$400, shares will continue to show weakness."

Some dealers said the gold price could retreat further be-

fore regrouping for another assault on \$400 before week's end.

Industrials held steady but were largely ignored, while new platinum strength propelled related shares upwards.

the industrial index came off the day's highs to end unchanged at 4719 while the Overall Index rose three points to 4213.

Rusplats eased near the close but ended R3,75 or 4.8% higher at R82.25, while Implats gained R4

or 6.1% to R70. Gencor, owner of Implats, rose 15c to R12.

Leading counter De Beers broke no new ground after improved diamond sales figures, but firmed 50c to R86.50 in heavy trade. Associate Anglos eased R2 to R147.

Gold shares ended mixed and most were off the day's highs. Western deeps ended R6 higher at R169, while Freegold lost 50c to R57.75 and Kloof shed 75c to R62.75.

Industrial group Barlows lost 25c to R46.25.

In New York trade last night, comex gold settled with sizeable gains, but off session peaks and life of contract highs.

Although profit-taking made intrads into gains, fund account and speculative buying continued to underpin the market.

Most-active August gold closed up \$4.70 at \$397.80 after moving in a \$398.10 to \$393.80 range. The August contract rallied

\$4.91 to \$398.10 an ounce. Analysts and traders have targeted the \$400 to \$425 area for the August contract, expecting it to grasp the \$400 handle before week's end.

"A test of the 1987 high at \$500 is very possible," said John Murphy, analyst for CNBC. "We're seeing asset reallocation from financial markets into tangible markets like commodities, which are undervalued."

Earlier, October gold posted a new contract high at \$400.50. December set a new contract high at \$402.40. Business Staff Own Correspondent and Reuter

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Closing gold prices	
(in \$ an ounce)	
NEW YORK:	396.60/397.10
LONDON:	393.80/394.20
Fixing pm:	395.80
ZURICH:	394.00/397.00
	Reuter

Star 8/7/93

## Gold near \$400 barrier

The gold price came within a whisker of breaching the \$400 barrier yesterday.

At one stage it was trading at \$399.50 in London before slipping back and closing in New York last night at \$397.

Gold shares also retreated on the Johannesburg Stock Exchange yesterday as profit-takers moved in.

In early trading the gold

share index had risen more than 60 points, but by the close was up a bare two points at 2092. (79)

However, analysts are confident that gold will burst through the \$400 barrier before long and brokers say the share market could go either way today in active trading. The gold price is at its highest since the 1991 Gulf War.

# Price rise sends many funds into gold shares

By Alide Dasnois

CAPE TOWN — Unit trust quarterlies published this week show most funds rushing into gold shares to take advantage of the gold price boom. Some, like IGI or Metfund, have sold off industrial shares to invest in golds. Others, like Sanlam, used cash. The JSE gold index rose by nearly 60 percent in the quarter

ended June 30, compared with only six percent for the industrial index.

IGI Unit Trust's portfolio managers decided in February to move into golds, buying into Beatrice, Randfontein, Anglos, GFSA and Amgold and raising its holding in Vaal Reefs. The fund sold off its PP Rusts, Safren and AECL counters, and reduced by half its

holding in Rembrandt and Rembeher.

"We felt that at current price levels the Rembrandt shares were fully valued and we decided to lighten our holdings to go into golds," said IGI's Peter Linnell.

At the end of the quarter IGI held 27 percent of its funds in gold and mining shares, 58 percent in financial and industrial

shares and 15 percent in cash. The fund showed a return (capital plus income) of 10,8 percent over the year.

Norwich Unit Trust also moved into golds during the quarter, buying Driefontein, Genbel, GFSA, Harties, Highstone, and Kloof.

Mining shares accounted for 50 percent of equity investments at the end of the quarter.

Star 61793

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# Gold continues push to \$400<sup>(79)</sup>

APR 8/7/93

BRUCE CAMERON, Business Staff

GOLD recovered its upward push towards the key \$400 an ounce resistance level today, surging almost seven dollars on the bullion markets. In Hong Kong the price opened at \$396,97 after it closed in New York yesterday at \$391,65.

The upward surge was maintained with Zurich opening at \$398,50 and London at \$398,15. Yesterday the price reached almost \$398 but fell back on profit taking.



## Gold reserves down by 25%

JOHANNESBURG. —  
The reservoir of gold  
held by the Reserve  
Bank had been drained  
by more than a quarter  
since December, as the  
country struggled to  
meet its debt obliga-  
tions.

*DA 12/18/73*  
The bank's holdings  
fell to 4,9 million ounces  
last month.

● Full report — Page 9

# Shares tumble in scramble for profit

B/day 9/7/93

19

MERVYN HARRIS

GOLD shares tumbled on Diagonal Street yesterday as profit-taking gathered momentum after gold failed in another assault on the psychological level of \$400.

Dealers said investors continued to offload shares throughout the session for the JSE all gold index to finish 121 points or nearly 6% lower at 1 971. The softer tone rubbed off on all other sectors.

Share declines outstripped advances by 114 to 32 as the overall index fell 1,6% or 68 points to 4 145. The mining financial index slumped 134 points to 4 776 and the industrial index shed 28 points to 4 691.

The falls came despite gold touching an early high of \$399 before falling back in what London bullion dealers described as "wild profit-taking" in the wake of the metal's failure to breach \$400. It closed 75c higher in London at \$394,75 after a morning fixing of \$398,40, a fresh high since the outbreak of the Gulf war in January 1991. In New York the metal closed \$2,10 down, at \$394,75.

Dealers said bullion markets were dominated by US investment funds which seemed to have given up an attempt on the \$400 level this week. But analysts were encouraged by platinum, which ignored the pullback of both gold and silver to

trade just below the afternoon fix of \$408.

JSE traders said the downturn of gold shares came after huge gains which had put the market in an overbought position. "The pullback over the last couple of days could provide a buying opportunity for those who missed the boat when gold started rising three months ago," a dealer said.

Another added: "It was a strange market as the selloff came in the face of gold remaining at its higher levels."

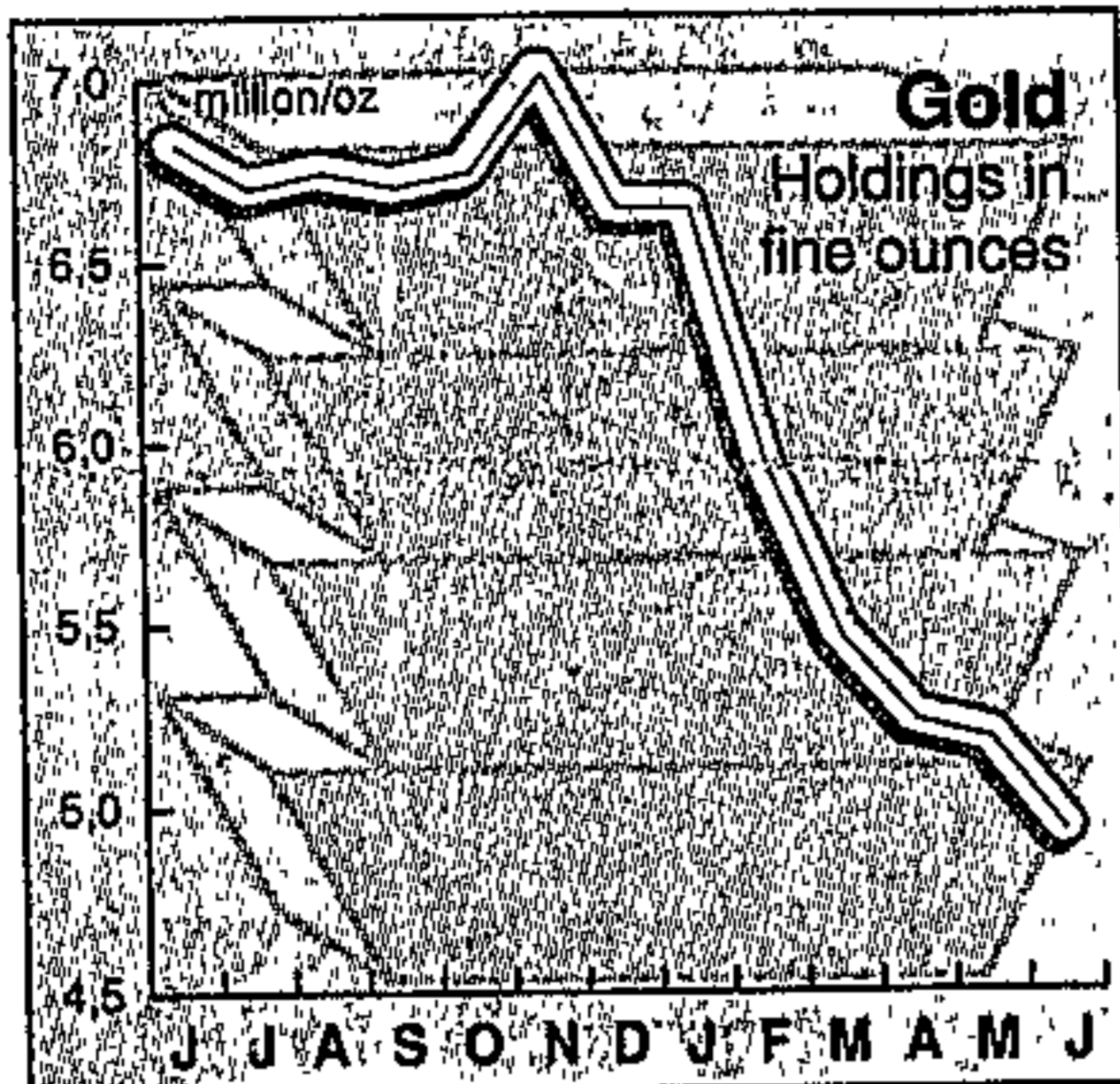
Falls on the gold board extended to almost 15%, as in the case of lightweight Lindum which plunged 60c to 350c after leading the uptrend on the gold board with a gain of about 700% over the past few months. Heavyweight Driefontein slumped 6,7% or 425c to R58,50 after more than doubling in price to peak at R64,50 on Wednesday. Vaal Reefs fell R16 to R349 after peaking at R375 a week ago.

Some market observers were taken aback by the extent of profit-taking. They said the gearing effect on mines of the substantial rise in the rand gold price would sharply enhance profitability and it was only a question of time before the market rallied to test recent highs.

# Bank's gold holdings fall heavily

BIDay 9/7/93

ANDY DUFFY



Graphic: RUBY-GAY MARTIN Source: RESERVE BANK

THE reservoir of gold held by the Reserve Bank had been drained by more than a quarter since December, as SA struggled to meet its debt obligations.

According to figures released by the Bank earlier this week, its gold holdings, which form a major part of foreign exchange reserves, fell to 4.9-million oz in June as the Bank attempted to generate vital foreign currency. (4.9/79)

The figure, the lowest for two years, represents a significant fall from the level just six months ago when gold holdings stood at 6.46-million oz, and a fall of nearly 28% over the year.

□ To Page 2

## Gold

BIDay 9/7/93

□ From Page 1

Though Reserve Bank Governor Chris Stals has consistently stated that the Bank must build up bullion reserves, its stocks have suffered a steady month-on-month decline from a high of more than 7-million oz last November. (4.9/79)

Though economists believe the Bank may have tried to exploit the rising gold price through sales, much of the heavier selling took place earlier in the year, when the metal was languishing at the \$330 level.

However, much of the gold will have been swapped rather than sold, though the Reserve Bank declined to detail what proportion had been swapped.

Bank gold and foreign exchange GM James Cross said yesterday the decline in gold stocks merely reflected the overall fall in reserves. It did not contradict Stals's policy because gold, as a proportion of total reserves, remained at a high level.

The pressure on reserves would also taper off, because foreign debt obligations after July would be substantially reduced.

However, economists said the figures underlined the dire state of the country's reserves, which dropped R389m to R7.5bn in June — a fall of 26% on the year — under the pressure of increased capital outflows.

"This is a hefty drop," said Nedcor Bank chief economist Edward Osborn. "They (the Bank) have obligations to meet which cannot be reneged on. This is the basic reason why the Reserve Bank is maintaining a very strict monetary stance."

Old Mutual chief economist David Mohr said the Bank had been forced to dig into its gold reserves because other reserves — such as currencies — were nearing exhaustion. These stood at R1.9bn in June, down more than a third on December's R3bn, and just 45% of the level a year earlier.

# Gold shares tumble on profit-taking

JOHANNESBURG. — Gold shares tumbled on Diagonal Street yesterday as profit-taking gathered momentum after gold failed in another assault on the psychological level of \$400.

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Industrials were mostly sluggish with Richemont shedding 75c to R40,50 and Barlows off R1 to R45,25. Remgro lost 50c to R27. Among gains, Lonrho made 20c

to R9,20, Iscor rose a strong 5c to R1,55, Dorbyl added 25c to R12,50 and Trencor rose 50c to R19,50.

Minorco slipped R3 to R77. Market leader De Beers started positively but ended 25c lower at R86 and Anglo lost R4 to R143. In platinum, Rusplats dipped 25c to R82 and Implats R1 to R69. Mid Wits was well traded, with 1,37-million shares changing hands worth R12,5m. The share lost 15c to R9,10.

Banker Nedcor was R1 lower at R22,75 and Firstbank lost 50c to R83,50. — Own Correspondent, Reuter and Sapa-I-NET

**Nerves**  
*Star 10/17/93*  
**set gold**  
**price** (79)  
**bouncing**

THE gold price bounced up and down like a yo-yo yesterday as buyers and sellers struggled to get the upper hand.

Gold opened \$5.30 lower in London at \$389.40 an ounce, but later rallied to \$393.10 at the afternoon fixing. However, selling in the late afternoon pushed down the price to \$391.25.

Dealers said there was considerable nervousness in the gold market following reports that some central banks had given "buy" options which, if exercised, could lead to several million ounces reaching the market.

# Gold 'expected to break \$400 barrier'

By ARI JACOBSON

ANALYSTS are optimistic that the \$400 barrier for gold bullion will be beaten, even though the yellow metal fell almost 12 dollars in two days to a low of \$388 an ounce, before recovering at the weekend to close at \$393 an ounce in London at the afternoon fix.

In New York, the market closed at \$391.20/391.70 late last night. Many analysts said last night that they expect gold to retest \$390.00 before resuming its rally to \$400.00 and beyond.

Some said August gold might slip to support at \$389.40 before regaining its footing. August gold has a near-term objective ranging from \$400.00 to \$425.00 once it completes its consolidation phase, analysts said.

Although South African analysts also warned that bullion could weaken further in the short term, they said that in the longer term the All Gold Index would reach new all-time highs and the gold price would be sitting comfortably in the "high \$400 zone".

The sharp retreat this week led a gold trader out of New York to comment that "it is like any commodity, at \$399.50 it's desirable, at \$400's an ounce buyers shy away".

He was trying to explain the metal's move to within a whisker of the critical \$400 an ounce level over the week to complete a massive \$70-odd move in less than four months.

Instead the yellow metal drifted back to try again "possibly next week," he said. Local fund managers are adamant that bullion will flip over the other side of the \$400 barrier.

Syfhret's Peter Major added that "it's going to go the extra distance — I have no doubt".

He said that resistance could then be expected at \$420 an ounce where the last bull run, in 1989, fell apart.

"There are similarities between this run and the last one — both came from nowhere and seemed to be driven from New York."

However he was quick to point out that bull runs never "seem to be repeated ex-

actly".

"Once over the \$420 mark — then we are in a true bull market," he said.

Gold-related investments have provided first-rate returns so far this year and analysts mentioned that these gains would have an "immediate knock-on effect in the economy".

For instance a large portion of gold shares have doubled in value, which adds up to higher investment returns and greater disposable incomes for those investors.

Gold producers have benefited from a higher gold price (as well as a lower rand) which should trigger further capital spending and start to trickle through to provide employment for engineering firms and general labour.

The government in turn must be satisfied with a gold price that is about \$60's higher than in mid-March, especially as the Reserve Bank's GM foreign exchange James Cross mentioned yesterday that "we are mostly involved in forward gold swaps (for dollars) which allows us (to buy back the bullion at a fixed price) and then re-swap the metal at higher prices".

79

CT10/7/92

# Gold gurus make a deal

Star 13/7/93

By John Spira

In a multi-million rand deal, Alan Demby, chairman of the Gold Club and the Gold Investment Corp, has taken the SA Gold Coin Exchange into his stable of coin trading operations.

The merger gives the combined operation an estimated 70 percent market share of South Africa's R25 million investment coin market and a meaningful proportion of the R500 million worth of Krugerrands traded annually.

In terms of the transaction, Eli Levine, patriarch of the SA investment and collectors' coin industry, relinquishes the reins of the business he has owned and managed for 20 years.

According to Levine, the combined staff complement of the three operations constitutes the largest force in world coin trading.

Demby notes that until 1988 the three operations competed with a certain amount of overlap.

## Competitors

"Now we'll be able to target our markets more efficiently and consequently avoid saturation of any particular niche of the market. In addition, the three operations will be free to tackle new markets.

"At the same time, the three organisations will continue to operate as competitors, thereby retaining their own focus and motivational edge."

Demby has made an innovative mark in his approach to the marketing of coins. He was the first to offer coins on credit via products such as Gold Loan 2000 (loans against coins owned), Goldplan 3000 (an in-house-financed debtors book) and insured financing underwritten by Sage Life.

On the near horizon is something new to the local market — commemorative phonecards, which have taken on exciting dimensions in most industrialised countries.

In addition to being used as cash cards for use in public tele-



Alan Demby (left) and Eli Levine put the finishing touches to a merger that will control 70 percent of South Africa's investment coin market.

phones, some phonecards feature elaborate graphic portrayals of historical events and in the process have acquired investment value.

"We introduced these cards in South Africa by piggybacking on one of our British proof set promotions," says Demby.

Another successful Demby innovation is the Gold Club "Collectors Card", underwritten by

Diners Club and endorsed by the SA Mint.

Demby is unashamedly optimistic about the future of the merged group.

"With a large part of our product base denominated in US dollars, we supply a hedge against currency devaluation and political dynamics."

Born in England in 1955, Demby founded the Gold Club in 1978 with a capital base of R1 500.

# Consolidation the name of gold's game <sup>19</sup>

Business Editor

CT 14/7/93

GOLD — which plunged to \$388 yesterday afternoon on heavy selling before recovering to a close of \$393.65 in London — is likely to consolidate at a lower level before moving up again, analysts and portfolio managers forecast yesterday.

Adrian Finch, gold analyst at Frankel, Pollak, Vinderine, said: "There is a lack of sense of direction and it might take 14 days for gold to do anything much."

"It may consolidate around \$380 an ounce before making a fresh assault on \$400."

However, Finch warned that the price was held up by paper at present, with the physical market out of kilter with it.

"South East Asia is one of the most important markets and gold is not being sold there because it is regarded as too expensive at the present price."

"There is anecdotal evidence for this. Apparently small 'tail bars' which were sold in Hong Kong at a premium of \$1.20 above the spot price are now being sold at \$1 discount to spot."

## 'Quick surge unlikely'

Finch said he would be very surprised to see gold surge quickly through the \$400 level. But "if it breaches it well we could see a speculative surge beyond that level."

He thought this unlikely this year. "But it may be different next year."

Board of Executors portfolio manager Ryk de Klerk said: "Gold needs to consolidate at these lower levels before moving up again."

He did not foresee any major drop in the gold price. "But it will take quite a lot to push it through the \$400 level."

"This is quite a healthy market. There is a need for consolidation. There is no advantage in jumping \$50 or more only to fall back again."



# Gold dash boosts top four's value

BID Guy 14/7/93  
79 214

ANDY DUFFY

THE DASH for gold shares has boosted the net asset value of the top four mining financial houses on average by more than 30% in the past five months.

Figures compiled by Business Day show investors' attempts to tap into the burgeoning gold market has cut the average discount at which Anglo American, Gold Fields of SA, JCI and Gencor trade to their net asset values by the same proportion since the start of March.

The gains indicate that the houses' share prices are advancing far faster than the gains made by their underlying assets, including their gold mine interests which themselves have seen meteoric rises.

Analysts said the rises suggested that although investor sentiment now firmly favoured gold stocks, buyers were still looking to spread their risks by getting into the houses' other assets.

Major investors might also be reluctant to buy heavily into individual mines, given that current high prices could not justify the underlying level of risk.

The individual level of gains nevertheless pointed to gold as the major attraction.

Gold Fields, which has at least 60% of its assets in gold, made the greatest gain, its net asset value rising 47% over the period. Despite disappointing results for the three months to June, its net asset value stood at R124,15 a share on Monday, against R84,57 a share at the start of March. Its discount to net asset value dropped from 25,8% to 11,4%.

Anglo American surged forward nearly 40% over the period to R192,88

on Monday, though its discount slipped back only slightly from 30% to 26,9%.

JCI moved forward 25% to R77,39 over the period, though its discount slipped marginally to 18,6%.

Gencor, which has less of an exposure to gold, moved ahead 13,6% to R14,82, despite the uncertainties surrounding the group's unbundling plans.

"The mining finance sector is back in favour," Fergusson Bros analyst William Bowler said. "There's been a realisation by investors that the discounts earlier this year were too wide. They want some exposure to gold, but they are wary of direct producers."

Frankel Pollak Vinderine analyst Peter Davey suggested that the gains could also be linked to larger investors avoiding pure mining stocks to pick up the "more highly tradeable" gold financial stocks.

Sources added that the narrowing discounts underpinned market concerns that shares were overheating. Gold Fields was dubbed "outrageously overpriced" by one analyst.

Other analysts, however, added that the discounts would continue to narrow before the shares were deemed too expensive.

For the whole sector over the period, the average discount dropped back from 29% to about 24%, just above the 22% average of the past five years.

None of the four houses had so far broken their two-year discount lows since gold began its gold run, though Gold Fields had come close to its 4,7% barrier.

Own Correspondent

JOHANNESBURG. — Foreign demand for SA shares and gilts quoted on the JSE has surged, with the net inflow nearing the R3bn mark for this year from only R300m last year.

The JSE has found favour with foreign investors for the first time in years.

An initial perception that SA gold shares were underpriced and gold fever triggered by billionaire George Soros have

pushed purchases of shares by non-residents to more than R2bn this year.

Last year foreigners were net sellers of SA shares to the tune of about R500m. The previous year's figure topped R4bn.

Figures released yesterday showed that last week alone R156m

flowed into the equities market as gold tested the \$400 level and the JSE gold board buzzed.

According to JSE data, foreigners have bought R730m in gilts so far this year compared with about R785m for all of 1992. London brokers were active buyers on the bond market yesterday, taking out pockets

of about R40m at a time, a dealer said.

The financial rand has failed to respond to the sharp turn for the better in foreign purchases of SA securities.

Reserve Bank Governor Chris Stals ascribed the failure of the investment unit to respond to the changed sentiment to large finrand bal-

ances non-residents held with SA banks.

Reserve Bank figures showed that from a peak of almost R7bn, these finrand balances had fallen to less than R6bn as non-residents switched into gilts and equities.

Stals said the balances with the banks represented an "overhang"

# Foreign demand surges

(79) CTIS/7/93

# Kruggerands worth another look by investors

Star 1447193  
719

## Business Staff

Having stagnated for several years, the price of a Kruggerand has risen by 35 percent in the past six months, prompting renewed focus on the coin's investment merits.

In many respects the KR is an ideal investment medium for the individual investor, since, unlike shares, it requires no analytical expertise, is easily stored, is readily marketable and contains an ounce of gold.

Problem is, few are aware of how to go about buying and selling KR's. Fewer know where they can get the best and most

convenient deal. Nor are many familiar with the sources available to them for checking its daily price.

It might surprise you to know that the KR is quoted every day in The Star on the page containing the stock exchange prices, being listed immediately after "Mining Finance — Exploration" and immediately before "Financial — Banks and Financial Services".

So you have readily at your disposal a means of checking the value of your investment on a daily basis.

But while the quoted price is uniform, the net amount you

pay when you buy a coin and the net sum you receive when you sell is not, because the various institutions dealing in KR's levy different commissions.

JSE stockbrokers deal in KR's and charge a commission of 1.2 percent on buying and selling. That's high relative to other institutions, and, besides, you'd have to wait several days for your money or your coins because of the rules governing settlement dates on the JSE.

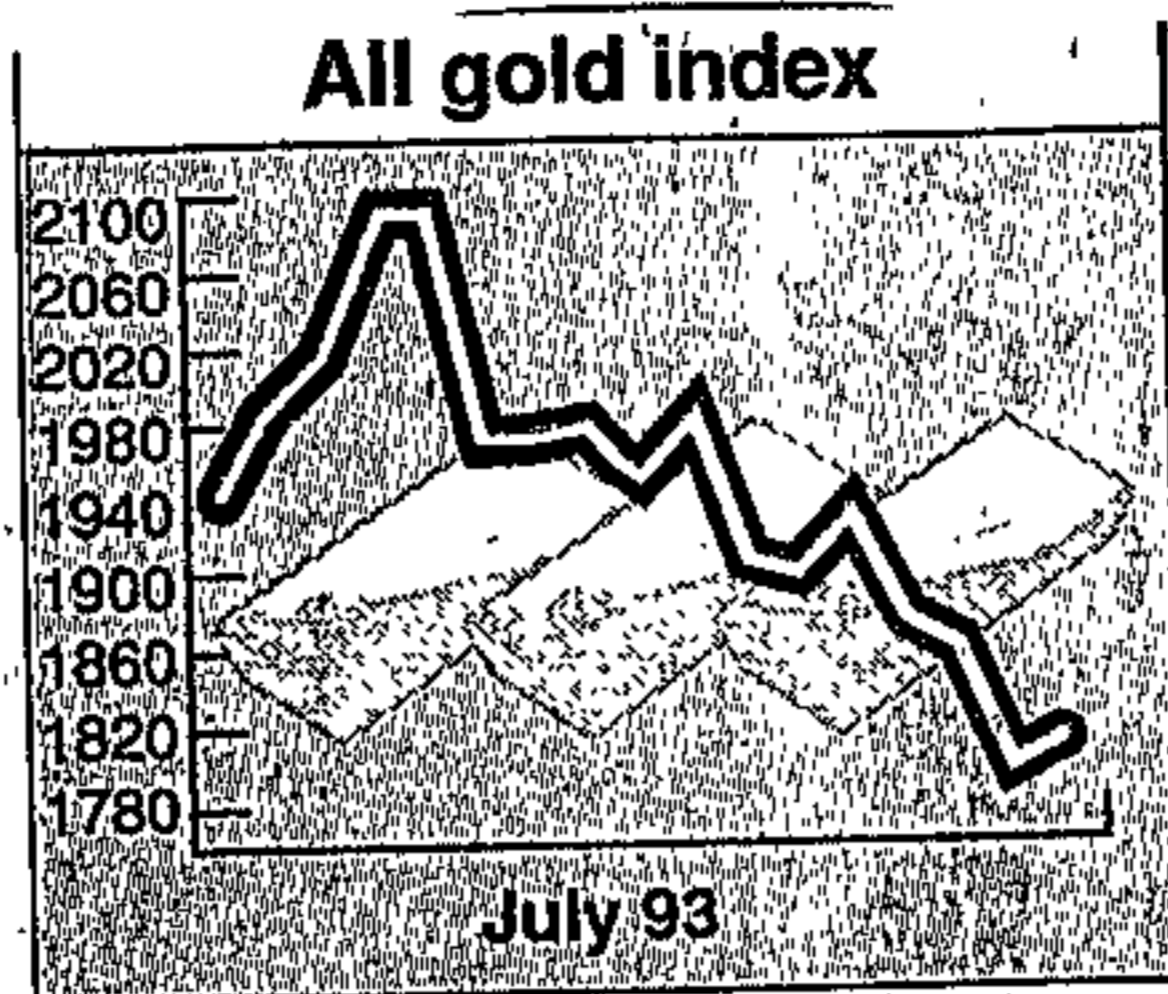
Most coin dealers trade in KR's, charging commissions varying between 1 and 2 percent. If you go to a dealer, be

sure, therefore, to shop around for the best rate.

Investec Bank has long been involved in the KR market and is widely recognised by the wholesale market as the most convenient institution with which to deal. It charges a commission of only 0.25 percent, but isn't geared specifically toward handling the business of the man in the street.

The SA Gold Coin Exchange has gone to great lengths to gear itself up for the small investor's KR needs. It charges a low 0.25 percent commission, and makes its brokers available for clients requiring advice.





Graphic: LEE EMERTON Source: I-NET

## Gold price adds to share price woes

MERVYN HARRIS

A WOBBLY gold price, which briefly breached key support at \$388 on bullion markets, gave another twist to the downward spiral of share prices on Diagonal Street yesterday. *BIDay*

The JSE all gold index tumbled 49 points to 1 812 but was off a low of 1 795 as buyers re-entered the market before the close on a minor rally in the metal's price. *23/7/93*

In London, gold closed 80c down at \$391,05, after rebounding from session lows in the wake of renewed speculative selling as trade opened in New York. In New York gold closed \$1,45 up at \$391,05. *(79)*

Reuter reported that early European trading had been encouraged by some Far Eastern buying, which had been notably absent from the market since prices started accelerating in May — "a key development if maintained", a dealer said.

On the heels of gold's decline, platinum fell \$5 to \$399,25 in late London trade, sending Implats reeling with a loss of 300c to R63 and Rusplat falling 100c to R73.

The decline in the all gold index took its losses to 337 points, or almost 16% since peaking at 2 149 two weeks ago, with the weaker trend rubbing off on the market.

Yesterday's 20 point fall in the industrial index to 4 548 brings its decline to 201 points or 4,2% since hitting a 4 749 high towards the end of June.

Dealers said the gold board opened weaker on overnight selling from New York and continued to drift lower as demand was insufficient to absorb the stock coming on to the market.

Foreign selling helped drag down bellwether Vaal Reefs. The shares fell R10 to close at R321, off a low of R319.

# Gold boom

## BOY IN TUG-OF-LOVE DRAMA

By RONALD MORRIS

Supreme Court Reporter  
A MASSIVE manhunt is under way by the deputy sheriff of the Supreme Court and the SA Police for a three-year-old boy who was secretly abducted from Sydney, Australia, by his father, who may be "unbalanced".

This follows an urgent Supreme Court application in Cape Town by a divorcee from Sydney, Mrs Carolyn Mary Slomowitz, for sole custody of the child, Joseph.

In papers Mrs Slomowitz said she had married her husband, Alan, on March 8, 1987, in Sydney and had a daughter Jessica, 6, and a son Joseph, 3.

She and her husband had been living apart since July last year.

On June 4 this year the Sydney Family Court granted her and her husband joint guardianship of the children. She was awarded sole custody.

On June 28 her husband telephoned her, refused to tell her where he was and said he had taken their son.

"He also said during that conversation: 'If I find out you have tried to find out where I am, you will never see Joey



## 'Relief in sight' for rocky SA economy

By ARI JACOBSON

**THE gold price broke through the magical \$400-an-ounce barrier in London and New York yesterday, bringing bumper gains for shareholders and the promise of relief for the embattled South African economy.**

Gold maintained its level for the first time since the Gulf War in January 1991, as investors veered away from the chaotic European currency markets. It notched further gains from an afternoon fix of \$401.50 to close at \$406.40 in London trade and \$406.95 in New York.

In after-hours trade the futures price for December gold on the New York Commodities Exchange strengthened still further, closing at \$411.70 and ounce.

Economists said yesterday that if the gold price was sustained for a year at this level, it could sal-

vage the South African economy by propping up crucial gold and foreign exchange reserves.

The chief economist of the SA Reserve Bank, Dr Ernie van der Merwe, said that should the bullion price remain above the \$400 level for one year, as much as R4 billion would be added to South Africa's foreign exchange reserves.

He said this in itself would be enough to salvage the economy. Gold shares have shown phenomenal gains with the \$80 rise in the price, from under \$330 in March to its close in London at \$406.40 yesterday.

In this period Lorraine has jumped 1 000% from R1.50 to roughly R15 a share, Western Areas has ballooned eight-fold from R2.80 to R23.60 a share and Lindum has kicked up 1 250% to R4.75 a share.

The Gold Index gained 110 index points yesterday to mark a more than 100% rise in this index, in less than five months, from 972 to its close yesterday at 2 098.

Johannesburg Stock Exchange dealers said they expected some consolidation at current levels while the gold price found its feet

against a backdrop of European currency chaos.

Gold analysts said that a higher gold price had already allowed for greater levels of capital expenditure, which meant more jobs.

Economists pointed out that the low level of foreign exchange reserves of the country remained the most problematic for the economy now that inflation was under control, yet this move in the gold price could solve the situation and allow for a string of cuts in interest rates.

The \$400-an-ounce barrier was beaten with the help of the European Exchange Rate Mechanism (ERM), which was on the verge of collapse at the weekend, after the German Bundesbank refused to lower key interest rates.

The Reserve Bank's reluctance to cut the bank rate was justified, but there might be room for manoeuvre in rates by September or October, Board of Executors senior portfolio manager Mr Rob Lee said yesterday.

● Rand at record low — Page 5  
● ERM teeters on brink of extinction — Page 5

(79)

CR31/1/93

# Gold price leaps to new high

DAVID EVANS

LONDON — Next stop \$410. Then \$420. That's the jubilant judgment of bullion buffs after the gold price surged through the \$400-an-ounce mark yesterday.

Gold has been bound in a \$390/\$395 range for most of the week, despite the gathering exchange market chaos in Europe. It was only in the final minutes of

New York trading on Thursday that the price was pushed through the \$400 level, in what appeared to be a tactical move by US investment fund managers. (79)

In Europe the euphoria spread and, despite a slight hiccup during the afternoon when the price fell back to an afternoon fix of \$401.75, buyers rushed to get on the gravy train.

"It's been like a pressure cooker all week, and last night the lid blew off," one London-based analyst said.

**LATEST**  
**GOLD closed at a new 31-month high of \$406.40 an ounce in London last night.**

On the local market, big institutions and small investors rushed to phone their stockbrokers to buy gold shares. Trading on the Johannesburg Stock Exchange boomed. The gold share index jumped 110 points, or 5.5 percent, in heavy trading to close at 2098. This is approaching three times the 1992 low of 752.

At one stage yesterday, gold was trading at its highest since the Gulf War in January 1991, and about 25 percent above seven-year lows in early March this year. For much of the day it had hovered around \$402 in a jittery market.

European currency

● TO PAGE 2.

## Gold

Star 31/7/93

● FROM PAGE 1.

market turmoil seemed to have sparked the latest surge, but it was more of a pretext than the real reason. "The funds have been looking for the right time to go over the hill, and last night was it," one dealer said. "This time, it looked as if the funds really had the bit between their teeth." (79)

Ever since the rally started in March, the investment funds have been driving the price higher by buying futures and options. Dealers say their next target will be to push it through \$410 and then \$420.

Other precious metals also rose on fund buying. Silver burst through previous highs to \$5.40 an ounce, its highest level since February 1990 and a gain of 50 percent since the boom began in early March.

Platinum was strong, fixing at \$414.50 an ounce, its highest since March 1991 and up 22 percent in the last five months. Analysts said the continuing upheaval in the currency markets would support gold above \$400 and targets were now being set in the \$410/\$420 region, but they warned that a dip back down to around \$398 had not been excluded.

"There was nothing particularly important about \$400, but psychologically, now that we're above it, people won't want to go below it again in a hurry," one said.

Analysts added that strong historical resistance existed between \$410 and \$420 and that the funds would find it extremely difficult to push gold above it.

The panic mood in the currency markets continued yesterday as Europe's Exchange Rate Mechanism appeared in danger of collapse. Hungarian-born financier George Soros declared it

was futile to protect it.

It was Soros who earlier in the year had fanned the flames of gold's rally. In April, news emerged that Soros had bought 10 percent of US gold producer Newmont Mining from Sir James Goldsmith.

**DEREK TOMMEY** of our Finance Staff reports that some local gold dealers caution South Africans about getting too excited about the present gold price because they do not believe it will last.

They say American commodity funds have been manipulating the gold market. These funds are not long-term buyers of the metal, but speculators after quick profits. The dealers fear that once the funds start taking their profits, the gold price could drop fairly sharply.

One dealer said the American commodity funds had discovered that the gold market was small and easily manipulated in the short term. It was much easier to move the gold price than other commodity prices. This had led to at least one American fund this week deciding to push up the gold price in order to increase the value of its investments.

"Genuine" gold buyers — those who buy the metal for resale to jewellers and industrial users and provide a floor for the market — stopped buying when the price reached around \$396 an ounce, say dealers.

Marwan Shakarchi, of dealers MKS in Geneva, said the market was purely in the hands of the funds and there was no physical demand in the Middle East and Asia.

Bullion dealers warn that unless "genuine" buyers can be persuaded to pay above \$396 for their gold, which seems unlikely, this could be the long-term price for the metal. If the funds start selling their gold holdings, the gold price could quickly retreat.



Graphic: RUBY-GAY MARTIN Source: I-NET

## Gold shares down on nervous trade

By Day 16/7/93  
MERVYN HARRIS

SENTIMENT was knocked back sharply on Diagonal Street yesterday to send gold shares plummeting in nervous trading.

Shares were offloaded throughout the session as gold failed to breach resistance at \$400 and its drop to a low of \$388 in the past two days on the back of tame US inflation data and a stronger dollar.

The JSE all gold index tumbled 100 points before buyers entered the market on a slight uptick in the price of the metal. The index finished almost 4% or 77 points down on the day at 1907 as institutions nibbled at selected counters on the way down. However, most of the buying was said to be short covering. (19)

The sell off started overnight in New York on Wednesday where shares such as Driefontein and Kloof were offloaded and the selling pressure continued on the JSE.

Kloof fell 6% or 350c to close at R54 and Driefontein gave 5,6% or 325c to R54,75, but both shares were off session lows. Vaal Reefs shed 3,1%, or R11, to close at R339 after touching a low of R335.

A dealer said: "There was not a buyer in sight for certain counters until an hour before the close of trading when the market turned and there was hardly a seller."

Gold closed \$2,40 higher in London at \$394,35. In New York it closed \$2,85 up at \$393,35.

Dealers said both gold bullion and shares could build a base within the current \$388 to \$395 trading range but said the medium-to long-term outlook was still bullish.

UNIT TRUSTS

79 ~~252~~

**Swing to gold shares**

**The swing** into gold shares evident in the first three months of 1993 continued in the second quarter but with a marked difference: rather than drawing down liquidity, as in the previous quarter, general equity fund managers reduced their portfolios' exposure to industrial shares.

After its dismal performance over several years, the All Gold index continued its recovery, gaining 58,5% over the June quarter. Many of the unit trusts benefited from this, though they also contributed to the boom in gold shares.

Portfolio managers have been encouraged by the improving international sentiment towards bullion and by fundamentals which have moved in favour of a stronger gold price. Optimism so far has not been doused by any repeat of the large central bank sales that took place in 1992 and producers have been less active in the forward market. Other mining shares also found favour.

Association of Unit Trusts (AUT) deputy chairman Derek Finlayson says the percentage of mining stocks in the portfolios increased from 33% at March 31 to 36% at June 30.

This trend could continue. Some portfolio managers contend that, at current share prices, the mining sector in general is offering better relative value, especially leading mining financials which are trading at discounts of more than 20% to their underlying asset values.

Fund managers now seem anxious to reduce weightings in industrial shares. Valuations of these counters are mostly high by historical standards, which suggests capital appreciation will have to be driven by organic growth in earnings rather than by favourable rerating of the shares.

Most portfolio managers have maintained



**AUT's Nackan ... well within international norms**

FOX

FM 16/7/93

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a defensive stance towards equities, though to varying degrees. The absence of political resolution and — of particular concern for high income funds — the disappointing balance of payments and fiscal positions (which have ensured real interest rates have remained high) have helped keep the average liquidity level at a high 20%.

Annual returns from the general equity funds showed marked improvement on those of the March quarter. Average return for the year to June was 11,2%, comparing favourably with the average inflation rate for the period of 10,6%. Though the All Share index increased 15,4%, half the funds outperformed the index. Best performers were BOE Growth fund, Guardbank equity fund and Norwich Trust, all achieving a 21% return.

Almost inevitably, though, the two specialist gold funds took the honours this quarter. Old Mutual's gold fund showed a stunning 12-month return of 86% against the 13% recorded in March. Standard Bank's gold fund has tended to maintain comparatively high levels of liquidity but still gave its investors a 59% return, substantially up on the previous quarter's 9%.

Assets managed by the industry's 50 unit

trusts — 41 equity trusts and nine income trusts — rose by 11% to a record R16,3bn at the end of the quarter from R14,6m at end-March. Of the total, R13,8bn was invested in equity trusts with 73% of this in the general equity trusts.

Gross sales were up 8% on the year at R1,2bn. Though repurchases increased to R732m, a record high, AUT chairman Bernard Nackan says this is not surprising considering SA's continuing recession. He adds that repurchases remain well within international industry norms. Net inflows were a "satisfactory" R497m.

Though investment in unit trusts has continued to grow, the combined market value of the equity trusts at June 30 represented only 1,75% of the market capitalisation of the JSE, marginally below the March 30 figure of 1,83%. Total market capitalisation of the JSE rose 18% during the quarter to R628,5bn. "These figures, which are substantially below international averages, illustrate the enormous scope for growth of the industry," says Nackan.

Strong flows into the income funds saw total assets jump 124% on year-ago levels, rising to R2,5bn, highlighting investors' per-

ceptions of the direction the market is taking, along with lower interest rates

These funds, representing 15% of the industry's total assets, continued to prove good investments, though their relative performance was dampened by the boost given to equity funds by the higher gold price. There was a tendency to reduce holdings of bonds of seven years and longer, portfolios being repositioned largely in investments of three to seven years.

Active management of these funds helped generate capital gains of up to 5,8% in addition to the high income earned. Annual returns by the income funds ranged between Metboard's 19,8% and Standard Income's 13,2%.

Performances during the rest of this year will obviously be heavily influenced by the gold price, which is now within range of \$400/oz and many investors are preferring to take profits on gold shares. Results achieved recently by gold funds have served as a reminder that precious metal or commodity sectors that have long been out of favour can offer extremely good returns when the recovery comes; its duration and extent remains problematic.

Marylou Greig



# A year's gold at R1 500 means higher payout for many mines

STimes (Bus) 18/7/93

AT a sustained real gold price of R1 500 an ounce, beginning in the next six months and continuing for a year, 29 mining companies would be able to at least double their dividends, three would increase them and nine could start to pay them.

Ed Hern, Rudolph gold analyst Grahame Graham-Parker says that although the bull run is fundamentally and technically intact, the questions are how far shares can rise and what will be the effect on dividends.

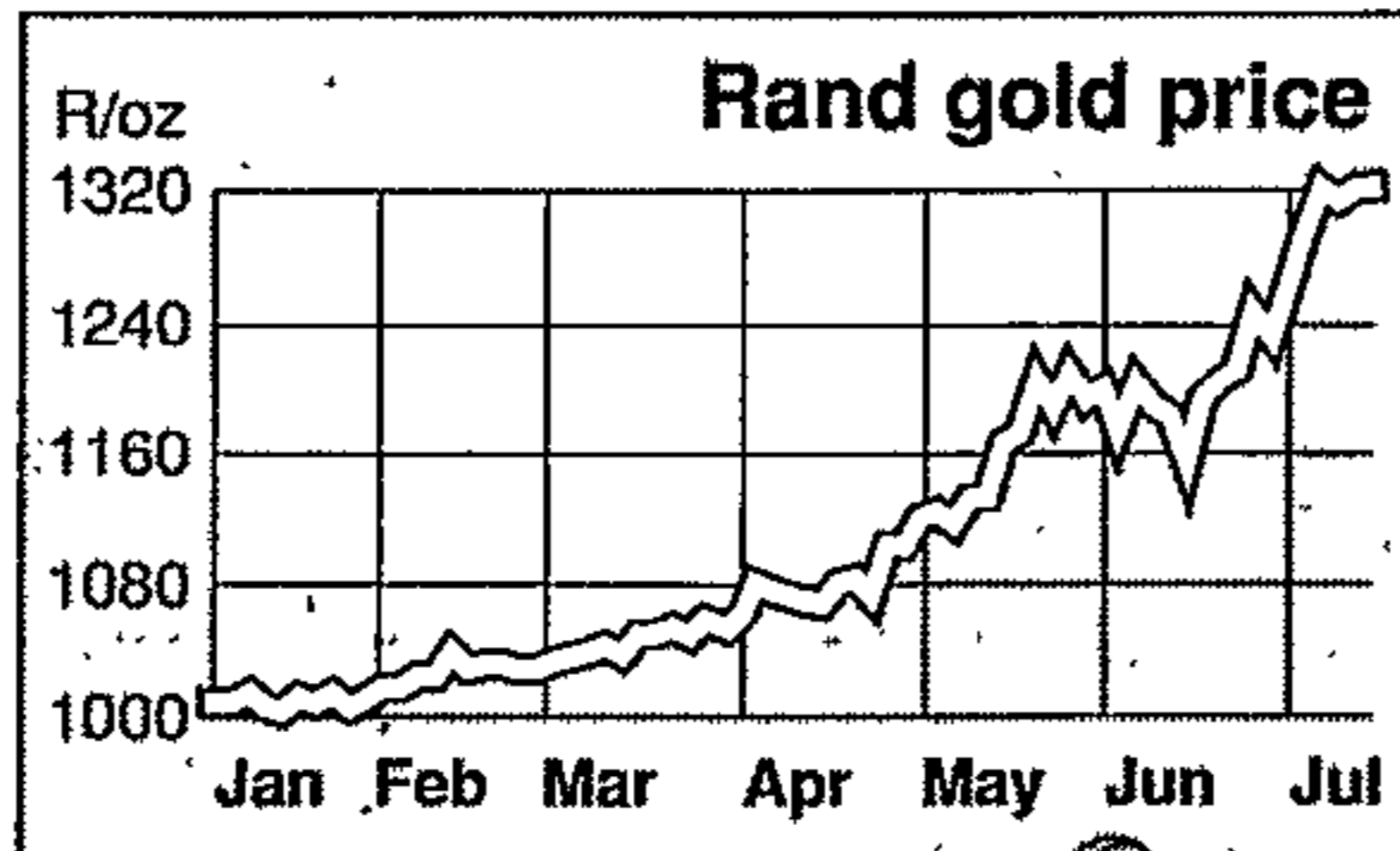
Mr Graham-Parker says: "Although we do not forecast gold at R1 500 in two months' time, it is nevertheless an achievable scenario. Few would have forecast the rand gold price to have climbed by R200 to R1 300 in the past two months, which it has done."

Benoni, Western Areas and West Wits would be able to lift their dividends by more than 500% if gold held at R1 500 for 12 months.

Another 10 companies — AF Leases, Deelkraal, Elandsrand, Kloof, Knights, St Helena, Unisel, Western Deep, Winkelhaak and Unisel could pay between 250% and 500% more than at present.

Sixteen other companies could lift payouts by 100% to 250%.

Mr Graham-Parker says such a gold price would not help companies such as ERPM, Primrose and South Roodepoort to restore dividends in the short term. In-



Graphic: FIONA KRISCH Source: I-NET

investors who believe that further rand weakness and higher dollar prices for gold can be expected should take note of other opportunities in the gold market. (79)

The average historical dividend yield of the all-gold index since 1971 is 6.7%, and the current yield is 2.7%.

Mr Graham-Parker says: "Based on our higher real

rand gold price of R1 500/oz, the one-year forward dividend yield, weighting the constituent yields accordingly, would be 6.8%.

"As with individual shares, the dividend yield of the index is not likely to rise that high; rather share prices would climb, increasing the index and decreasing the yield."

If that one-year yield were to fall to 6%, the all-gold index would gain 13% to 2 370 points.

"We would view this as a minimum increase. We see fair value at 3 384 points, yielding 4.2%. But a really bullish market, assuming today's 2.7% yield a year's hence, would push the index to beyond 5 000 points."

## Leading earners exceed 20%

STimes (Bus) 18/7/93

THERE were three contenders for the top general equity unit trust performer in the year to June — Board of Executors Growth, Guardbank and Norwich — all exceeded 20% returns.

This is according to figures compiled by the University of Pretoria's Hugo Lamprechts. They assume a lump-sum investment on a repurchase-to-repurchase basis.

Worst general performer over a year was Old Mutual Investors, which returned only 4.7%. But Old Mutual scored with its gold fund, which gave an all-in return of 85.9% — by far the best over the year.

Syfrets Growth remained tops over three and five years, during which annual compound returns were respectively 20.7% and 28.6%.

In the longer run, all funds in existence for 20 years have run closely either side of the

20.6% rise in the JSE all-share index and well ahead of inflation.

In the past quarter, seven funds which provided me with information about portfolio changes bought Amgold. There were no sellers of the gold leader.

Unit trust fund managers were unanimous in selling Rusplats and buying Dalys and Suncrush. They were divided on Potgietersrust Platinums, where Sage and UAL were buyers and IGI a seller, and on Genbel, sought by Norwich, Southern and Sage.

Only the Old Mutual mentioned Barlows, of which it was a buyer. As a major shareholder, Old Mutual is believed to be partly behind Barlows' unbundling restructure and could be putting its money where its mouth is.

Old Mutual also sold Richemont in spite of claiming a 50% rand-hedge portfolio component.

DAPV

# Stronger rand could see gold bulls penned in

Star 19/1/93

(79) (19)

By Derek Tommey

Gold's failure to rise above \$400 an ounce last week has resulted in considerable uncertainty about gold's next move, say dealers in the futures market.

They add that it might not be just the future of the dollar gold price that is worrying traders but also the prospects for an improvement in the rand-dollar exchange rate.

The rand gold price has risen about 27 percent since February from around R1031 an ounce to R1314. Part of the cause of the rise was a 20 percent increase in the dollar gold price from \$327 to \$392.

But the six percent devaluation in the rand against the dollar from R3,14 to R3,34 was also an important factor.

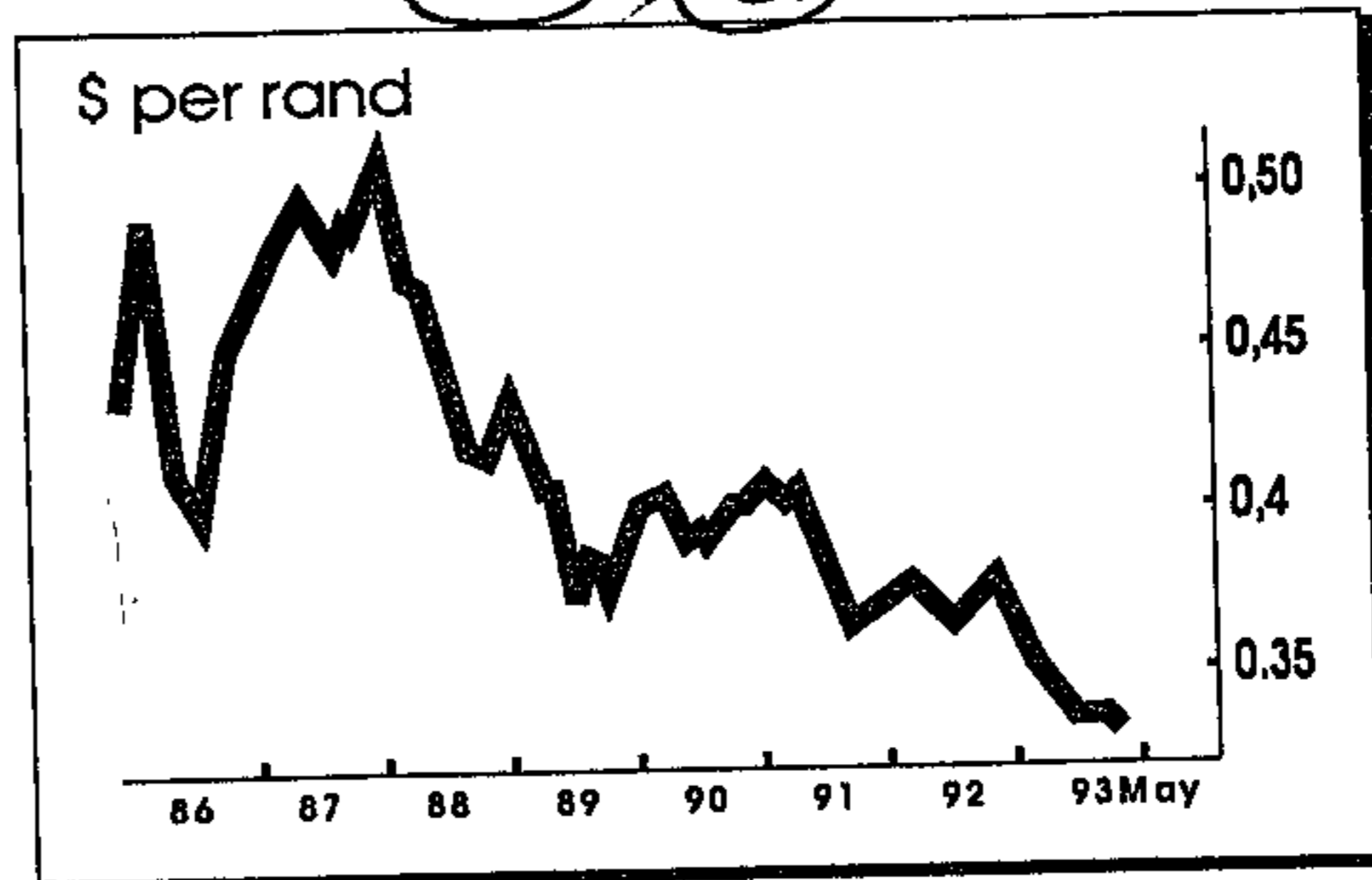
Economists warn that investors should be cautious about expecting a further drop in the rand to boost the local gold price.

There are a number of developments, they say, that could lead to the slide in the rand against the dollar being reversed. One is that the huge outflow of funds on capital account (which depressed the rand's exchange rate in June) is expected to slow down significantly from the end of this month.

## Exports

A second reason is that the higher precious metal prices overseas, together with the effects of the rand's devaluation on other exports, should soon lead to an improvement in export earnings and also in the balance of payments.

In a statement accompanying the latest foreign exchange reserve figures, the Governor of the Reserve Bank, Dr Chris Stals, indicated that much of



the latest drop was the result of foreign debt repayments falling due in June. But he indicated that while there will be more significant debt repayments this month, repayments for the rest of the year will be small.

Dr Azar Jammie of Econometrics, commenting on Dr Stals's statement, says it seems that much of this year's \$1,5 billion foreign debt repayment has already taken place or is taking place right now.

"The implication is that from August onwards the level of gold and foreign exchange reserves should begin to rise and could rise appreciably, especially in view of the tailing off of food imports and the higher gold price," he says.

The higher gold and platinum prices could make a significant contribution to South Africa's balance of payments. Gold exports should be bringing in \$100 million a month more than at the beginning of the year and platinum an additional \$130 million a month.

In addition, some of the stimulatory effects of the slide in the rand in the past year on other exports should soon start coming through.

This overall improvement in exports can be expected in spite of the continued world-wide recession. And one result of the better trade figures is likely to be a firmer rand.

It is this possibility that is believed to be taking some of the steam out of the domestic gold share market and the futures market.

The reserves need not show a marked improvement before the rand's exchange rate could firm.

## Leads and lags

Because the rand has been falling quite fast against the dollar, it is suspected that many South African importers have been expediting payments before any further weakening takes place. Conversely, many exporters are believed to be delaying foreign payments for as long as possible in order to get the lower exchange rate.

But any sign that the rand might firm could lead a reversal of these leads and lags resulting in the rand rising strongly.

This could completely change the situation for speculators in gold shares. It might even lead to their changing from being bulls to bears.

# 'Many mines still in danger'

BiDay 2017/93

THE price of gold would have to rise above \$440/oz before all SA gold mines could be taken off the danger list, the Chamber of Mines said yesterday.

Although the metal's recent gains had bolstered the industry's fortunes, the chamber said in its latest newsletter that the long-term impact on revenues should not be overplayed.

Chamber economist William Houtman said gold's rise in the first five months of 1993 had lifted the average dollar gold price to \$338,96, but that was still well down on the price for the same period in 1992.

Even if gold averaged \$380 for the rest of the year, the average price for 1993 would still be just \$363,31 — a level at which a quarter of chamber member gold mines could still suffer losses.

And assuming the rand/dollar exchange rate remained at the 1992 average this year, gold had to rise to \$443,16 before a level of profitability was sustained in which there were no marginal producers.

## Euphoria

The chamber's comments are likely to dent the euphoria that has lifted the gold index by nearly 60% to 1 901 since the metal began its ascent in April.

The downbeat report is also in line with disappointing June quarterly results from Randgold & Exploration and Gold Fields of SA.

But analysts responded sceptically to the chamber's comments, adding that the main reason why some mines' revenues had been held back was because of their hedging, which had locked mines such as Randgold's ERPM into lower prices.

There was also some doubt about whether such theoretical figures could be applied to the actual movement in prices and revenues.

Simpson McKie analyst Rodney Yaldwyn said that even at \$443,16/oz, there were at least five mines, such as GFSA's Doornfontein, that would close, simply because their reserves had been exhausted.

Fergusson Bros analyst Trevor Pearton said the chamber may be downplaying its members' gains in a

ANDY DUFFY

bid to put pressure on the NUM, with which it is in a wage dispute, to accept lower wage rises. "This sounds horribly political," he added. "You can't have a 30% rise in revenues and claim you are battling to survive."

Houtman conceded that his calculations did not take into account the likelihood that revenues would gain a boost from the rand's weakening against the dollar.

But he said the industry should focus on the dollar gold price because it served as the primary market indicator, while the rand price could be influenced by factors external to the gold market.

"Under ruling conditions," he added, "rand gold price movements... have a technical rather than material significance in the fortunes of gold producers."

The benefits of a weak rand also had to be weighed against the increased cost of imports which would force up costs. "Such a gain simply serves to import inflation which... puts more pressure on working costs, increases industry pay limits, reduces workable ore reserves and jeopardises mining viability, production and employment."

The chamber also reported yesterday that its gold mines members cut their tax payments by nearly a quarter last year, compared to 1991.

In a breakdown of value added by the sector, the chamber said its members paid a total R726,6m in tax in 1992, 24% lower than then R957,8m it paid in 1991.

Dividend distribution to shareholders in 1992 rose from R1,3bn to R1,39bn — the first rise in six years, the chamber said.

The industry's employees also enjoyed a rise over the period, receiving R8,2bn last year, against R7,9bn in 1991.

The chamber said its members had capital expenditure of R2,17bn last year, nearly 6% ahead of the figure for 1991.

Total turnover for the chamber's member mines was only marginally ahead, rising from R18,65bn in 1991 to R18,99bn last year.

# Chamber dents gold euphoria

79

CT 20/7/93

From ANDY DUFFY

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The chamber said its members capex rose 6% to R2,17bn.

# Gengold plans R2bn capex — if gold rises

CT 22/7/93  
79

From ANDY DUFFY

JOHANNESBURG. — Gengold could start projects worth more than R2bn if the gold price sustains its real-term growth over the next six months.

Unveiling June quarterlies underpinned by the metal's gains, Gengold said the schemes — including the R800m Poplar mine on the East Rand, the R450m No 3 shaft at Beatrix mine and the R450m No 6 shaft at Winkelhaak — were all possible at current gold prices.

Recommissioning the R470m Weltevreden open cast mine, mothballed last year, was also being considered.

Gengold was forced to put the brakes on capex after gold prices deteriorated. Three months ago it announced small-scale capex projects worth around R200m to supplement shelved schemes. But MD Gary Maude said yesterday the projects had been "dusted off and redesigned".

Though gold had fallen short of penetrating the \$400 barrier, Maude expected the metal to restart its climb from the end

## Gold dips below \$390

(In \$ an ounce)	LONDON:
NEW YORK:	391,60/392,10
389,40/389,80	Fixing am: 391,60
ZURICH:	Fixing pm: 392,40
391,00/394,00	— Reuter

of next month, and possibly reach \$450.

Even at the current gold price, he added, several projects looked good.

The company said funding was likely to come through debt and/or rights issues, though Gengold had still to test investor reaction to the plans.

Maude cautioned that Gengold would have to regain its confidence in the gold price achieving real and stable growth before the button was pushed. It had had its "fingers burnt in the past".

The development of the schemes would be such that they could be halted quickly if Gengold's fortunes deteriorated. Gengold was discussing one-month notice

clauses with suppliers and contractors.

Maude said programmes were unlikely to be decided on before the year-end.

The funding for all the projects would have to be structured so that they were covered by improved operating performance from the mines. The company was not prepared to endanger shareholders' dividends in expanding its operations.

Should Gengold push on with such expenditure, it would represent a sharp turnaround in its fortunes from 12 months ago when the company was slashing staff and operations in a desperate bid for survival.

For the three months to June, capital expenditure rose 105,3% to R39,6m.

● Maude said the structure of SA's gold mining operations would change radically towards smaller operations from the large projects of the past.

This was necessitated by SA producers' ever falling share of world gold production and the interest of shareholders in receiving dividends instead of forfeiting payouts for the benefits of huge capital projects initiated by mining houses during gold's previous bull phases.

JOHANNESBURG. — Gold shares withstood fears of weekend gold price declines to post sturdy gains yesterday, albeit in relatively slow trade.

"We are not doing at all badly with the weekend ahead of us and with continued short term fears," a dealer said.

Industrials drifted lower amid sluggish trade and lacklustre sentiment as investors remained unsure about the sector's fundamentals.

While dealers said the weight of funds supporting the market was unlikely to allow any sharp declines, the more aggressive buying was going into commodity linked stocks as they dragged themselves from the bottom of the current cycle.

The Gold Index ended 51 points better at 1 863 and the Industrial Index was 21 points lower at 4 527. The Overall Index added seven points better at 3 998.

The firmer financial rand, which rallied by almost 10c to 4,49 rand to the dollar on the day, had hampered potential gains by offshore-listed stocks.

Among those stocks, Richemont ended 40c lower at R39,60, Lonrho lost 20c to R8,60 and De Beers was unchanged at R80.

Crusader Life fell 10c to R1,60 in continued negative response to its warnings that a dividend was unlike-

# JSE gold <sup>79</sup> shares post sturdy gains

CT24/7/93

ly in the year to end-June 1993.

Anglos made R2 to R142,50, Minorco lost R1,75 to R77,50 and Gencor added 20c to R11,50.

Bankers were again softer with increasing supply on the market dampening prices. Stanbic shed R1 to R88,50, Firstbank lost 50c to R78,50 and Absa lost 15c to R10.

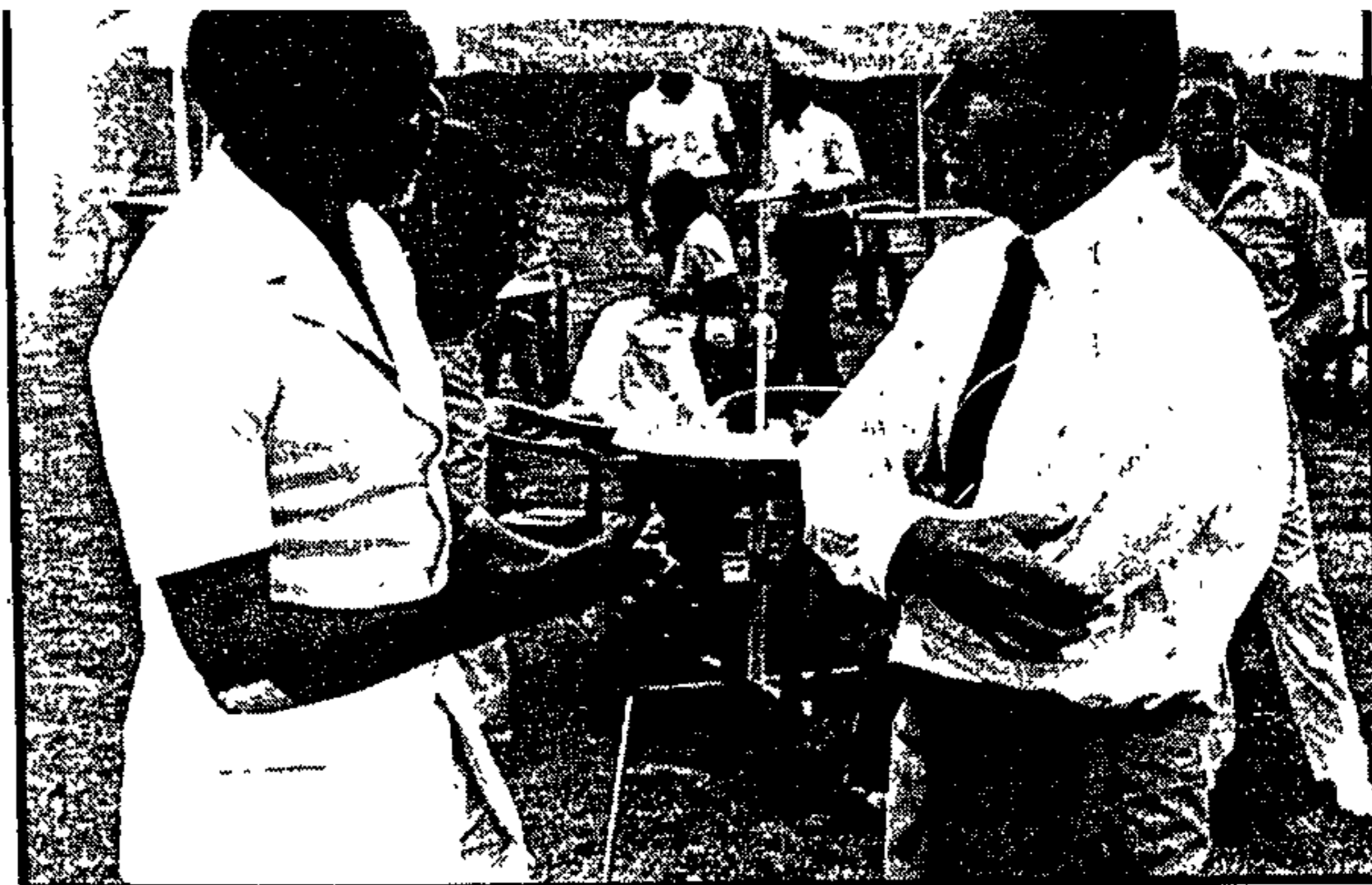
Among golds, Vaal Reefs was R13 better at R334 and Kloof R1 stronger at R52.

A senior trader said golds were likely to remain relatively thinly traded until gold made a significant break through either \$388 or \$393 an ounce.

Liberty made a steady R1 to R66 after announcing the listing of its Libsil strategic investment arm.

●Jasco Electronics Holdings Ltd said negotiations are in progress which, if successfully concluded, could affect the company's share price.

It advised shareholders to be cautious in dealing in their shares. — Reuter



**WHATS UP DOC? ... Soweto's Dr Nthato Motlana and Gary Player deep in conversation at a golf course opening.**

# SA economy showing signs of a recovery

*CP Press 25/7/93*

ALL eyes are on the political negotiation process in Kempton Park and little attention is being paid to economic matters.

Yet, no new political dispensation will work unless the economy is strong.

While our economy is under severe pressure, certain signs are beginning to emerge that we may well experience positive growth this year after four years of severe recession.

One of the most positive signs is that agricultural production has rebounded strongly from last year's extremely low levels caused by drought.

During a normal season agriculture places money and food into the pockets of thousands of people in even the remotest areas, causing money to flow through the system and thus creating jobs.

Then there is the gold price which recently test-

## MONEY TALK

ed the important £ 100-ounce level before it was pushed back by sustained selling. Gold has always been special on the SA business scene and is still our biggest earner of foreign exchange. When the gold price is strong the mood changes for the better!

The big question is whether the higher prices will hold. Last year the gold price was knocked on the head by central bank selling, mainly by Holland and Belgium. However, India, and especially China, are displaying a growing appetite for gold - enabling the market to absorb the additional supplies provided by the central bankers.

China is the big hope for gold producers such as SA as China's economy is the third biggest in the

world and is growing much faster than the other big economies. Officially China is still a communist state, but in practice capitalism is flourishing.

Wealth and gold have always gone together, so one can expect the strong demand from China to be sustained.

Other factors favouring a better outlook for our economy include a slight improvement in international commodity prices, a sharp rebound in factory output compared with last year's very depressed levels and signs that inflation will probably decline.

Then there are certain large projects, such as Columbus stainless steel, Alusaf aluminium and Eskom's huge electrification programme for black areas that are rapidly coming off the ground.

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# Demand moves to gilts

79 CT 29/7/93

Own Correspondent

JOHANNESBURG. — Demand switched to long-term gilts on the capital market yesterday, pushing yields down to levels last seen around a year ago.

Long-term stocks dipped below 14% for the first time since October as the government R150 ended at 13,970% against a close on Tuesday at 14,105%.

The E168 also ended at 13,970% from a previous 14,085%.

The current bull run started a few weeks ago when institutions began buying medium-term stocks as a hedge against an easing in monetary policy, as these bonds would be most sensitive to lower interest rates.

The market has been punting a cut in the official interest rate in

the next few weeks.

Players are expecting the consumer price index to support such a cut when the June figures are released today.

Medium-date bonds showed less movement with the Telkom TK05 ending at 12,725% against Tuesday's 12,775% and the government R119 at 12,600% from 12,635%.

"There was a feeling that mediums moved too quickly too soon, making longs more attractive," a dealer said.

Traders said yesterday's movement was particularly significant as there had been no news to move gilts, indicating the market was just feeding on bullish sentiment.

The bullishness was expected to continue as the market had

broken through key levels.

Dealers said investors were also moving out of equities into the capital market following growing nervousness on gold's direction.

Dealers said bonds were attractive as they offered good returns on a reasonably risk-free basis.

Investors had not achieved remarkable returns in equities in the past few months.

Players reported demand had picked up after some foreign buying in the past weeks.

"Given the depreciation in the rand, they must be expecting massive movements in bonds to make the market attractive to them," a dealer said.

But traders reported little interest from foreigners yesterday.

# Gold shares get another boost

JOHANNESBURG. — Gold shares were boosted further in afternoon trade as investors took another cautious step to committing themselves to a bullion rally in the short term.

But dealers said the market found steady interest rather than heavy bullish buying as some players preferred to wait for confirmation of gold's upward move.

"The action has been in the gold board and we have seen interest from local and overseas buyers," a senior trader said.

Gold closed at \$394,20 in London and at \$393,70 in New York last night.

The trader said industrials had drifted higher in gold shares' wake but were set to move lower amid continued soft sentiment.

The Gold Index made 53 points, or 2,8%, to 1 970 and the Industrial Index was 14 points better at 4 526. The Overall Index added 28 points to 4 051.

A senior trader said the industrial market was being hampered by a variety of factors including continued violence, political bickering, and economic uncertainty.

Market leader De Beers was a rand higher at R81,50 and associate Anglos sprung to life late in the day, adding R1,50 to R146,50.

Richemont reversed earlier falls, adding 75c to R40,50 in spite of a firmer financial rand.

Barlows lost 35c to R41,65 and Remgro added 75c to R26. Banker Firstbank equalled its Tuesday loss, shedding 50c to R77,50.

Iscor extended this week's recovery in adding four cents to R1,44 and Crulife slumped 15c to R1,35 after recent warnings that a dividend was unlikely in the year to end-June.

Vaal Reefs added R10 to R358 and Kloof was a rand firmer at R54,75.

## Closing gold prices

(In \$ an ounce)

NEW YORK:

393,50/393,90

LONDON:

394,00/394,40

Fixing am: 391,80

Fixing pm: 393,15

ZURICH:

392,00/395,00

— Reuter

KRUGERRANDS  
Fm 30/7/93  
**Back into the fray**

**Krugerrands** are being promoted internationally for the first time since sanctions put an end to the sale of the coins abroad in the mid-Eighties.

But SA is unlikely to recapture its lost market in a hurry. Many new coins such as Canada's Maple Leaf, the Australian Kangaroo Nugget, Austria's Vienna Philharmoniker, the UK's Britannia and the American Eagle — some with a higher gold content than the Krugerrand — have filled the void left by SA's banishment from the international market.

At one stage, the Krugerrand was the most widely traded investment coin in the world. Eli Levine, of the SA Gold Coin

Exchange, says 46m of them have been struck since the early Seventies — 90% of which have been sold abroad. In 1978 alone, 6m oz of gold went into the production of Krugerrands.

But no new coins have been sold overseas since sanctions were imposed in 1986. And those changing hands abroad are being sold at a lower premium than other gold coins — which makes them among the cheapest on the market. Most other coins sell at a 3% premium above the ruling gold price.

Daniel Pollnow, a senior GM at the Chamber of Mines, who is in charge of Krugerrand sales, says SA won't be actively engaged in new coin sales until the premium over the gold price has been re-established. "Our strategy is to bring the premium on the coin up to 3% before we start selling new ones."

He says the chamber started its marketing drive (at this stage it's merely coin promotion) in Germany at the end of June. It chose Germany to start its campaign because the political uncertainty caused by reunification has created a solid gold market as people seek to hedge against local currency depreciation.

The World Gold Council, which monitors gold coin sales, confirms that there is growing demand for gold bullion among individual investors. Sales in the first half of this year increased by 30%, to 818 842 oz, compared with the same period last year.

Pollnow sees "a good future" for Krugerrand sales, but he concedes it will not be easy for SA to win back its former position of eminence. No official figures are available, but it is believed the Australian coin is currently the market leader in volume terms, followed by the Austrian and Canadian coin.

Levine, who recently sold his Gold Coin Exchange to Alan Demby, chairman of the Gold Club and Gold Investment Corp, is confident SA will eventually recapture its international gold coin market, but it won't be with Krugerrands. It's more likely to be with a totally new coin with a different name — probably the Protea. This, he says, should be marketed side-by-side with the Krugerrand to give buyers a wider choice.

One reason why it is likely to be difficult to move Krugerrands in future, Levine believes, is because of the skilful anti-Krugerrand campaign waged against the coin in the Eighties. Each one minted was associated with an ounce of black blood by the vociferous Anti-Apartheid Movement. Also, coins with a higher gold content are now available.

A typical Krugerrand consists of an ounce of gold to which an alloy has been added. "Canada was clever enough to market a coin with a 99.9% gold content and China came up with its Panda coin with a gold content of 99.99%," says Levine. "For our new coin to be a success it should have a similar gold content."

Pollnow says Krugerrands have been struck every year since sales were banned abroad, "so there won't be any reason for any vintage to have a rarity value."

This seems a pity as rarity certainly adds value. Gold Reef Mint Proteas, of which only 500 were struck on May 26, were initially sold for R2 500 each. Levine says they are now trading at R6 000 each. In addition, proof Krugerrands are still trading with a high premium.

# Gold into the straight

SI Tamed Cross

1/8/93

By JULIE WALKER

GOLD breached a critical \$400-an-ounce hurdle on Thursday in New York in what is becoming a predictable pattern.

Thin trading near to the close of a day hit by currency drama in Europe was the opportunity for US managed funds to buy into the gold and lift price \$10. Technical factors triggered buying and gold hit the next peaks on charts.

The only activity was in New York with a follow-through on order-filling in London on Friday. Zurich, Hong Kong and Singapore were quiet.

The managed funds usually take small profits out of big markets. The gold market is tiny and has been readily bulldozed around by these fund managers on Thursday afternoons of late.

Gold climbs two, slips one, then consolidates and repeats.

"Forget about gold as a store of value and all that stuff," says an analyst. "These guys are in it for a profit. The crunch will come when they have to sell to somebody else at more than they paid."

Financial guru George Soros, who made a mint out of sterling's collapse and withdrawal from the Europe's exchange-rate mechanism last year, caused a stir this week by saying it was useless to defend the European Monetary System (EMS).

His comment came after the Bundesbank's failure to cut its key interest rate.

Mr Soros said the Bundesbank — anchor of the EMS — had acted without regard to the interests of other members.

Currency turmoil can be good for

gold, which peaked in other currencies including the mark.

Mining house JCI has come through the dark age well and its South Deep prospect could be SA's next mine.

Shares in South Deep (Soudex) were 200c last October. They have climbed in line with gold's advance and this week more than doubled in price to R38.

Sanlam portfolio manager Nel van Niekerk says gold's gains will boost the economy because producers will lift capital spending and this will trickle through to engineering and general labour.

Anglo American's Vaal Reefs hit a peak of R410 before retreating to R401. It is cum dividend of 660c and therefore attractive to foreigners who invest through the finrand and take dividends out commercially.

JCI's Randfontein and Western Areas were highly sought, as was the speculative exploration stock Freddev — up to 600c from 50c in March.

There was interest in Cons Mining, whose operations Benoni, West Wits and Wit Nigel have jumped ahead, leaving the holding company at a discount. Cons Mining also owns the Havelock asbestos operations. Its shares climbed from 25c to 38c.

The finrand was firm on foreign buying of golds and gilts, where rates came below 14% on favourable inflation news. But the commercial rand hit a new low of 339c against a dollar that peaked against the mark and other currencies.

# Gold price soars — panic hits world markets

79  
ARG 1/8/93

Business Staff

CHAOS and high drama in international currency markets has set the gold price soaring — with glittering benefits for South Africa.

The pandemonium in the currency markets is being viewed as on a par with that following the the ending of the gold standard in the '30s and the collapse of the fixed exchange rate systems in the early '70s.

On the back of the gold price, which rose \$12 on the day, pushing through the \$400 key level to close at \$406.40 an ounce in London last night, the Johannesburg Stock Exchange rose to new recent highs.

The rand price of gold has jumped R444 an ounce (48 per cent) in 12 months to a record R1 374.

The higher gold price and drop in value of the rand against the dollar put billions of rands into the pockets of investors, including unit trusts and pension funds, as the market value of gold shares on the JSE leapt about R8,6 billion this week.

The gold mines are now looking at a 24 per cent increase in revenue, putting most back into solid profits.

And, in an exclusive interview with Weekend Argus, Reserve Bank governor Dr Chris Stals said he was optimistic gold would retain its new highs.

He said the higher price had done much to relieve the pressure on gold and foreign reserves which had been halved to R6 billion in the first half of the year.

The rand, which has devalued nine per cent this year against the country's main trading partners on the heels of enormous capital outflows could now stabilise.

The currency crisis was provoked by the refusal of the in-

To page 3

# Currency panic — gold price soaring

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flation-obsessed German Central Bank to lower key interest rates.

Huge sums were pulled out of European currencies with investors fleeing to the dollar, Japanese yen or precious metals, especially gold, to protect their multibillion-dollar investments.

The crisis left the European Exchange Rate Mechanism (ERM) tottering on the edge of collapse as central banks together spent about R60 billion in a desperate action to shore up currencies, particularly the French and Belgian francs, the Spanish peseta, the Portuguese escudo and the Danish crown.

But as in last year's British pound crisis, the central bankers again discovered they did not have the financial clout to cancel out the activities of the currency market speculators.

Manning the currency barricades, the French Prime Minister Edouard Balladur, echoing Britain's John Major last year, refused to devalue, saying he would resign first.

The ERM is seen as one of the great achievements of the European Community in its move to become the world's largest single trading bloc.

In London, speculator George Soros said he believed the ERM would expire this weekend.

"I do not expect the ERM to continue functioning. I do not expect the present arrangement to be operative on Monday morning."

The billionaire financier said it was futile to protect the system and he felt free to resume trading French francs. For months he had supported the franc.

Belgium and Denmark jacked up short-term money rates.

"We're at a critical moment in EC history and may be about to witness the end of the ERM and the hopes and dreams for Maastricht and European Monetary Union," said David Brown, chief economist at Japan's Tokai Bank.

# Surge in gold won't bring down rates — Stals

Star 2/8/93

79

## Business Staff

Reserve Bank governor Chris Stals is optimistic that gold, which pierced the \$400 an ounce level last week and reached a three-year high of \$409,25 in Hong Kong early today, will retain its new highs.

In an interview at the weekend he also said the rand, which had devalued by nine percent this year against a basket of currencies of the country's main trading partners on the heels of enormous capital outflows, could now stabilise.

Stals said the higher gold price had done much to relieve the pressure on gold and foreign reserves which had been halved to R6 billion in the first half of the year.

## Reserves

Over the past six months South Africa has been losing R1 billion every month in capital reserves.

However, he was pleased by the drop in the inflation rate back to 10 percent for June from its recent high of 11 percent two months previously.

Although he did not want to make firm predictions he felt the inflation rate would move



Chris Stals . . . fears more money will leave SA.

steadily lower.

If it did, the outlook for the economy would improve. But this was not a signal for an automatic reduction in interest rates, mainly because of the continued pressure on the country's reserves.

Stals is afraid that cheaper money would mean even more money would leave South Africa in the current unstable environment as returns for foreign investors dropped.

However, analysts say the higher gold price will nevertheless bring glittering benefits for South Africa.

The rand price of gold has

jumped R444 an ounce (48 percent) in 12 months to a record R1 374.

The higher gold price and drop in value of the rand against the dollar has put billions of rands into the pockets of investors, including unit trusts and pension funds.

The market value of gold shares on the JSE jumped about R8,6 billion last week.

The gold mines are now looking at a 24 percent increase in revenue, putting most back into solid profits.

## Violence

The Financial Times says Friday's rise in the gold price was built on earlier gains reflecting concern about violence in South Africa, the biggest gold producer, and the publication of a series of strong US economic indicators.

But these factors had never threatened to lift the market out of its \$388 to \$395 range, let alone to encourage a fresh assault on the \$400 mark.

It was the Bundesbank that inadvertently succeeded where international speculators had repeatedly failed. By refusing last Thursday to cut its discount rate it precipitated the crisis in the European Community's exchange rate mechanism, sending gold soaring.

# Fundamentals for gold Star 2/8/93 are positive — Sanlam

By Claire Gebhardt

Sanlam Unit Trusts says fundamentals are positive for gold for the next 12 to 18 months.

Portfolio manager Nel van Niekerk says the supply and demand situation is more balanced, there is less hedging and forward selling from producers and Chinese buying remains a factor despite less interest because of the higher prices.

"Inflationary fears for the later stages of President Clinton's term are also positive for gold."

But he cautions unit trust investors not to be blinded by the present high levels of the gold price.

"Gold is extremely volatile and although gold shares have been the top performers over

the past two quarters, a sudden turn in the gold price could wipe out gains unexpectedly."

Van Niekerk says it is important to remember that general funds carry a fair portion of gold and other mining shares, but that the wider spread of the general funds makes these less volatile. (79)

"Those set on investing in a mining fund should take the higher risk into account and split the investment 50/50 between a mining and a general fund."

Van Niekerk says that at the end of the June quarter, Sanlam Index Trust had an exposure of 31.4 percent to gold and mining-related shares.

Sanlam Mining Trust had a 76.5 percent exposure to mining-related shares, of which 20 percent were gold.

# Gold loses some ground after flirting with \$409

Star 3/18/93

LONDON — After reaching a peak of \$409.25 in Hong Kong yesterday gold lost ground on profit-taking to close in London at \$403.25 and \$405.90 in New York and opened in Hong Kong today at \$405.40.

But dealers expect a continuing bull market in coming weeks.

Gold reclaimed its role as a safe-haven investment after EC finance ministers, buckling under a wave of currency specu-

lation, allowed a de facto flotation of the weaker currencies in the Exchange Rate Mechanism (ERM).

"People are uncertain and uncertainty is good for gold," one European bullion dealer said.

Bullion analysts say the end of stable exchange rates in Europe should allow interest rates to fall, reducing the cost of holding gold stocks, and rekindle economic growth, which could lead to a resurgence of inflation — all

favourable for gold.

Dreams of creating a single European currency appear in ruins and European central banks may be less inclined to dispose of their gold holdings, preferring to keep them as a hedge against risk in a more uncertain world.

A rally in precious metals prices took off in March after gold had hovered around its lowest for seven years, silver for 19 years and platinum for about

14 months.

Strong demand from Asian countries changed market sentiment and in late April Hungarian-born financier George Soros added fuel to the flames by buying gold shares from Sir James Goldsmith, who invested the proceeds in bullion.

Since then the market has been at the mercy of US investment funds. Dealers said yesterday the funds could see

\$420 to \$440 as a target in the next few weeks, but this would mean breaking through heavy market resistance up to \$420.

"The funds are looking for \$420 to \$440 and then they'll spit it out," said one dealer.

Resistance between \$410 and \$420, indicated on price charts which many investors study, was built up in the months prior to the Gulf War in January 1991. — Sapa-Reuter.

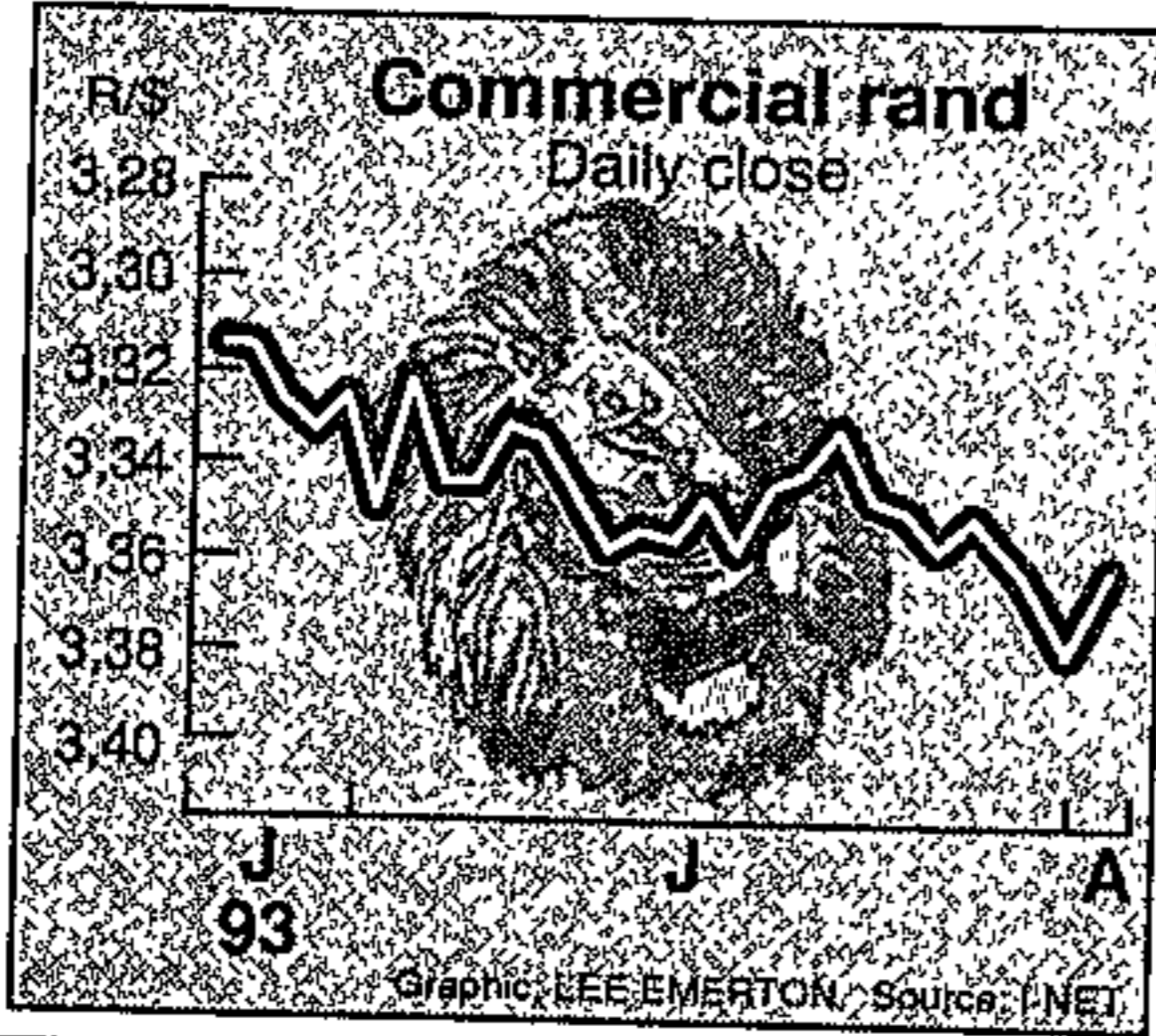


# Currency turmoil lifts gold

BiDay 3/8/93

MERVYN HARRIS  
and TIM MARSLAND

TURMOIL on European currency markets continued to buoy gold yesterday but the metal drifted off early highs, spurring pro-



fit-taking on a cautious Diagonal Street. Gold came off a high of \$409 in the Far East but its London morning fixing of \$406,70 was its highest since September 1990. It closed \$3 down at \$403,40. In New York it closed at \$405,95, down \$1,00. Platinum tracked gold and its London morning fix of \$418,65 was its highest in 31 months. It ended at \$415,25. In New York platinum rose \$3,50 to end at \$419,79. Wariness about gold's rise kept many investors on the sidelines and JSE shares gave up early gains on profit-taking. After rising towards its month ago peak of 2 149, the JSE all gold index retraced its

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## Gold BiDay 3/8/93

□ From Page 1

gains to end with a loss of 27 points at 2 071 as players pondered gold's next move. Meanwhile, widespread Reserve Bank support for the commercial rand helped the unit regain almost 2c against the dollar to close at R3,3618. Dealers said the Bank entered the market in two waves, first selling dollars directly to commercial banks, then selling to smaller players. "No one wants to be caught with dollars

when the Bank's doing that. You get rid of them as quickly as possible and it brings the rand back quite nicely," a dealer said. The Bank was also helped by the easier dollar which fell back after its recent run against European currencies. The firrand ended better at R4,4520 against the dollar from R4,4850. ● See Page 7

# Chance of lower rates improves

Star 3/8/93

By Claire Gebhardt

Governor of the Reserve Bank Dr Chris Stals says if European interest rates fall in the wake of the currency turmoil South African interest rates could follow suit.

In an interview yesterday he said capital outflows remained a problem, but lower rates overseas provided less incentive for money to flow out of South Africa.

The European Exchange Rate Mechanism (ERM) crisis was making it difficult to keep the rand exchange rate relatively stable against other currencies.

## Positive

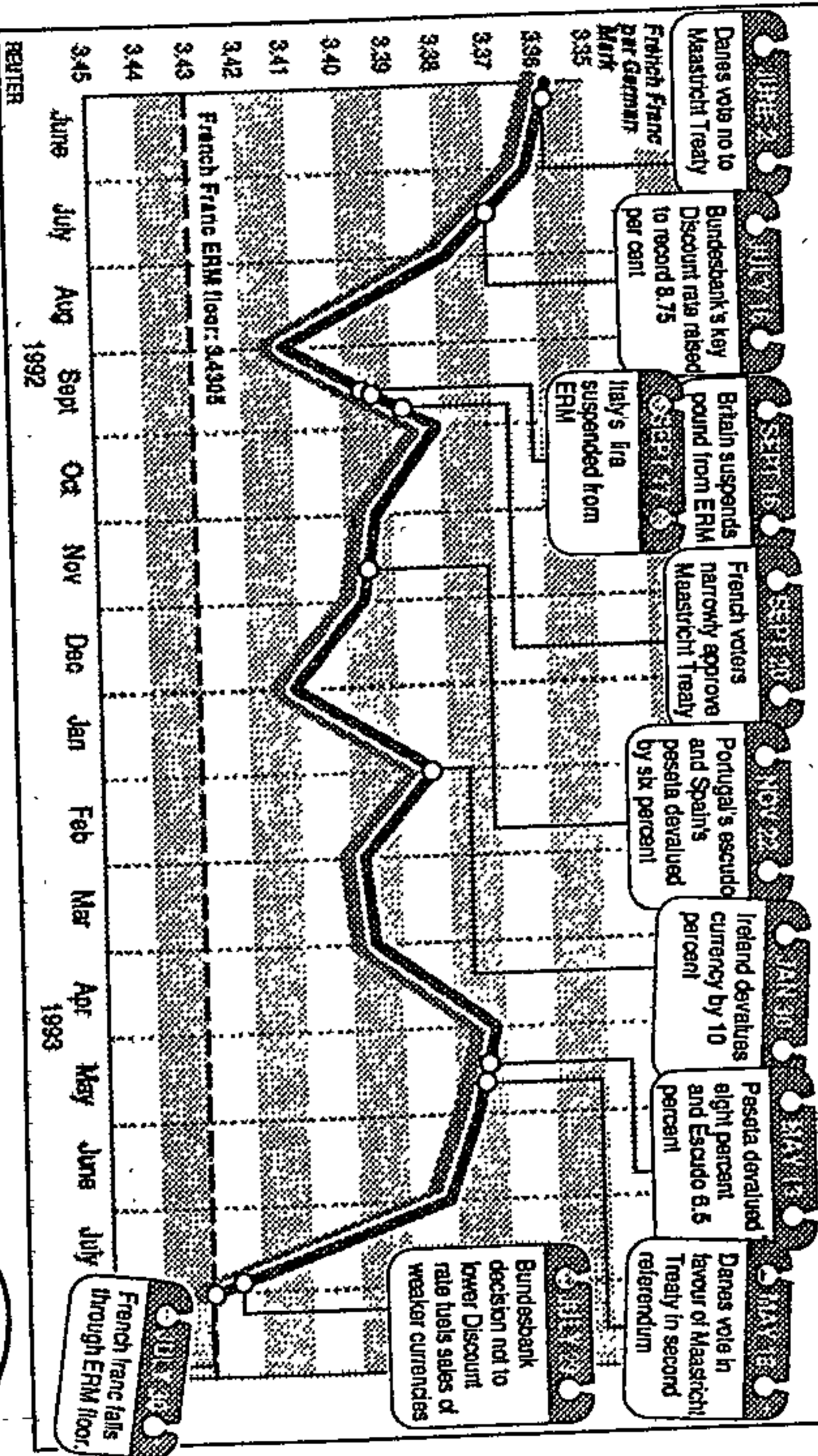
"We would prefer less currency uncertainty, but the ERM shake-up has caused investors to turn to gold, and that is very positive for us."

Economists yesterday predicted that gold would continue to advance following the crisis decision by European Community finance ministers to allow a de facto flotation of currencies within the ERM.

Yesterday gold was catapulted to \$409.25 in Hong Kong, its highest level since August 1990, before declining marginally on profit-taking.

Platinum hit \$418.50 — a 30-month high.

Tensions triggered by the Danes' initial rejection of the Maastricht Treaty in June last year destabilised the EC's Exchange Rate Mechanism (ERM), which after heavy selling of the weaker currencies of France, Spain and Portugal is, according to analysts, close to death.



With the French franc, Spanish peseta, Danish krone and Belgian franc expected to continue to depreciate against other currencies, analysts expect money to flow out of European currencies and into the safe haven of gold.

Analysts said yesterday the decision to widen the fluctuation bands for currencies in the ERM to 15 percent from between 2.25 and six percent was likely to heighten fears that investment in Europe was risky.

"Many Japanese investors who put money into high-yield European bonds because the ERM system acted as a safeguard are said to be looking now for a chance to liquidate their European assets," said one.

Also positive for gold is the fact that the virtual collapse of the ERM marks the end of the deflationary era in Europe.

Economists said the essential characteristics of the ERM had been destroyed by allowing currencies to fluctuate in a much wider band, with the exception of the German mark and the Dutch guilder.

## Speculation

The EC agreement was also expected to lead to the dollar strengthening as other currencies weakened.

Analysts said the net effect on the rand's exchange rate was difficult to predict because the rand was likely to fall against the mark and the guilder, but to rise against the pound and lira.

The crisis decision in Brussels on Friday came after massive speculation against the French franc in the wake of the German Bundesbank's refusal a day earlier to cut its key interest rates.

German obduracy stems from inflationary fears prompted by reunification in 1990.

Recently, German consumer inflation rose to 4.3 percent, twice its 1993 target, and broad money supply growth rose to 7.1 percent — way outside the Bundesbank's target range of 4.5 to 6.5 percent.

The Bundesbank's policy of high interest rates has prevented other EC members from lowering their rates to stimulate their economies and reduce unemployment.

# Gold price slips off highs as profit-taking hits JSE

JOHANNESBURG. — Turmoil on European currency markets continued to buoy gold yesterday but the metal drifted off early highs, spurring profit-taking on a cautious Diagonal Street.

Gold came off a high of \$409 in the Far East but it's London morning fixing of \$406.70 was its highest setting since September 1990. It closed \$3 down at \$403.40.

Platinum rose in sympathy with gold and the London morning fix of \$418.65 was its highest for 31 months. It was set in the afternoon at \$416.50.

The easier tone of precious met-

als came amid a mixed response to weekend revisions in the European Exchange Rate Mechanism (ERM) which loosened ties between currencies.

Wariness about gold's rise kept many investors on the sidelines on the JSE and shares gave up early gains on profit-taking.

After rising towards its month ago peak of 2149, the JSE Gold Index retraced its gains to finish with a loss of 27 points to 2 071 as players pondered gold's next move.

Board of Executors portfolio manager Ryk de Klerk said SA in-

stitutions were selling gold shares yesterday — while US investors were buying.

Warning that gold was now "a dangerous market" in which speculators could get their fingers burned, De Klerk said the metal's fall yesterday afternoon to a close of \$403.40 in London was due to profit taking.

"Looking at it in the face of the effective breakdown of ERM, it could move higher in the short term. But it is getting over-ex-tended. Local institutions have been in the market selling for the

last two or three days — yet overseas investors have been buying.

"It is really a question of who is going to be right?"

"Remember that before gold took off the SA institutions were selling while overseas investors were buying."

On the JSE, industrials were steady with a firm undertone.

The Industrial Index rose 12 points to 4 610, while the Overall Index shed 14 points to 4 163.

Leading counter De Beers ended 75c up at R36.75 while associate Anglos lost some recent healthy

gains to shed R3 to R150. Gold arm Amgold lost R1 to R369.

In quality golds, Vaal Reef's lost R5 to R396 after hitting R410.50 early in the day. West Deep's shed R2 to R166 while Kloof lost 50c to add R1 to R402.

Marginal mine Doorns came off the day's low of R4.50 to end 35c down at R4.75. Dealers said news that it had lost a court action on its dismissal of about 6 000 workers in 1991 aided negative sentiment.

Rusplats lost R1.25c to R72.50. Liberty Life shed R3 to R70. — Business Staff, Own Correspondents and Reuter

# Gold shares slide in subdued trade

JOHANNESBURG. — In a day of subdued activity, gold shares slowly spiralled lower on light profit-taking and nervous investors waited for more definitive movement in the gold price.

The Gold Index ended 47 points lower at 2 024 after stalling for much of the day amid mixed views on which way gold was headed in the short term.

Dealers said trade was thin with no major selling pressure — “just some light profit-tak-

ing”. (79) 04/8/93  
Although they said underlying sentiment was bullish, investors were cautious on the extent of expected consolidation in the price of bullion, which saw volatile movement within a narrow trading range of about \$404/406 an ounce.

The mood in London was that the gold price could fall back as sharply as it went through the psychological \$400 barrier.

Dealers reported “some nibbling” from London buyers but said there were not a lot of stocks on offer.

The Industrial Index was steady, easing 10 points to 4 601 with mining stocks coming off on lack of interest. The Overall Index was 39 points lower at 4 124.

## De Beers

Leading counter De Beers slipped R2 to R84,75 while associate Anglos lost R2 to R149,50. Gencor mining house lost 25c to R11,40 while Gold Fields shed 50c to R107,50.

Industrial group Barlows lost 50c to R44 while SA Breweries added 50c to R64.

Quality gold share Vaal Reefs dipped R3 to R393 and Kloof shed 75c to R55,50. Both were up on the day's lows.

Platinums showed weakness, with Impala losing 50c to R64 and Rusplats shed R1 to R71,50.

Steel giant Iscor lost 6c to R1,39.

● Scharrig Mining Ltd said negotiations are in progress which, if successfully concluded, could affect the price of its shares.

# Gulf traders cut gold purchases

Star 5/18/93

(19)

DUBAI — A jump in world prices for gold has hit sales in the Gulf where traders say imports have slumped and demand for bullion and jewellery is declining.

Traders said business was slow in Dubai, the world's fifth most important centre for gold trade and one of the busiest markets for bullion and jewellery imports and re-exports.

Some traders estimated imports had dropped between 10 and 15 percent in the past two months, with buying demand down about 50 percent.

Imports of gold bullion, mostly from Switzerland and Britain, stood at about 40 tons compared with 47 tons in the same period last year.

Lucrative re-exports to the subcontinent were also down.

"There is a lot of uncertainty and anxiety in the local market because of the fluctuations and increase in world prices," a trader said. "The general attitude is to wait and see."

"The re-export market is not doing very well either, but the slow business is only a temporary matter until the world prices stabilise."

Another trader at a Dubai bank said the only demand the bank had

was from speculators and investors who wanted to sell gold internationally at \$410 an ounce.

"These are people who bought when the price was at \$380 and now want to sell. But we are not getting lots of buyers."

"The non-speculators want to wait and see how the trend will be, whether prices will go up or down."

European dealers say investment funds could see \$420 to \$440 as a target in the next few weeks but this would mean breaking through heavy market resistance up to \$420.

The price might dip below \$400 before moving higher but little appears capable of denting its relentless bull run for the time being, they say.

According to World Gold Council figures, Dubai's gold imports had risen 72 percent in 1992 to an all-time record for the emirate of 284 tons from 165 tons in 1991.

Traders say the annual growth rate in Gulf gold trade has between 10 to 15 percent, largely due to favourable legislation, low labour and insurance costs and customs tax.

The hardest hit in Dubai are jewellery shops, where owners say business is at its lowest.

- Sapa-Reuter.

# Gold now in early stages of new bull market

Star 5/18/93

By Thabo Leshilo

Strong fundamental and technical grounds support the belief that gold is in the early stages of a new bull market, with prices of \$500 to \$600 an ounce feasible in the next two to three years, says Board of Executors senior portfolio manager Rob Lee.

He says in the latest issue of The Wall Street Journal there is a large and growing shortfall of production relative to industrial and jewellery demand for gold.

There is also an increase in the potential for renewed investor interest in gold and a positive picture had recently emerged from the behaviour of the metal price on charts.

Research shows the market has absorbed net private investment of 873 tons, Commonwealth of Independent States sales of 700 tons and

central bank net disinvestment of 606 tons in the period 1990-1992.

"Because of the rapid growth in industrial and jewellery demand this bombardment of additional supplies increasingly failed to drive the price lower."

In 1992, jewellery demand (net of scrap) exceeded Western world production by 584 tons, compared with a virtual balance in 1988.

"This already large, underlying shortfall in supply is expected to widen even further."

## Demand

The primary source of new jewellery demand has been the growing economies of Asia, particularly mainland China.

"Because of the long history and culture of gold ownership in Asia, its peoples will naturally use a portion of their

growing wealth to purchase gold."

As the recent rapid growth in demand had been stimulated by the low price as well as growing incomes, so a rising price would to some extent blunt future growth in jewellery demand.

"However, we are very confident that this area of the world (including China and India) will continue to achieve high economic growth rates with an accompanying increase in gold demand even at higher prices."

Renewed investor interest in gold lies in the long term negative consequences for the US economy of the trade and budget deficits.

"These deficits have now become structurally entrenched and will cause enormous upheaval when they are reversed, which they eventually will have to be." Although no historical prec-

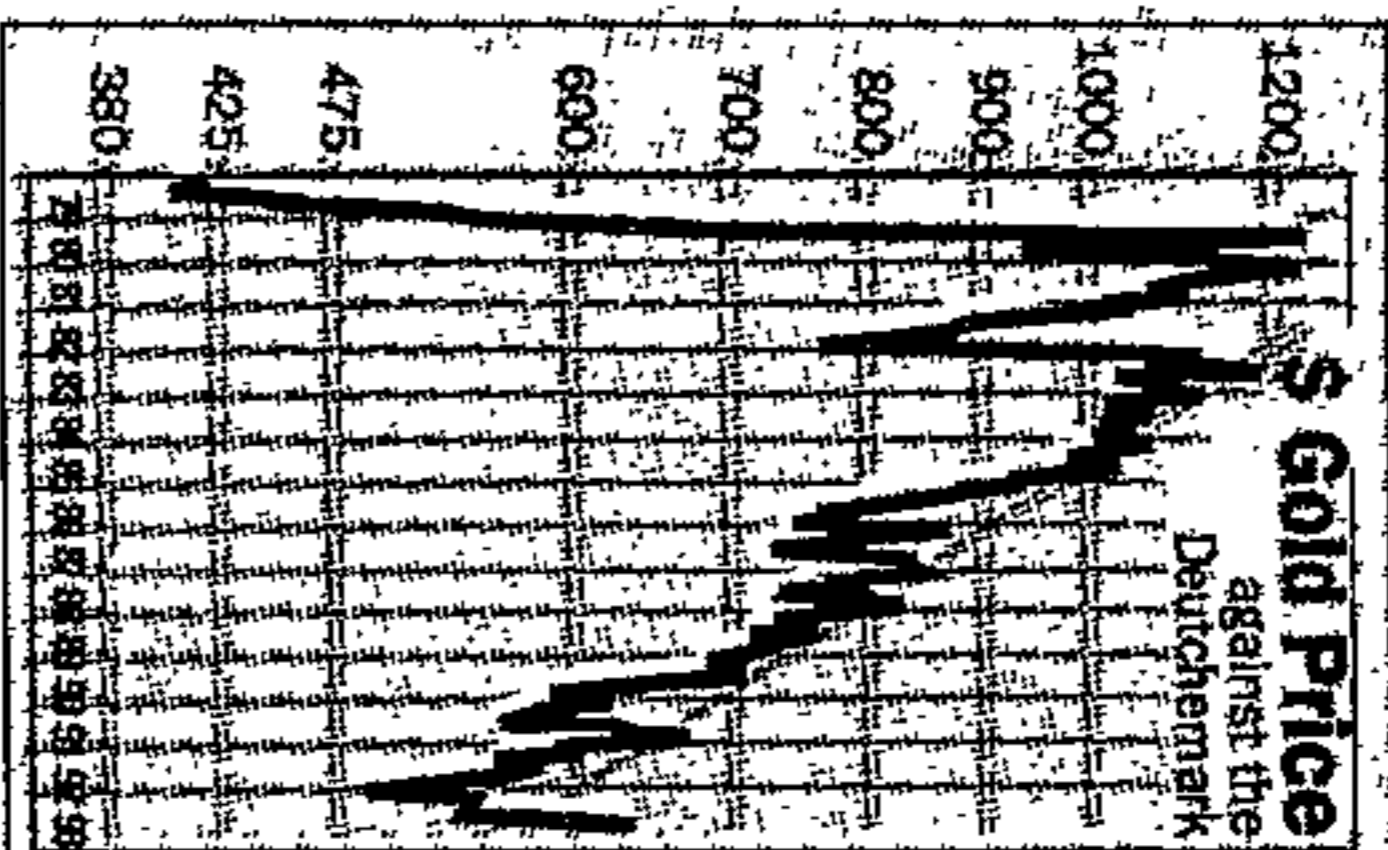
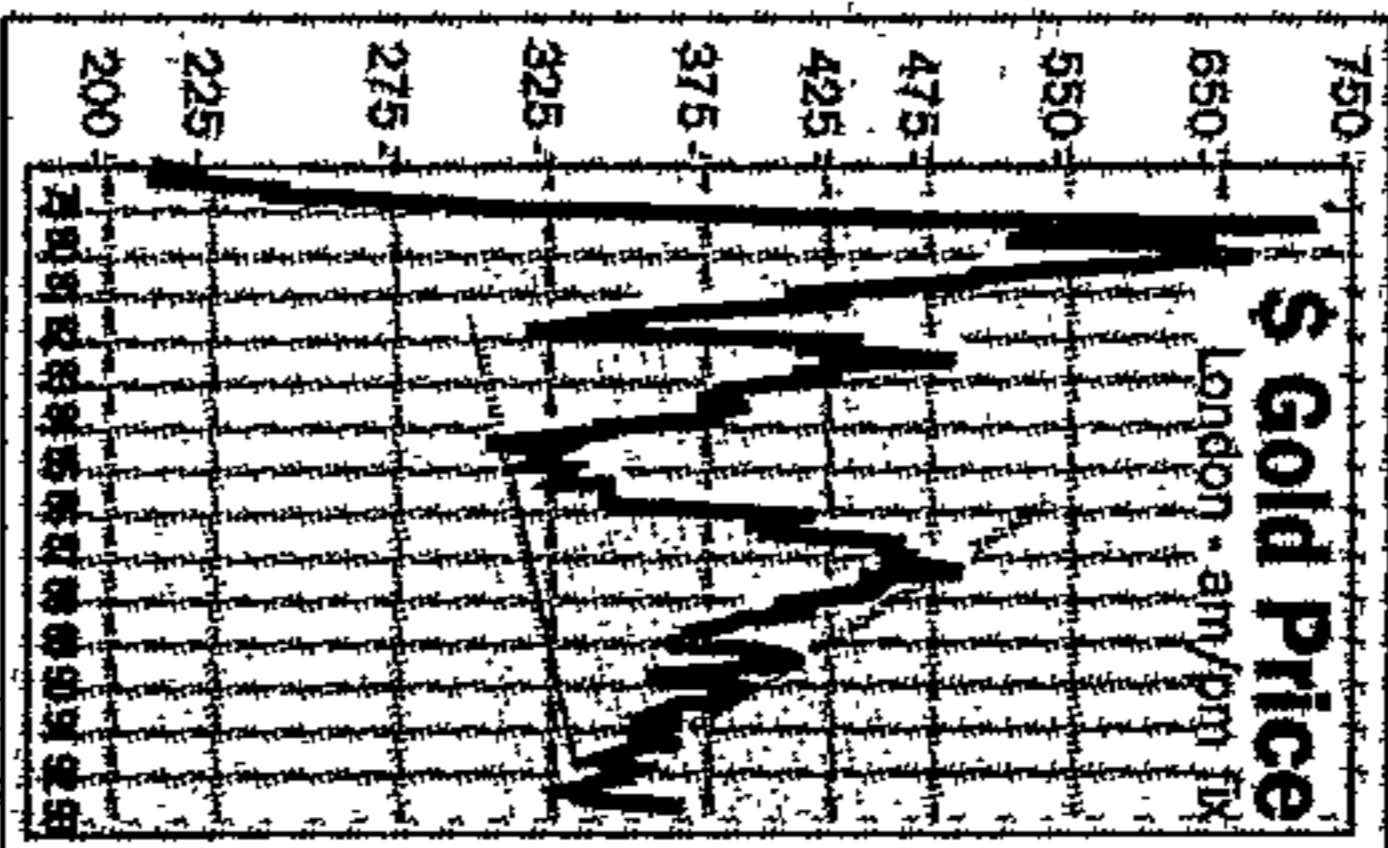
edent for such extreme debt levels existed in an economy that possessed the world's reserve currency, the odds of a major crisis developing are now very high.

"President Bill Clinton's apparent ineptitude increases that probability even further."

Improved prospects for gold and other commodities come at a fortuitous moment in the political history of South Africa because they greatly increase the chances of a successful transition.

"A sustained uptrend in the gold price would give a direct injection of life into the economy through rising investment, employment, wages and dividends in the mining industry."

It would also boost foreign exchange reserves and tax revenues, thus allowing interest rates to be lowered and increase the scope for renewed economic growth.



The chart on the left shows that the dollar gold price has broken its primary downward trend. The chart on the right shows this has happened in terms of one of the other major currencies — the German mark. The growing shortfall of production relative to industrial and jewellery demand should continue to push the price up.

# Gold slips below \$400

GOLD dipped below the key \$400 an ounce level last night in New York to close \$4 down at \$399.

Earlier in the day the gold price sagged under producer and central bank selling overseas after trading in a narrow range. It briefly slipped below \$400 an ounce in European trade before closing in London at \$402.10.

New York Commodity Exchange futures gold prices also settled lower on profit-taking and corrective selling, but held their ground around the \$400 mark.

Most-active December gold closed down \$4.30 at \$403.30 an ounce after moving in a \$408.00 to \$403.10 range. August gold lost \$4.20 at \$399.20.

"Gold's holding support at \$400, and that's a key factor," said Bette Raptopoulos, analyst, Prudential Securities of the market's resilience.

On the JSE, gold shares ended down but off the day's lows as London investors

## Closing prices

(In \$ an ounce)

<b>NEW YORK:</b>	<b>LONDON:</b>
398.75/399.25	401.90/402.30
<b>ZURICH:</b>	<b>Fixing am:</b> 400.65
401.50/404.50	<b>Fixing pm:</b> 402.65

turned buyers, picking up quality as well as second-tier stocks, dealers said.

But they said a marked fall back in the gold price below \$400 could spark a new wave of profit-taking.

"London buyers came in late looking to cover short positions. There's little stock coming onto the market so they're having to buy up," a dealer said.

The Gold Index ended nine points lower at 2 015, off the day's low of 1 991. There was no interest in industrials and the in-

dex shed two points to 4 599. The Overall Index rose seven points to 4 131 helped by De Beers' R1.25 gain to R86.

Dealers said some consolidation was expected but investors were nervous over bullion's short-term direction.

"We won't see another surge in gold shares until gold hits \$420," a dealer said. "The market will stay pretty static until then."

In gold shares, Vaal Reefs picked up in late trade to end R2 higher at R395 after falling to R389, and Western Deepcs added R1 to R166. Kloof lost 20c to R55.30.

Highveld Steel gained 40c to R14 following improved half-year results while Iscor weakened further, losing one cent to R1.30.

The JSE said it had lifted the suspension of the listing of ordinary shares of AVF Group Ltd at the request of the directors. — Business Staff and Reuter

79 CT 5/8/92

# Panic stations as gold dives

Star 6/18/93

By John Spira

Gold nosedived by \$15 yesterday, sparking off widespread selling pressure on Diagonal Street as investors scrambled to lock in the paper profits they'd established over the past few months.

Morning trading saw gold shares marked down by modest margins, but when bullion dipped below \$390 in the afternoon, the selling assumed panic proportions with the result that the gold index finished 140 points down on the day.

The overall index felt the chill wind of the gold boards and registered a 72-point decline, while industrial shares, after reflecting a slightly firmer bias in the morning, closed 25 points down.

Gold's steep reaction to its recent strong gains was ascribed to a reassessment of last week's European currency turmoil.

Observers noted that the reason for the rush into bullion had evaporated, since the Bundesbank (German central bank) had decided to reduce interest rates after initially reacting negatively to calls for it to do so.

Stockbrokers were divided in their views on how the JSE was likely to emerge from yesterday's slaughter.

Some construed the fall as a wonderful buying opportunity on the grounds that the bull market remained intact and that the reaction was a healthy development.

Others labelled the gold market as a weakly constructed speculative bubble that had been unable to sustain its momentum.

"At long last the world has come its senses," said a broker who had been adopting a consistently bearish stance.

Reuter reports that as New York opened, futures prices quickly fell to \$384 from about \$393 seconds earlier after the market had been called to open only \$2 below its previous close.

The fall took dealers completely by surprise.

"It was just mass liquidation in New York," one London dealer said.

Earlier this week, dealers were very bullish, seeing a test of \$410, \$420 and even \$440.

"It shows the extent to which gold is in the hands of the funds," said a dealer.

Other precious metals crashed. Silver fell to \$5 an ounce, 17c down on the lunch-time fix, and platinum hit \$400 an ounce, down about \$11 from its morning setting.— Sapa— Reuter.



## Shares tumble as gold price drops sharply

MERVYN HARRIS

GOLD crashed a dramatic \$23,00 in New York yesterday to close at \$376,00.

Gold shares on Diagonal Street had tumbled earlier after a sudden gold price plunge of almost \$10 in frantic early New York dealings. *51 Day 618192*

The fall on the New York futures market came on heavy speculative liquidation and reports of Chinese selling and took dealers completely by surprise, Reuter reported.

Gold had been uneasy during European morning trading after its overnight dip below \$400 and opened only slightly below its previous close of \$399 in New York.

But within minutes a wave of mass liquidation sent the metal sharply lower with the speculative fund liquidation spilling over to platinum which crumbled nearly \$18 to a London afternoon fixing of \$401,75.

Gold's earlier fall of about 2% was seen by some observers as possibly a healthy correction in a bull market after the metal's spectacular gains in recent weeks.

Dealers said New York and Japanese bullion trade would be crucial to today's trade, which might offer buying opportunities if current levels created a base for a possible next rise. Others saw it as a challenge to an overbought market by players with negative sentiment. "If not, we could see some big selling if institutions see the fall continuing," a dealer said. *(-79)*

The metal came off its lows to close \$13,50 down on the day in London at \$388,60 after touching a low of \$384.

On the JSE gold shares had held up well in nervous trading and selling dried up at the lower levels and buyers were re-entering the market "when the bottom just dropped out of gold", a dealer said.

Gold's fall hastened the downward momentum of shares and the JSE all gold index finished almost 7% or 140 points down to 1 875. The weaker tone rubbed off on the rest of the market and the overall index fell 71 points to 4 060.

What a dealer described as a "traumatic day" reverberated on the financial rand market where "all hell broke loose" as sentiment among local banks was sharply knocked. The unit ended 3,5c lower at R4,55 after hitting a low of R4,60.

Fm 6/8/93

SHARE PRICES

# Is there any value left?

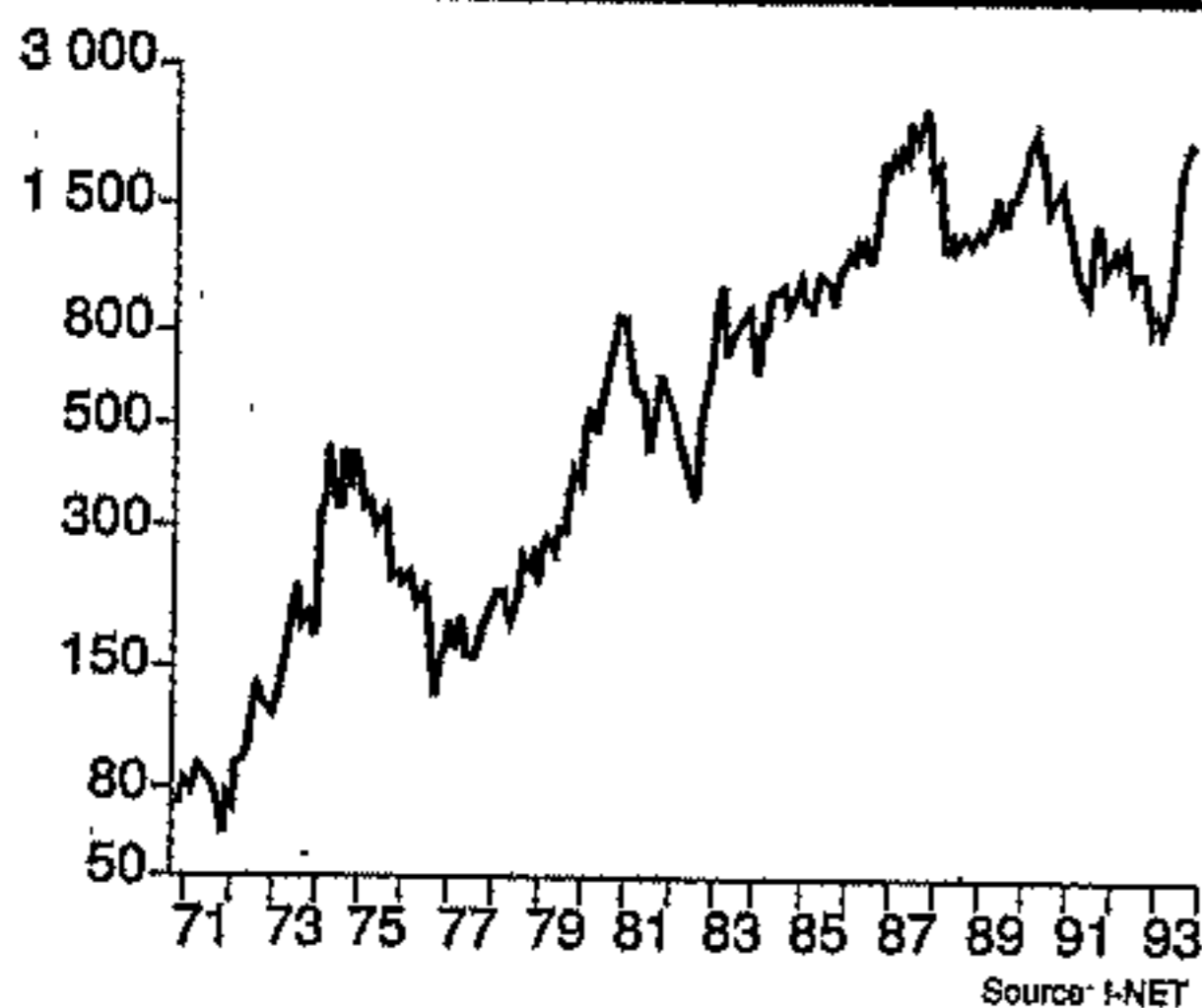
(79) ~~(79)~~

**Gold shares** have rocketed. Many of the leading financial and industrial counters are off their peaks amid continuing doubts about economic recovery, and gilts are again bullish. It makes the equity market unusually difficult to read, particularly with growing euphoria in parts of the gold sector.

But caution returned to the JSE's gold board on Monday and Tuesday this week, when shares generally weakened. Considering the extraordinary pace of the ascent of the JSE All Gold index and the patently speculative forces moving the bullion market, it's tempting to conclude the shares have moved much too far.

In the end, that will depend on the dollar

## Approaching the peaks All Gold index



gold price. After June quarterly results and latest dividend announcements, average historical dividend yield on the All Gold index is a meagre 2,9%.

But, assuming gold remains above, say, \$385/oz, several gold analysts conclude the All Gold index is not unduly expensive on fundamentals such as the prospective dividend yield. A poll of forecasts by several analysts of forward yields gives a range between 4,7% and about 6% over the next 12 months, rising somewhat higher as the mines' hedging contracts are unwound.

That, of course, implies that gold's run-up will be maintained well into next year and is not simply a temporary spike upwards as has happened so often in the past. This is precisely what is concerning many investors. Fergusson Bros gold analyst Trevor Pearton has a model which shows the All Gold index has become increasingly undervalued as gold moved towards and then breached \$400/oz.

"The index is telling us there is a lot of caution in the market about the sustainability of this gold price," he says. "We are now

in a natural period of consolidation. Gold will probably test \$400 again. If it bounces back, that would certainly be bullish for the shares. We are seeing a much more rational approach than we've had with some other bull markets. It is much less euphoria-driven than the 1987 bull market."

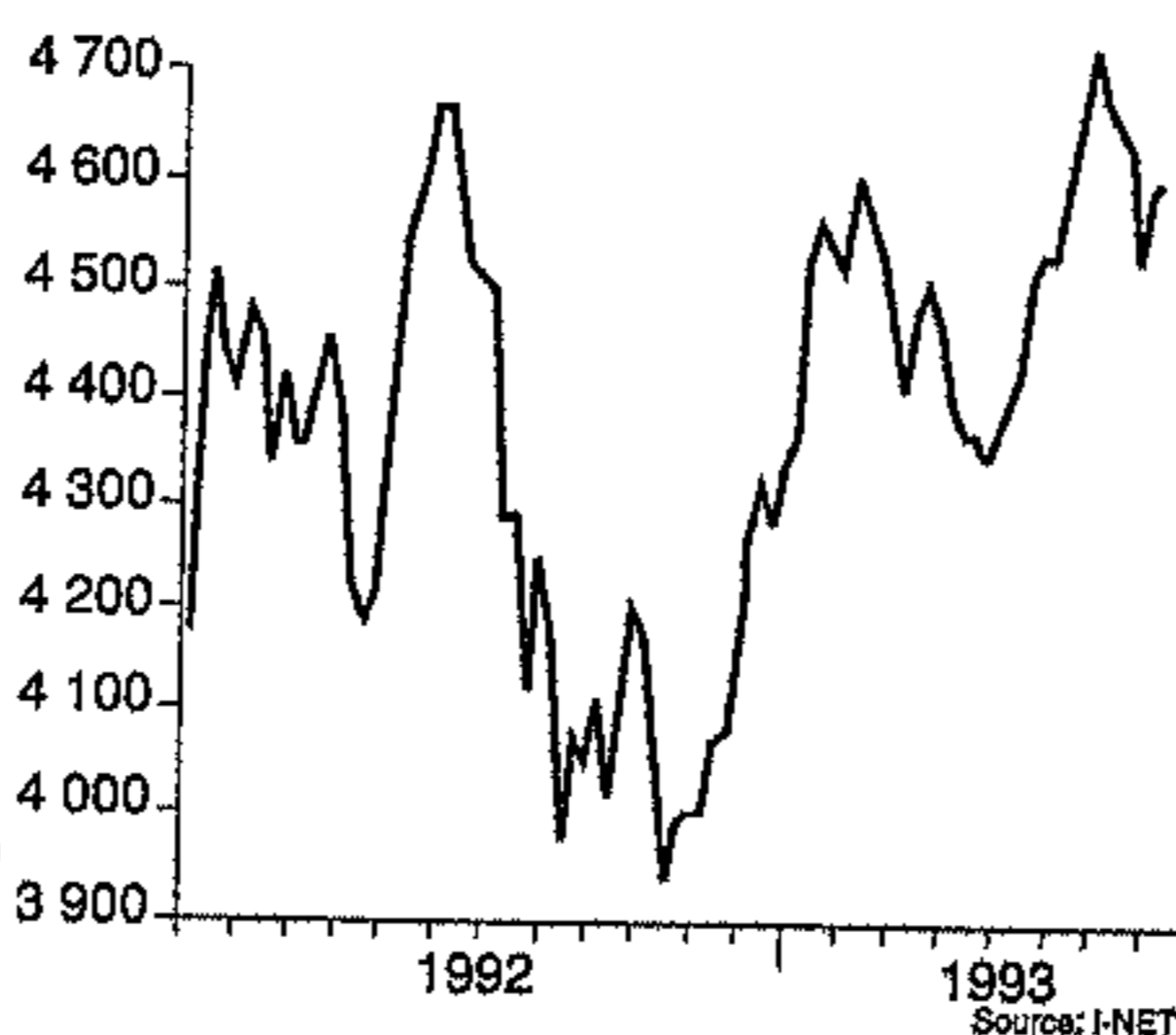
Simpson McKie's Rodney Yaldwyn feels gold could see a correction back to \$395 or lower, but even then he doubts the All Gold index would fall more than 100-150 points. Another analyst who believes gold is in a medium-term bull market contends the dollar price could see a considerably greater correction, to perhaps \$375 or less, causing the shares to retreat rapidly before recovering again.

If history is any guide, the accompanying 22-year chart of the JSE All Gold index does seem to strengthen the case for caution. It is not only that the index has climbed so steeply in just six months — showing on the monthly graph as almost a straight-line ascent, something that has rarely occurred over that period.

It's also interesting that when the index rose above 2 100 last week, it was approaching the peaks of 1987 and early 1990. In the euphoric market of August 1987, the index reached an all-time high of 2 499; the next high was set at 2 239, in February 1990. Though there is optimism that the vicious cost spiral has been broken, the industry's cost structure is higher than in either of those years and recovery grades are often lower.

However, while it's primarily the dollar price of bullion that drives sentiment, the fundamentals are determined by the rand price. In August 1987, the dollar price was in the mid-\$400 range and trending downwards. It's now in a rising trend — at \$405, it is about 23% above the \$330 base before the recovery. More important, the rand price is now R1 360/oz, some 47% up on the R927 of last September.

## Off the top Industrial index



Much of the surge in the mines' profit margins was thanks to the renewed depreciation of the rand, which happened to coincide with the upswing in the bullion market. So, too, did the greater appreciation on the part of investors that the fundamental position of many of the SA producers had greatly improved in terms of costs, grades and financial management (*Fox* July 30).

Having said that, the quality and risk attached to these shares vary enormously. JD Anderson's Bruce Williamson points out that the All Gold index is dominated by a few heavyweight gold shares. Drie Cons, Kloof, Vaal Reefs, Southvaal, Fregold, Western Deep and Harties together make up more than three-quarters of the index.

An average forward yield on the index thus says little about the fundamentals for the highly geared and risky marginals. Even more sensitive to euphoric sentiment are the mining exploration stocks, whose valuations are always problematic. Soudex (admittedly looking less and less like an exploration stock), at R38 this week from a 12-month low of R2, is a prime example.

There will continue to be special situations, such as the separation announced this week of Buffelsfontein and Beatrix. Their shareholding structure was designed in 1983 to enable the then new producer Beatrix to use Buffels' tax shield but it hasn't worked as hoped. The announcement triggered expectations of further changes within the Gengold group.

Even if you accept that gold is in a long-term bull market, timing remains important and it is still essential to select shares carefully. Brokers say the general approach from institutions has been to sell into a rising trend (such as over the past week) and pick up stock cautiously when the market weakens.

By mid-July, many of the financial and industrial shares were significantly below their peaks set earlier in the year, but the combination of the bullish gold sector and growing confidence that interest rates will continue to weaken has helped reverse this trend (see graph).

A life assurer's senior fund manager believes there are signs of a fundamental change in the equity market. While historical corporate earnings remain stagnant, he says, there are nascent signs of economic recovery.

He cites three factors giving grounds for a better profit trend in 1994: the rising trend in notes and coins in circulation; marginally better new vehicle sales; and the expectation of further interest rate cuts.

Political developments, he adds, seem to be having less effect on the market. While the breakdown of Codesa in July last year

P.T.O.

Fm 6/8/93

helped push the JSE into a prolonged decline, investors now seem to be looking through the political static.

Irish & Menell Rosenberg's Mark Sonik notes a similar trend. He has been tracking the correlation between share prices and political deaths for a number of years and believes the market is becoming more resilient to violence. The St James massacre in Cape Town was shrugged off in a day. Violence on the East Rand, in which over 90 people died at the weekend, had little or no effect on the market, though it also coincided with the rampant gold price.

Renewed optimism about a recovery appears to be encouraging a search for stocks that are still close to their cyclical lows. Among these are the commodities and consumer durables; though some may well be premature, their rejuvenation will be robust once sales pick up (79) (232)

Highveld Steel, ahead of a good recovery in profits announced this week, reached an annual high of 1 350c, gaining about 30% over two months. There has also been a revival of interest in the Rembrandt group's shares, which appreciated steadily over the week to get within a whisker of their annual highs. Despite gold's surge, rand hedge stocks continue to attract support. Del Monte Royal, for example, appears to be recovering from lows.

Even so, focus on the mining board and bullish prospects in the gilts market may contribute to lack of interest in some of the highly rated industrial growth stocks for a while.

But perceptions of value and quality — or the lack of it — will determine how long this lasts. Liberty Asset Management chairman Roy McAlpine says Liberty's policy has always been to concentrate on quality counters, a policy which has paid off through tough economic years. "We're in it for the long term and have to ride the little bumps and troughs you experience when the market behaves like this," he says. Other big institutions may take a similar view.

*Shaun Harris and Andrew McNulty*

# Business Report

FRIDAY, AUGUST 6 1993

8

## Gold spins out of control in \$23 fall

By Ari Jacobson

GOLD bullion crashed through the \$400 dollar barrier in London yesterday and spun out of control in New York to shed \$23 overall, on the day, in closing out at \$376 an ounce last night.

The official close in London was at \$388.60 yesterday.

This represents a rough \$27 an ounce fall in two days.

The fall started on Wednesday evening with bullion falling to \$399 an ounce in New York, it continued in London yesterday where bullion

traded as low as \$386 an ounce and last night gold bullion fell a further \$10 an ounce to bring an abrupt end to the much vaunted bull run.

"There were massive stop-loss orders below \$400 an ounce on the Commodity Exchange December contract, the bottom just dropped out of the market," one London-based dealer said.

Gold analysts warned last night that the JSE would open to panic selling this morning having missed most of the collapse in New York. The All-Gold index on the JSE

mirrored the collapse of the yellow metal in London, down 140 index points or 7% to end the day at 1,875. The weaker tone rubbed off on the rest of the market and the overall index fell 71 points to 4,060.

Some gold traders were unperturbed saying that "this was not the end of gold's bull run and rather a healthy correction after the spectacular rise in recent weeks".

Gold bullion was described as "uneasy during the European session" working in a narrow range between \$398 an ounce and \$396 an

ounce, with support considered to be at \$395 an ounce.

However "the real fall took dealers completely by surprise," said one London dealer calling it "a mass liquidation from New York aided by suspected Chinese selling".

Earlier this week "bullish" dealers were talking of bullion testing the \$420 an ounce and even \$440 an ounce level soon.

"It shows the extent to which gold is in the hands of US fund managers," said a gold trader out of New

York last night.

"The speculative element in gold bullion is real scary," he said.

The after-effects of the mass selling on the local share market reverberated on the financial rand market where "all hell broke loose" as sentiment among local banks was sharply knocked. The unit ended 3.5c lower at R4.55 after hitting a low of R4.60.

Reuters reports that the dollar firmed in late Europe trading, drawing strength from solid US economic data and a gold price that was heading down.

Closing

gold prices

(In \$ an ounce)

NEW YORK:

375.50/376.50

LONDON:

388.40/388.80

Fixing am: 396.45

Fixing pm: 387.75

ZURICH:

385.00/389.00

— Reuter

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# Storm . . . Or shine?

Two leading Cape Town economists state their case for a rise or fall in price of bullion

**BRUCE CAMERON**  
Business Staff

TRYING to predict the price of gold is as difficult as predicting the Cape weather.

As everyone knows, hardly anyone — even the experts — agrees on whether it is going to storm or shine.

So it is with the gold price which bounced around this week like a Cape Town barometer.

On opposite sides of the gold debate were two of Cape Town's heavyweight economists.

On the side of sunshine was Board of Executors portfolio manager Rob Lee. Blown in by the rain-laden northwester was Old Mutual chief economist Dave Mohr.

Mr Lee says strong fundamental and technical grounds support the belief that gold is in the early stages of a new bull market, with prices of \$500 to \$600 an ounce feasible in the next two to three years.

The latest issue of the *BoE* *Wale* Street Journal lists his

optimism on: **7/18/93**

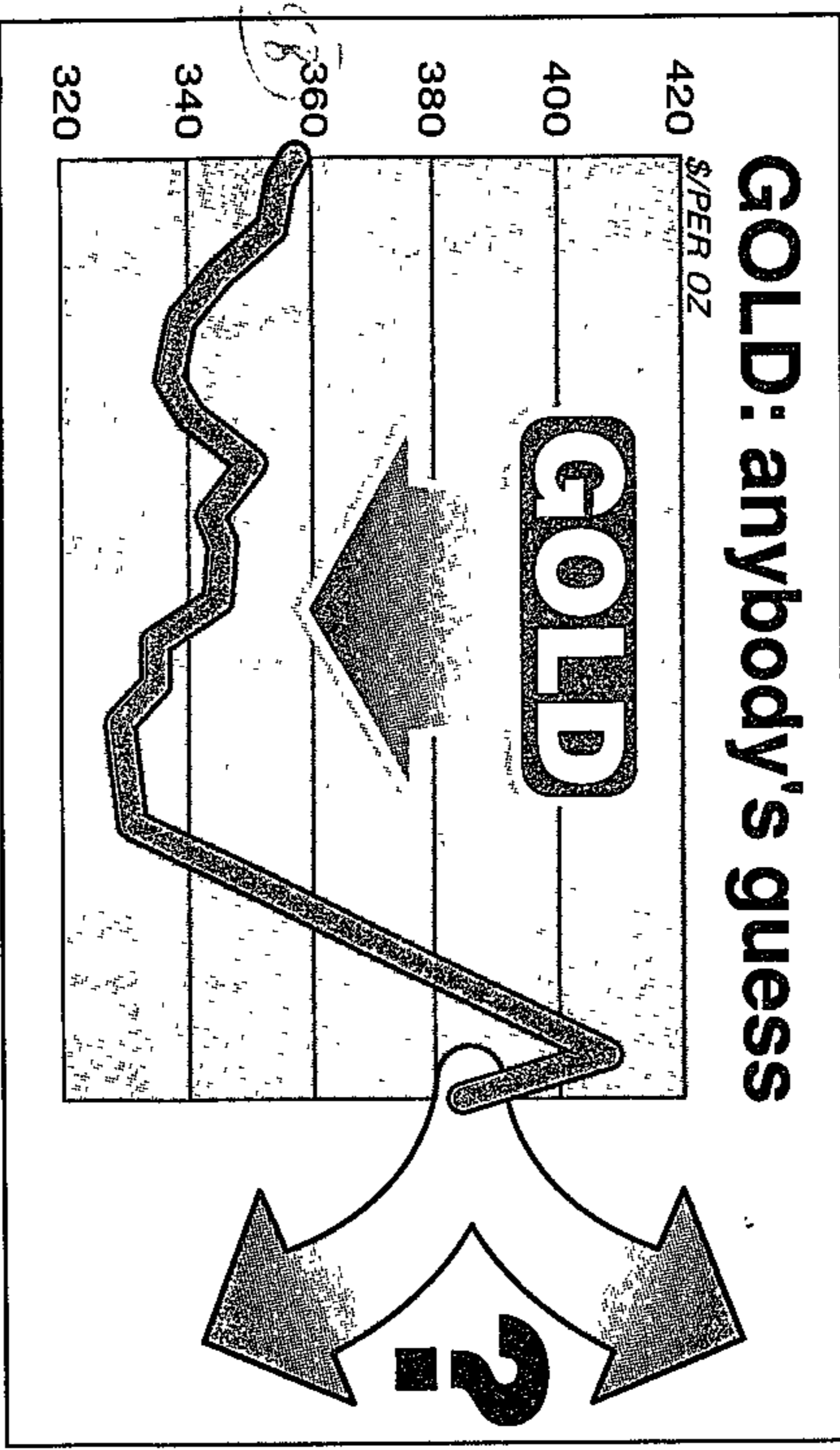
■ A large and growing shortfall of production relative to industrial and jewellery demand for gold. In 1992, jewellery demand exceeded Western world production by 584 tons, compared to a virtually balanced 1988.

■ An increase in the potential for renewed investor interest in gold.

■ Research showed the market had absorbed net private disinvestment of 873 tons, Commonwealth of Independent States sales of 700 tons and central bank net disinvestment of 606 tons in the period 1990-1992.

■ Increased gold purchases in Asia based on the long history and culture of gold ownership in Asia. A portion of the growing wealth in Asia would be used to buy gold.

■ The long-term negative consequences for the US economy of the trade and budget deficits. The now structurally entrenched deficits would cause enormous upheaval when reversed, as they eventually



would have to be.

Although no historical precedent for such extreme debt levels existed in an economy that possessed the world's reserve currency, the odds of a major crisis developing were now very high.

Mr Mohr, however, blows cold. He concedes that bullish arguments for gold cannot be discounted completely but his team of economists is not going to advise Old Mutual, which is big enough to create its own storm system, to move into the

market. "There is little question that the sentiment in the gold market has turned decidedly more bullish, largely due to a resurgence in long-absent investor interest." The reasons for this were indications the central banks

were not repeating the heavy sales of last year and growing fears of international inflation driven by falling interest rates and ballooning deficits.

Should these predictions prove well founded "the gold price could indeed rise much further. But we remain rather sceptical."

Mr Mohr said in the Old Mutual's latest quarterly report on the economy that inflation fears were exaggerated.

"We are more optimistic about the supply and demand balance."

But if the position continued it was not certain central banks and other gold-holders would remain on the sidelines and renewed sales would blunt price increases.

His final point is that the US dollar remains strong and all previous major gold price rises have come at a time of dollar weakness.

So if you want to know what is going to happen to the gold price, look out of the window and base the price on the weather or, as one Weekend Argus sportswriter suggested, watch the performance of the Western Province rugby XV.

8/18/93

# SA loophole lets in trademark pirates

By ZILLA EFRAT

AMERICAN firms have been shocked to discover that their logos and trademarks are registered in South Africa.

The registrations have been made by trademark pirates who plan to hold American companies to ransom — legally because of what some lawyers call SA's archaic laws.

Attorney Michael Judin, a partner at Goldman, Judin & Werner, says the pirates hope to prevent US companies from operating here unless they pay a fee or enter a licensing agreement.

The loophole has also been used by Edgars and Truworths, who have beaten off court challenges but are not among those who wish to hold Americans to ransom.

Edgars successfully defended itself in an action brought by US women's underwear maker Victoria's Secret. It applied to register

Victoria's Secret's name in SA first.

Spoor & Fisher partner Owen Dean says the case will now go to the Appeal Court in Bloemfontein.

Other disputes involving Edgars will also come before the Registrar of Trademarks.

A case brought by US casual wear maker Outback Red against Truworths last year was settled. The US manufacturer surrendered the SA market in return for other benefits.

Among Americans who found their trademarks and logos registered in SA by others were eight Major League baseball teams and World of Curls, which makes hair-care products for blacks.

Other US firms involved wish to remain anonymous, says Reggie Cook, president

and chief executive officer of California-based Cook International which facilitates investment in SA.

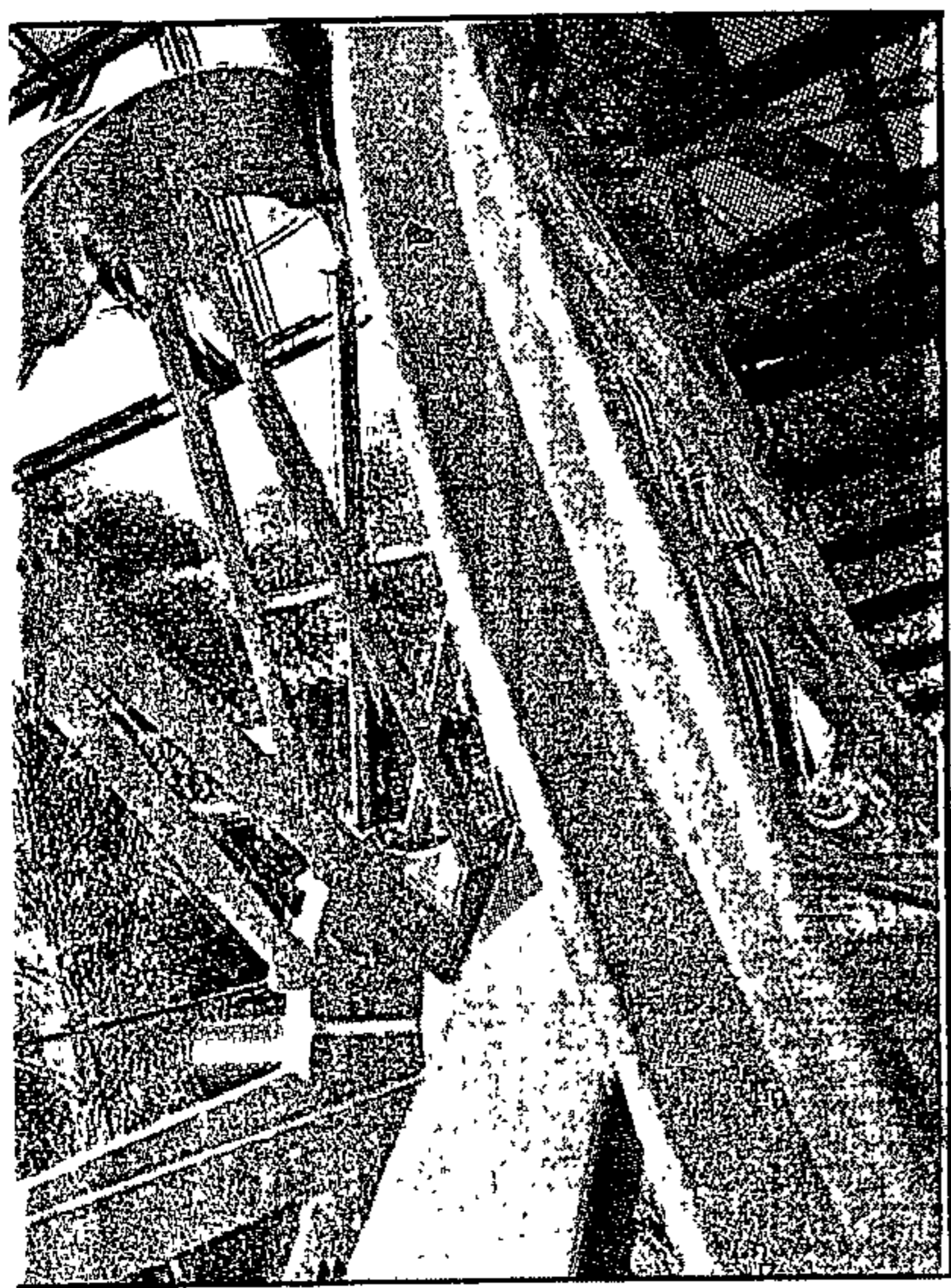
The attempted registration by a Durban manufacturer of DKNY jeans is being contested by US fashion designer Donna Karan New York.

Mr Cook believes many more US companies face similar problems. He expects their numbers to grow rapidly after sanctions end.

He is aiding "angry" companies, with the help of the US Commerce Department, to urge the SA Government to change the law.

A class action law suit against the SA government, which demands an immediate release for US companies, is also being considered. Mr Cook says class actions may be taken because individuals are protected by SA law.

Mr Judin says SA trademark law is based on an outdated "territorial" concept.



ance for Gold Reef City Picture: CHRISTINE NESBITT

8/18/93

# Gold's stumble dims prospects for a rate cut

HOPES for an imminent Bank Rate cut stalled this week as gold dropped \$22 and South Africa's gold and foreign exchange reserves weakened further.

But Reserve Bank governor Chris Stals cautioned against reading too much into the R157-million fall in reserves to R7,36-billion in July.

He said figures were affected by large repayments of public sector loans in the first week of the month. They had since stabilised and were now "encouraging".

He said the volatile gold price made any forecasts of what would happen in August difficult.

Following Thursday's dramatic

## Business Times Reporters

fall, the gold price was fixed in London at \$379,40 on Friday and was trading lower as New York opened.

Gold shares lost ground in hectic trade with the All Gold Index closing the week at 1814 — 14% lower.

Gold's unpleasant drop was a sharp reminder that the recent \$70 bull run is not 1980 all over again.

The near \$30 drop to below \$380/oz was no surprise to analysts canvassed a week ago when it breached \$400/oz. The warning was plain: all the buyers belong to the same club, drive the same computer model, and receive

and react to the same signals at the same time.

Active in the gold market in recent months are American managed-fund investors. They do not regard gold as a store of value or a safe haven in times of currency turmoil, but rather as a means to make a quick buck.

When their computerised models flashed a sell signal on Thursday, they all wanted to get out of gold at the same time. But there were no buyers, and market makers were obliged to mark down the price again and again. "They all wanted to go home in the same taxi, but they couldn't all fit," says one dealer.

Buyers of physical gold, such as

jewellers and speculators, traditionally stand aside in a falling market knowing they need only wait to buy it more cheaply.

Reports from Europe, where the price dropped \$6 to \$396 on Thursday morning ahead of New York's plunge, were that George Soros was a seller of 50 000 oz-lots of gold, always asking a little more than the last trade. One of the high-profile pair behind gold's resurgence from below \$330/oz, Mr Soros is thought to have sold 200 000 oz last week.

Gold's fall might be seen as a blessing in disguise for SA's mining houses struggling to negotiate wage settlements with miners.

VISION

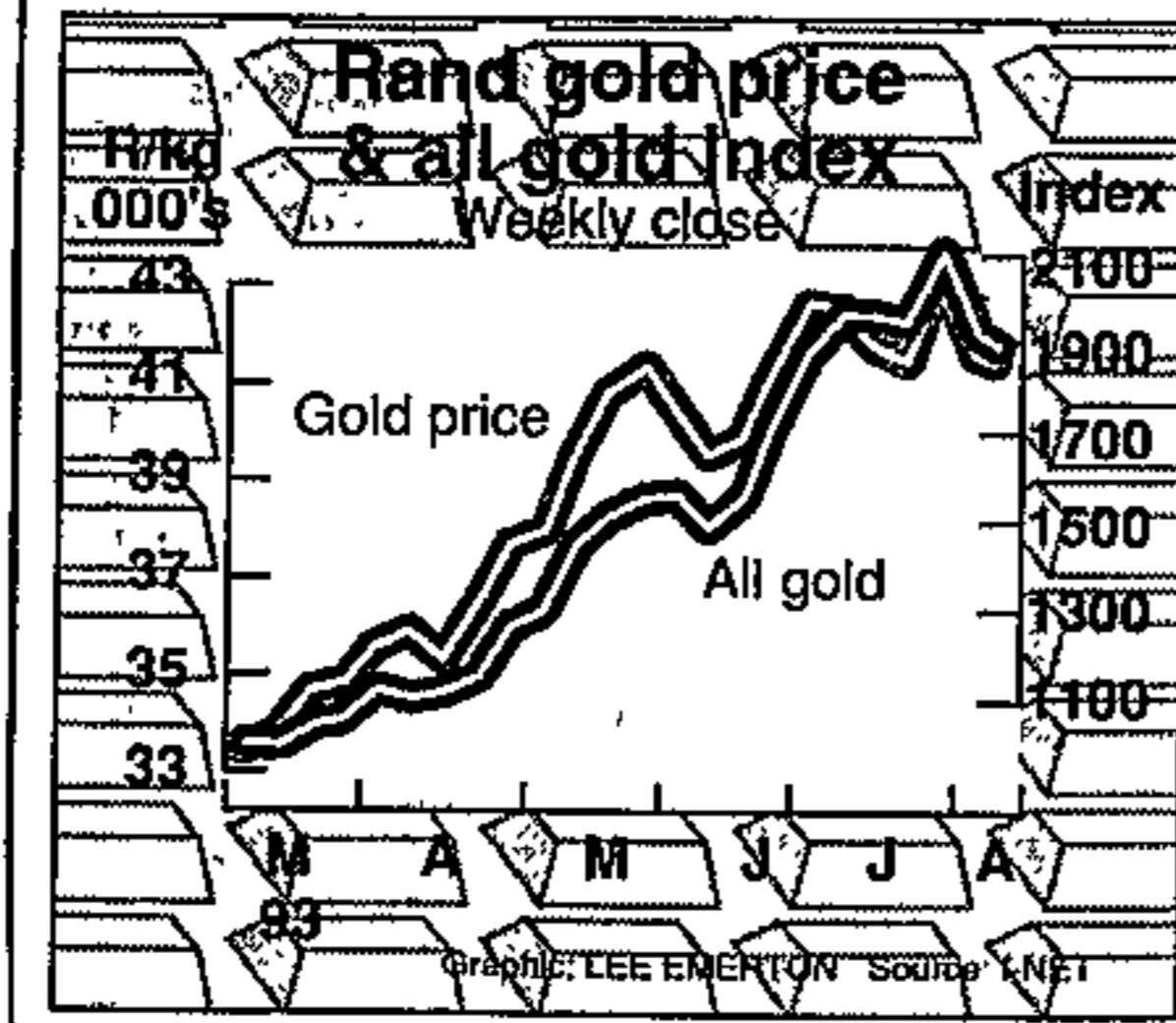
I see personal systems designed not only to meet standards but to raise them.



# Gold bulls lose their footing

Biday 9/8/93

ANDY DUFFY



LAST Thursday's largest one-day drop in the gold price since January 1991 might have kicked the legs from under the bull market, industry sources said at the weekend.

In Hong Kong on Saturday, the metal lost \$4.60 to close at \$376.20. It lost \$1.12 in New York on Friday ending at \$376.62.

Thursday's plunge, which cut \$28 from a formerly rampant gold price, confirmed fears that the speculator-driven surge above \$400 had snapped the already over-stretched link between price and demand.

□ To Page 2

## Gold price

Biday 9/8/93

□ From Page 1

The same US funds that had driven the gold price above \$400 had cut it back through frantic selling.

There seems little chance of gold returning to the \$400 level in the near future.

"Forget it," said an industry source. "There'll be a great deal of volatility between \$365 and \$385. The trouble is that after a big correction, the market is always unsettled."

The collapse seemed to kill hopes that a gold price above \$400 was sustainable on fundamentals, but sources said SA mining house earnings and increased capital expenditure would still be underpinned by the favourable rand/dollar exchange rate. Despite the fall, the rand gold price still stood at R41 894/kg on Friday, compared with R31 148/kg a year ago.

The Chamber of Mines, which is looking for an average gold price of just \$353/oz this year, said the dearth of capital expenditure since 1988 would force mining houses to use any increase in the price to raise capex.

On Friday a stunned market was still trying to pin down the cause for the fall.

Rumours of sales by China's central bank and Australian mining houses were

thought to have sparked heavy selling by investment funds in New York, judged by gold watchers to have been mainly responsible for gold's earlier ascent.

Sentiment was also hit by World Gold Council figures which showed that demand in China fell to 55 tons in the second quarter - down 40 tons from the first quarter. Demand in the Middle East and India slid by more than a fifth to 213.3 tons.

A slight recovery on Friday lifted the London price to \$381.90 before it settled to close at \$376.50.

J D Anderson analyst Bruce Williamson said Thursday's fall had marked the level at which speculative buying turned to panic selling. "A second attempt (on \$400) is not going to be easy."

MERVYN HARRIS reports that gold shares tracked the metal in cautious trading on the JSE on Friday. After opening easier, shares picked up as professionals nibbled at selected counters at their lower levels as the price rose above \$380.

But shares fell back in the afternoon and the all gold index finished 61 points lower to 1 814.

The overall index shed 50 points to 4 010.

● See Page 3

# Gold, forex reserves continue their decline

Gold and foreign exchange reserves continued to shrink in July, but the rate of deterioration slowed, says the Reserve Bank.

Total gold and foreign reserves were two percent lower at R7,4 billion in July from R7,5 billion in previously.

Gold assets increased by 3,5 percent to R5,8 billion from R5,6 billion in June, while foreign assets continued their alarming trend downwards.

Foreign assets fell by 18 percent to R1,6 billion in July from R2 billion previously, largely as a result of foreign debt repayments.

Reserve Bank Governor Chris Stals has said foreign debt obligations are expected to subside from this month as most of this year's repayments have now been met.

This would lead to greater stability in foreign reserves but would still leave SA hostage to large capital outflows caused by political uncertainty, analysts say. (79)

The central bank's holding of physical gold fell from 4,937 million fine ounces to 4,792 million in July but was valued R75,19 per fine ounce higher at R1200,60 per fine ounce. — Sapa.



# Gold moves back above \$380 level

B/Daw 10/18/93  
MERVYN HARRIS

GOLD moved back above \$380 in hesitant trading on global bullion markets yesterday in what analysts saw as a consolidation phase after last week's sharp sell-off.

The metal closed \$5.55 higher in London at \$383.20 as Swiss and Far Eastern buying in Europe was bolstered by short covering in early New York dealings. Last night, gold closed \$7.15 higher at \$383.75 in New York.

The rally was boosted by a growing belief among market participants that, although gold was ripe for a correction after its rapid gains over the past few months, last Thursday's steep one-day meltdown

was overdone.

Dealers said the market was still looking vulnerable with the wide spread of quotes indicative of the nervous tone of trading. They expected gold to move higher, but the road ahead would be rocky.

Caution also pervaded Diagonal Street but the market finished broadly firmer on the back of a sharp drop in the financial rand investment unit.

The JSE all gold index closed with a gain of 52 points to 1866, but wary investors

To Page 2

## Gold

B/Daw 10/18/93

From Page 1

tended to keep to the sidelines to await further developments. Shattered confidence had to be rebuilt, a trader noted.

Platinum, which plummeted \$36.50 on Thursday, was also looking healthier yesterday on the back of Japanese demand. The metal rose more than \$6 to be fixed above \$393 at both London fixings.

KELVIN BROWN reports that the financial rand closed sharply weaker after a large

sell order sparked negative sentiment.

Sources said the order appeared to be a corporate finance deal for about \$20m.

Following the order the financial rand plunged to the R4,7500 level as sentiment turned bearish. It ended the day at R4,7150 after closing at R4,6576 on Friday. Dealers said the market had been looking for direction after little movement in the gold price, but the initial slide appeared to be overdone.

# Gold price bounces back above \$383

**Closing gold prices**

(In \$ an ounce)

NEW YORK: 383.50/384.00

LONDON: 382.80/383.60

Fixing am: 381.70

Fixing pm: 382.50

ZURICH: 379.50/383.50

JOHANNESBURG.—Gold moved back above \$383 in hesitant trading on global bullion markets yesterday in what analysts saw as a consolidation phase after last week's sharp sell-off.

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The rally was boosted by a growing belief among market participants that although gold was ripe for a correction after its rapid gains over the past few months, last Thursday's steep one-day meltdown was overdone.

Caution pervaded Diagonal Street but the market finished broadly firmer on the back of a sharp drop in the financial fund investment unit. The JSE Gold Index closed with a

gain of 52 points to 1 866.79. The Industrial Index made 20 points to 4 580 and the Overall Index was 31 points higher at 4 041.

Major offshore-listed shares were boosted by the weak firmand, with De Beers up 35c to R85.50 and Richemont climbing a strong R1.15 to R40.65.

Heavyweight gold Vaal Reefs made a strong R12 gain to R378. Platinum, which plummeted

\$36.50 on Thursday, was also looking healthier yesterday on the back of Japanese demand. The metal rose more than \$6 to be fixed above \$393 in London, and climbed further to record a \$397.30 futures price for October.

In late trade last night on the New York Commodities Exchange, the futures price of December gold closed up \$6.90 at \$386.80 an ounce. — Business Staff and Own Correspondents

# Was it all merely a 'speculative paper chase'?

By ARI JACOBSON  
and KATHARINE BUTT

WIDE predictions of gold's next move are upping local investors.

Jitters surrounding gold price prospects took their toll on local shares in afternoon trade yesterday after a confident start ran out of steam.

The Gold Index ended the day nine points higher at 1 875 after earlier climbing to 1 895.

Frankel, Pollak's gold analyst Adrian Finch, citing overseas

sources, sees the movement of gold bullion over the the \$400 an ounce barrier recently as based on "a speculative paper chase" coming out of New York's Commodity Exchange (Comex) market.

"Anything beyond \$370 an ounce is pure speculation because physical demand dried up at about \$340 an ounce," he says.

By example, he points to the Hong Kong where "gold traders have not traded in bullion throughout July because of the high price".

"As far as I am concerned \$400 an

ounce for bullion was always unrealistic."

He added that gold shares were over-priced and his recommendation would be to stay out of gold shares.

However Davis Borkum's gold fundi Dave Giese feels that gold bullion is starting to consolidate and gain more confidence.

His remarks are based on the swift plunge from about \$406 an ounce to \$376 an ounce in roughly two days last week. Bullion has since then found support around the \$380 level. It closed out in Lon-

don yesterday at \$379.35 before its New York flip to \$381.40.

Giese sees the gold price moving slowly upwards adding "the upside is stronger than the downside".

However he does not think that the \$400 an ounce level will be touched again in the near term.

● On the JSE, the Industrial Index ended nine points lower at 4 571 following an early climb to 4 586, while the Overall Index added a marginal point to 4 042.

Barlows ended 25c softer at R44. Market leader De Beers was 50c higher at R86 and associate Anglo

finished unchanged at R145. Riche-  
mont made a steady 35c to R41.

Among softer industrials, Engen shed R1.25 to R37 and Sasol lost 5c to R18.95. Tiger Oats dropped 75c to R42.

Liberty slumped R3.50 to R66.50 on small volumes.

In golds, Vaal Reef's was R2 lower at R376 after an early rise to R380. Freegold managed a R1.25 gain to R53.75 and Kloof was unchanged at R49.25.

Rusplats held its R1 gain to R72 but Implats finished 50c off the pace at R58.50.

# Bullion jitters hit finrand

## Business Staff

RUMOURS that the Bank of France was selling gold have sent jitters through the markets, sending the financial rand plunging in London as foreign gold share and bond holders sold securities.

The French central bank did not confirm the rumours.

Speculators may also be exercising options to buy gold from central banks, say mining analysts.

Research by RTZ Corporation economist Jessica Jacks shows that between 10 and 20 central banks have been granting options on gold in recent years.

Writing in the latest issue of the Mining Journal's International Gold Mining Newsletter, she says that although accurate figures are not available, New York bullion dealers estimate that last year options could have been granted on as much as 20 million ounces — equivalent to one year's South African production.

In May this year, another survey suggested that 15 million ounces were under option.

The recent bull run in gold may have prompted some of these investors to exercise their options, flooding the market with additional gold and pushing down the price.

Though the commercial rand rose slightly against European currencies, the weakness of the gold price and the strength of the dollar is putting pressure on both the commercial and the financial rands.

The discount to the commercial rand has wid-

ened to 28 percent from 24 percent, as foreign investors sold off rand bonds and financial rand deposits.

In spite of assurances by Reserve Bank Governor Chris Stals that interest rates would not be cut, London bankers believe South Africa will have to follow the European trend to spur growth.

The fall in the rand and a higher value of gold and other exports should increase cash flows to the local money market. As cash inflows meet a low demand for money in the depressed South African economy, money market conditions are likely to be flush and rates should fall. The Reserve Bank might then be forced to follow the market and cut rates.

Further, the gold and foreign exchange reserves should recover later in the year if capital outflows dry up.

A decline in interest rates and a rally in SA bond prices is likely to tempt some foreign investors to sell. Since foreigners buy rand bonds at a discount through the financial rand, yields on the bonds overseas are currently 19,3 percent compared to local returns of 13,9 percent.

But German and Swiss investors who bought rand bonds in the past few years are nursing nasty losses because of the strength of their currencies.

Foreign investors who bought gold shares and rand bonds towards the end of last year made handsome profits. Now that the gold price is slipping, many are pocketing at least some of their gains.

# Frantic trading hits gold and finrand

B1 Day 12/8/93

## Business Day Reporters

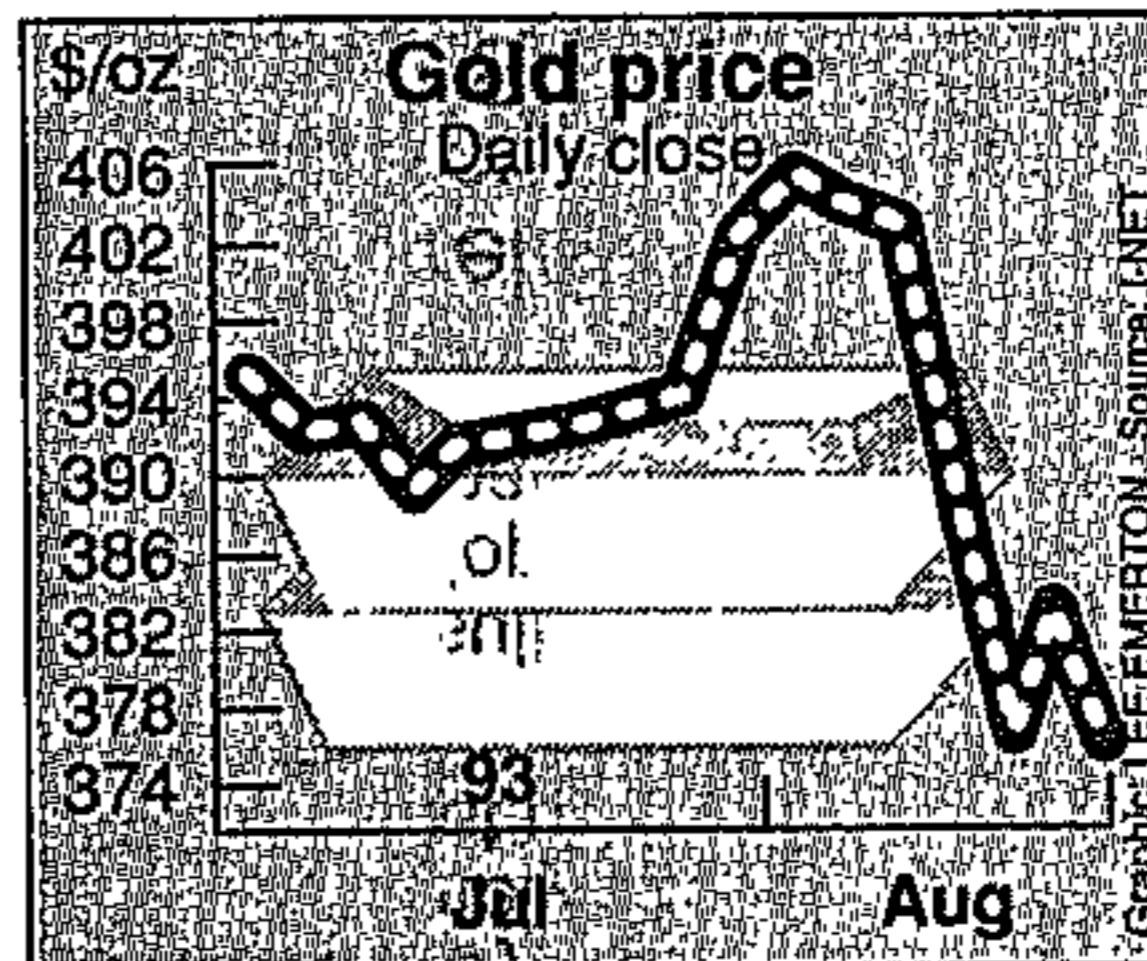
FRANTIC trading on local and international financial markets wrought havoc with bullion prices and the finrand yesterday while the Japanese yen raced to a record high against the dollar.

In a replay of last Thursday's dramatic sell-off, gold tumbled almost \$8 to \$374 within minutes of the opening of trade on New York commodity exchange, Comex, yesterday morning. (79)

Market sources said the surprise downturn, after a strong rally in bullion back above the \$380 level earlier in the week, was triggered by profit-taking by US investment funds. They were swiftly followed by European investors, jittery amid rumours that the Bank of France was selling gold to raise Deutschmarks.

Gold recovered slightly in London to close \$3,35 down at \$376. In New York it closed at \$375,60, down \$5,70.

The slump sent shares lower on Diag-



onal Street, pushing the JSE all gold index down 3,4% or 65 points to 1 810. But the overall index ended unchanged at 4 042 as market leaders De Beers and Anglos held on to most of their early gains.

Soggy bullion prices prompted panic finrand sales by banks as soon as the market

□ To Page 2

## Gold B1 Day 12/8/93 □ From Page 1

opened. It sank to a low of R4,74 before closing at R4,71 from Tuesday's R4,67.

Dealers said the selloff was mostly in local interbank trade, with little, if any, foreign selling. Local banks are allowed to hold limited finrand balances to aid their trading operations. (79)

The commercial rand also did poorly, closing at a record low against the yen and matching its previous low set against the dollar last month. Against the dollar, it closed at R3,3783 from Tuesday's R3,6883, while against the yen, it finished at 30,78 yen from a previous 31,04 yen.

AP-DJ reports from Tokyo that in spite of very heavy yen sales for dollars by the bank of Japan, the currency rocketed to a

new record, stealing the show from the mark as the market's favoured currency ahead of the release of Japan's trade surplus data at end of the session.

Dealers said the bank bombarded the market with yen sales in a futile attempt to defend the dollar's bottom at 104,00 yen.

"Now there's really no visible support for the dollar — except perhaps 100 yen," as expectations of a large Japanese trade surplus for July fuelled dollar sales by US investment funds, Japanese trust banks and Japanese exporters," said one.

The dollar finished on Wednesday at 103,77 yen, below 104,70 yen late on Tuesday in New York and down from 104,47 yen late on Tuesday in Tokyo.

GOLD tumbled \$8.10 in New York last night to end at \$367.50.

Reuter reports that dealers said late fund selling followed discouraging US July inflation figures and a rumour of selling by a European central bank.

Gold futures plunged on the New York commodities exchanges, trading as low as \$366 on Comex in the afternoon. Nymex platinum also fell sharply. October platinum's fall through support at \$389 caused dealers to look to \$383 as the next cushion. Additional support was expected at \$382.

In London earlier, gold closed \$2.20 down at \$373.80. It had been fixed at \$376.30 in the afternoon but fell sharply with trading in New York. On the JSE, nervousness continued

# Gold tumbles \$8.10

as cautious investors tracked the vulnerable gold price.

Gold shares continued their downward trend, but traders said a firmer firmand had helped stem further losses.

Dealers said the uncertainty surrounding bullion continued after Wednesday's sell-off. Sentiment was still negative and a further sell-off of the metal was expected.

"Sentiment has turned sharply bearish on gold shares in the short term, and some dealers believe the

yellow metal will have to go down to about \$365-\$368 before it starts recovering," a dealer said.

The Overall Index lost 10 points to 4 032, helped by a 47-point fall in the Gold Index to 1 763. The Industrial Index bucked the trend, rising four points to 4 572.

"The market just does not believe this gold price," a trader said.

Dealers said scrip supply was also limited in many sectors, thus reducing the risk of declines, especially in re-

cently lacklustre industrials. De Beers attracted strong interest with almost R20m worth of shares traded through the day as the share ended R1 better at R90.25.

Anglos suffered from soft bullion prices in losing 50c to R147. Richmond lost 25c to R40.25 and Barlows dipped 40c to R43.60.

Amic posted a strong R5 gain to R90. Rusplats added R1 to R74, but Implats lost R1.50 to R56.

Sunbop made 50c to R28. Engen made 50c to R37 and Sasol made 15c to R19.25.

In golds, Vaal Reefs was R5 lower at R365, while Kloof was R2.25 lower at R45.

# Soros 'makes \$100m from gold's surge'

79 Aug 16/18/93

LONDON. — International investor George Soros has sold the gold holdings of his Quantum Fund making \$100m out of the surge in bullion which he helped to ignite, claims a press report here.

The London Sunday Times says that after speculation that the big selling, which knocked gold \$40 off its recent peak — had come from

the Bank of France, market sources now believe it was Soros.

It estimates that Quantum Fund has dumped 2m-3m ounces bought at an average of \$345/oz.

A Quantum Fund spokesman refused to comment.

"If we are in, we are in. If we are out, we are out. Either way we are not going to say," he told the Sun-

day Times.

In April the gold price began climbing sharply after Soros — whose funds made \$1bn out of selling the pound during last year's currency crisis and bought 10% of Newmont, from Sir James Goldsmith.

At the same time Goldsmith announced he was investing the

\$400m proceeds in physical gold.

The Sunday Times says Quantum had also bought physical gold at about the same time.

Quantum is reported to be retaining its 10% of Newmont — bought at \$39.50 a share and now \$48 after hitting \$59 — and the report says that Goldsmith has not sold any of

his bullion holdings.

In March some market players were forecasting that the gold price would rise to about \$410 an ounce before a sell-off would take place. It was based on a conspiracy theory that claimed a select few, people could manipulate the gold price to take it up and then bring it down. — Own Correspondent, Staff Reporter





# Dollar Strength Hits Rand

BY NEIL BEHRMANN

London — The weakness of the gold price and strength of the dollar are putting pressure on both the commercial and financial rands, although the former has risen slightly against European currencies.

While Reserve Bank Governor Chris Stals has said the Bank will not lower interest rates, London bankers believe South Africa will have to follow the European trend.

Like those of Europe, the SA economy is depressed and, despite fears of inflation, lower interest rates would help spur growth.

Although gold and foreign reserves have fallen, the depreciation of the rand and a higher value of gold and other exports should increase cash flows to the local money market.

As cash inflows encounter a

low demand for money in the depressed economy, money markets are likely to be flush and rates should fall.

The Reserve Bank would then be forced to follow the market and cut rates.

Assuming capital outflows dry up in the fourth quarter and there are some inflows, higher rand exports should bring about an increase in the gold and foreign exchange reserves later in the year.

## Willingness

This would help the rand.

On the other hand, falling interest rates and the apparent willingness of the authorities to accept a lower rate would be a negative influence on the currency.

Falling interest rates would place pressure on the commercial rand because it becomes less expensive for exporters and importers to borrow locally and buy foreign

currencies.

At present rates, it is exceedingly expensive to hedge against the rand by selling it forward.

The spot rate is 3,375 to the dollar. But the six-month forward rate is 3,489, giving an annualised premium of 6.8 percent.

Falling interest rates, for example, caused the Canadian dollar to tumble last Wednesday.

Weakness of the financial rand is not surprising, considering the amount of money invested in gold shares.

The discount to the commercial rand has widened to 28 percent from 24 percent as foreign investors have sold into this small volatile market.

German, Swiss, French, UK and Far Eastern investors are stale bulls of the currency.

Many bought rand bonds and financial rand deposits when the currency was trad-

ing between 3.12 to 3.57 to the dollar.

With the commercial rand now trading at 3,375 and the financial rand at 4,73, the prospect of financial rand recovery to previous ranges is remote.

Remarkably, despite these huge currency losses, investors who sold dollars and bought rand bonds scraped home with a small profit in the past year, while British investors made gains of 20 percent to 30 percent.

High income of around 20 percent and the appreciation of bonds in the domestic market offset currency losses, while UK investors benefited from the pound's devaluation.

(Since foreigners buy rand bonds at a discount through the financial rand, yields on the bonds overseas are currently 19.3 percent, compared with local returns of 13.9 percent).

# Dealers rebut rumours<sup>(79)</sup> over Soros

CT 17/8/93

JOHANNESBURG. — Gold rallied on bullion markets yesterday, driven by heavy fund buying in Europe and Japanese investment demand on the back of the surging yen.

Strong speculative demand was initially fuelled by weekend reports that investment guru George

Soros was back in the market but this was later dismissed by dealers. "The market rallied because dealers realised gold is widely held and does not move only on one man's whim," a London trader told Reuter.

It closed nearly \$6 higher in London at \$374,55 with the firmer tone and Japanese demand rubbing off on platinum which rose about \$4 to the \$388 level. In New York gold closed at \$373,80.

Gold's rise to above \$370 came as a pleasant surprise to a battered JSE gold board.

After surging to a high of 1 757 the Gold Index ended nearly 5% or 80 points up at 1 747 with dealers reporting very little foreign interest.

The Industrial Index was eight points softer at 4 529, with a mood of "indifference" marketing dealings on that board, dealers said.

The Overall Index was 29 points higher at 3 990.

● SA's gold output dropped in July to 50 107kg from June's 51 453kg, the Chamber of Mines said yesterday. The July total was down on last July's 51 228kg. The cumulative total for the year at the end of July was 358 342kg, up on the 353 596kg for the same period last year.

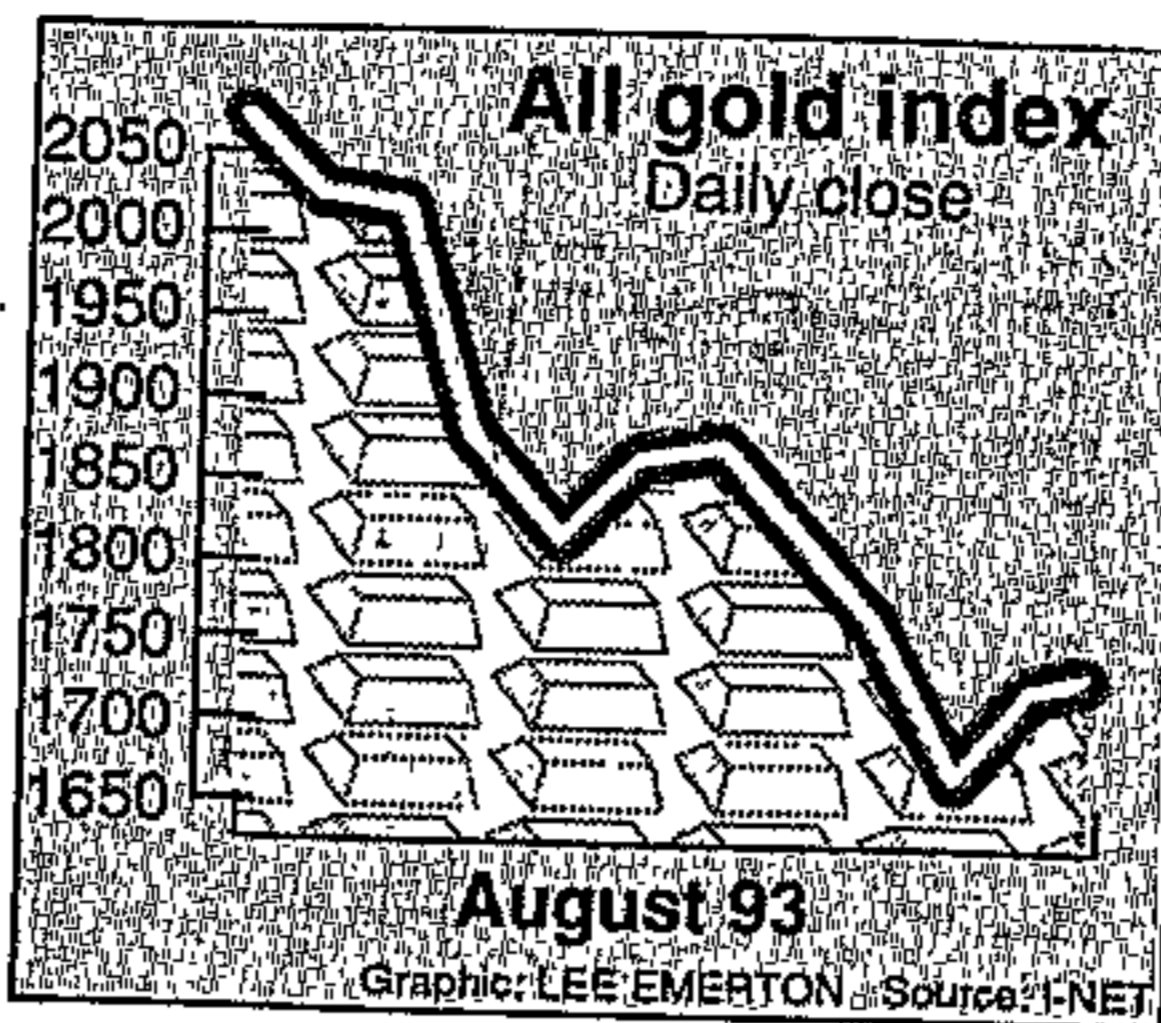
## Closing gold prices

NEW YORK:  
373,40/374,20

LONDON:  
374,30/374,80

Fixing am: 373,50  
Fixing pm: 372,60

ZURICH:  
372,00/375,00



## Gold rallies on investor demand

MERVYN HARRIS

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It closed nearly \$6 higher in London at \$374,55 with the firmer tone and Japanese demand rubbing off on platinum which rose about \$4 to the \$388 level. In New York gold closed at \$373,80, up \$4,05. *17/8/93*

Strong speculative demand was initially fuelled by weekend reports that investment guru George Soros was back in the market but this was later dismissed by dealers. "The market rallied because dealers realised gold is widely held and does not move only on one man's whim," a London trader told Reuter. *(49)*

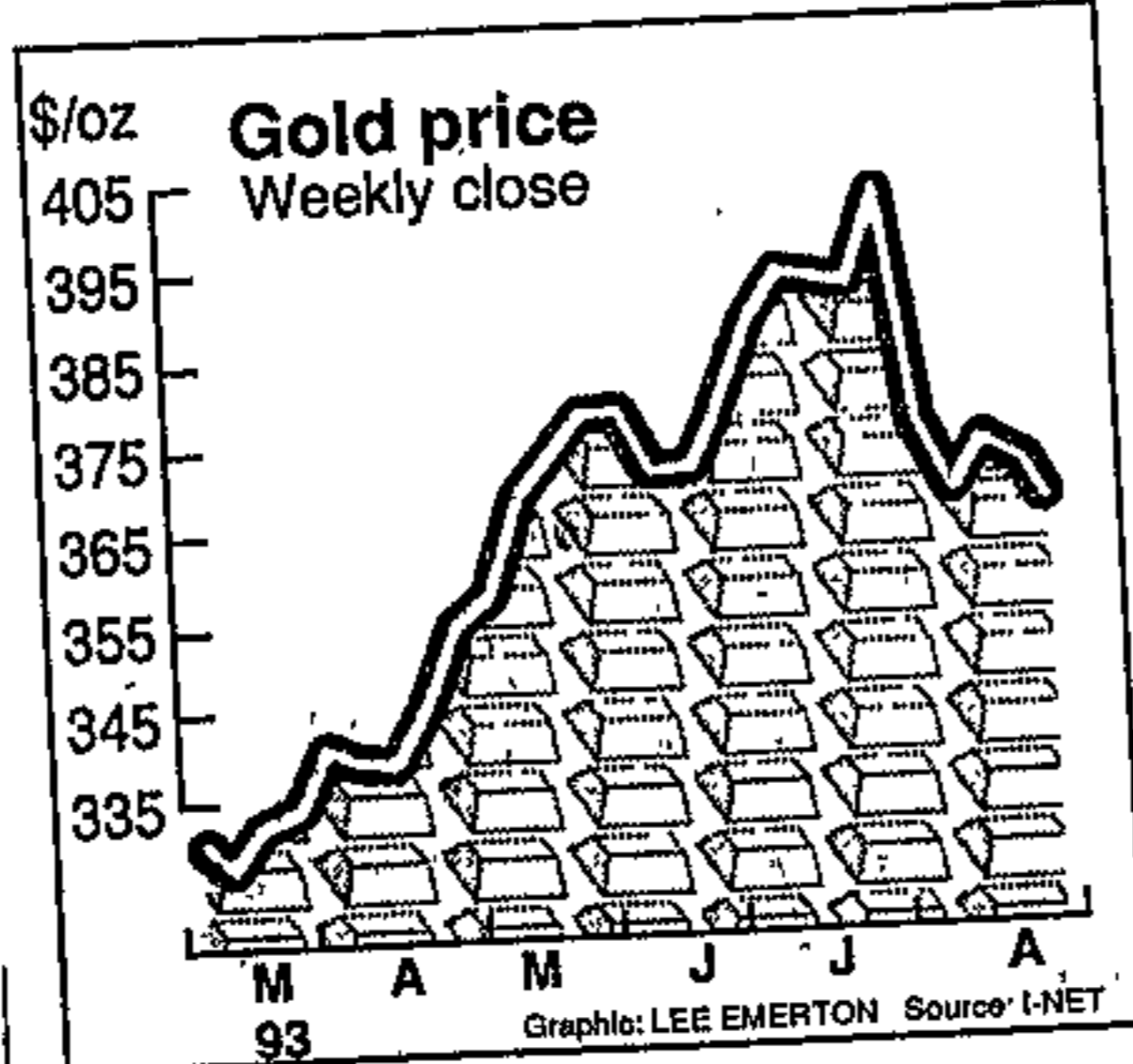
Gold's rise to above \$370 came as a pleasant surprise to a battered JSE gold board and local investors piled into the market at the opening. The all gold index surged to a high of 1757 before buying dried up and profit-taking took shares off their early highs.

The index ended nearly 5% or 80 points higher at 1747 with dealers reporting very little foreign interest, ascribed to the summer holidays in the US and Europe.

Dealers said last week's selling was overdone and the market was now correcting. Caution was still rife but the outlook for a steady upturn was promising.

Driefontein led the uptrend of heavy-weight golds with a rise of 8,1% or 375c to R50 while gains among lightweight shares extended to 20% as in the case of Benoni which rose 10c to 60c.

The higher gold price boosted the financial investment unit in a largely speculative market to a high of R4,66 to the dollar before slipping back to end at R4,68 from the previous close of R4,71 to the dollar.



## Gold falls below \$370 support level

GOLD crashed through the \$370 support barrier yesterday, after New York selling eroded its stability on European markets.

In London and Zurich the metal had maintained a trading range of \$370-\$375 for much of the day before taking a late dive to end \$4.65 down at \$366.45 in London, and \$3.50 down at \$367.75 in Zurich.

With US trading, gold suddenly fell through the \$370 level, triggering stop-loss orders and hitting a low of about \$366.

One theory held that some major players got tired of waiting and watching the weak dollar provide no help for gold. Dealers said they expected \$365 to become the closest support for now. *Biday*

In New York last night, gold was down \$4.70 at \$368.05. *2718193*

Gold futures plummeted, dragging other precious metals down. Comex December gold plunged \$9 to \$366.50, its lowest level since mid-June, after cracking through support at \$373.20. Silver fell 11c to \$4.66 before recovering to \$4.69. *(79)*

Analysts said the gold market was in need of further correction downwards following the rallies of the past few months, and it was only a matter of time before it broke down to retest support below \$365.

One said the absence of a Bundesbank interest rates cut may have prompted some precious metals sales. But this was only "a background factor".

I-Net reports that speculation that the gold price was set to fall below \$370 dampened enthusiasm on the JSE.

At the close, the all share index had advanced 10 points to 4 055, the all gold index had risen three points to 1 759 and the industrial index had dropped one point to 4 623. — AP-DJ, Reuter.

GOLD slipped \$5 to \$368.05 last night in New York, relinquishing the key \$370 an ounce support level in technical selling.

Bullion looked set to test support between \$365 and \$360 over the next few days, dealers said.

Earlier in London, gold slid to a close of \$366.45.

On the New York Commodities Exchange, gold closed sharply lower, although it managed to hold above the two-month lows hit during a technically inspired mid-morning sell-off.

# Gold slips \$5 on technical sales

The December contract ended \$4.70 lower at \$370.20, recovered from the low of \$366.50 hit when the market plunged. The high of \$374.60 was set early in the session. Volume was moderately heavy at an estimated 50 000 lots, well above the consistently light volume of the past several sessions.

Analysts were split on the impact on the market of a forecast from consultants Gold Fields Mineral Services Ltd of a 5% decline in

fabrication demand for gold in 1993.

While some analysts said the recession in Europe and other factors were weighing on demand for jewellery, others saw flat or slightly better demand.

Gold's plunge knocked other precious metals with platinum and palladium ending sharply lower but with pared losses in New York. October platinum closed \$6.50 lower at \$381.40 an ounce. Decem-

ber palladium finished down \$6.50 at \$120 an ounce. (79) CFT 181

On the JSE, shares closed mixed to flat, with heavyweight De Beers among few notable gains.

The gold board ended three points higher at 1 759, while the Industrial Index shed one point to 4 623. The Overall Index gained 10 points to 4 055.

Strong foreign demand pushed De Beers R2.25 higher to R89.25. Associate Anglos lost 50c to

R144.50 while Richemont rose 85c to R43.60.

Rusplats lost 25c to R74.25 and Impala shed 75c to R54.

In gold shares, Vaal Reefs added 185 to R353, Kloof added 50c to R44.50 and Lorraine gained 25c to R11.75.

SA Breweries lost 25c to R63.25 and Rembrandt shed 25c to R26.25.

Northern Engineering Industries Ltd said a proposal is being considered which, if implemented, could affect the price of its shares and that of NEI Africa Holdings Ltd shares.

# Gold Index <sup>(7)</sup> slips 46 points

JOHANNESBURG. — Gold shares edged lower across the board yesterday as the gold price failed to make a firm recovery above \$370.

"It's been a messy day," a dealer said.

Prices suddenly started to slide mid-afternoon as a result of what dealers said was a big financial rand order from the US.

"That boosted the finrand from 4,74 to the dollar to 4,66, which put downward pressure on prices, but it soon returned to 4,70, stabilising things by the close," a dealer said.

The gold price sell-off overnight was bound to happen, dealers said. "Gold couldn't stay in that narrow range," said one.

The Gold Index lost 45 points, or 2,6%, to 1714, while the Industrial Index shed nine points to 4614. The Overall Index lost 37 points to 4017.

Leading counter De Beers came off R2,25 to R87 in late trade while associate Anglos lost R4 to R140. Richemont shed 60c to R43.

In gold shares, Vaal Reefs lost R1 to R349 and Kloof also lost R1 to R43,50.

Platinums also lost ground, with Rusplats shedding R1 to R73,25 and Impala lost R1 to R53.

Industrial group Barlows lost R130 to R41 while steel giant Iscor added 2c to R1,41 after its recent dip on lower annual earnings.

Absa added 10c to R9,90.

● Unidev Consolidated Holdings Ltd and Unidev Ltd said proposals are being considered which, if implemented, could affect their share prices. — Reuter

## Closing gold prices

(In \$ an ounce)

NEW YORK:

369,10/369,60

LONDON:

368,70/369,20

Fixing am: 370,05

Fixing pm: 369,25

ZURICH:

367,50/370,50

— Reuter

JOHANNESBURG — Shares made steady gains in thin trade after an uncertain start on the Johannesburg Stock Exchange. Finishing well up on the previous day's close despite a lack of fresh factors.

Dealers said gold shares made gains on the back of a steady gold price with buying at current lower levels the result of bargain hunting rather than any great bullish enthusiasm, while industrialists were driven by a shortage of available scrip.

"Volumes will be thin again," dealer said.

The Gold Index ended 42 points higher at 1747, while the

# Fillip for gold index as price firms up

Industrial Index rose 18 points to 4633. The Overall Index added 25 points to 4035.

Leading counter De Beers came off slightly but ended 25c up at R37.25, while associate Anglo rose R2 to R142. Richemont continued to show strength adding 55c to R43.80.

Industrial group Barlows which plans to unbundle its main consumer and electronic assets, continued to sear, losing 50c to R40 after a 65c

gain earlier in the day. SA Breweries added 50c to R63.

Food group Tiger Oats lost 75c to R37.25 on poor sector sentiment, while Consol added 50c to R37 after improved year results.

Quality gold share Yael Beers aimed R7.50 to R357, Kloof added R1.75 to R44.50 and mar-ginal mine Loraine rose 25c to R11.75.

Highveld Steel added 25c to R13.25 and Iscor rose one cent

to R1.44 on improved sector sentiment.

On the New York Commodities Exchange, comex gold closed firmer, near session highs, as funds began trickling back into the market as buyers, traders said.

Most-active December ended \$2.40 higher at \$375.70, near the top of the \$375.50 to \$373.30 range set early in the session. Volume was estimated at 21 000

lots, compared with Monday's official volume of 17 076.

"We had good fund buying all day long," said one trader. "We've been waiting to see the hot money come back in, and we're seeing it filter in now," he added that the trade was a seller into the modest rally.

Nymex platinum ended flat after a featureless day devoid of fundamental news or moves by major players, analysts said.

Most-active October platinum

ended down \$0.10 at \$383.80 an ounce, trading between \$385.50 and \$382. December palladium finished \$0.05 lower at \$124.55 an ounce, trading between \$126 and \$124.

Analysts said platinum was largely dominated by locals with the market generally looking to the other precious metals for direction.

They added that palladium's recovery from last week's sell-off seems to have stalled. One trader said buy stops are thought waiting above \$126.50 the top of a gap on the charts formed during last week's tumble. — Reuter

1974

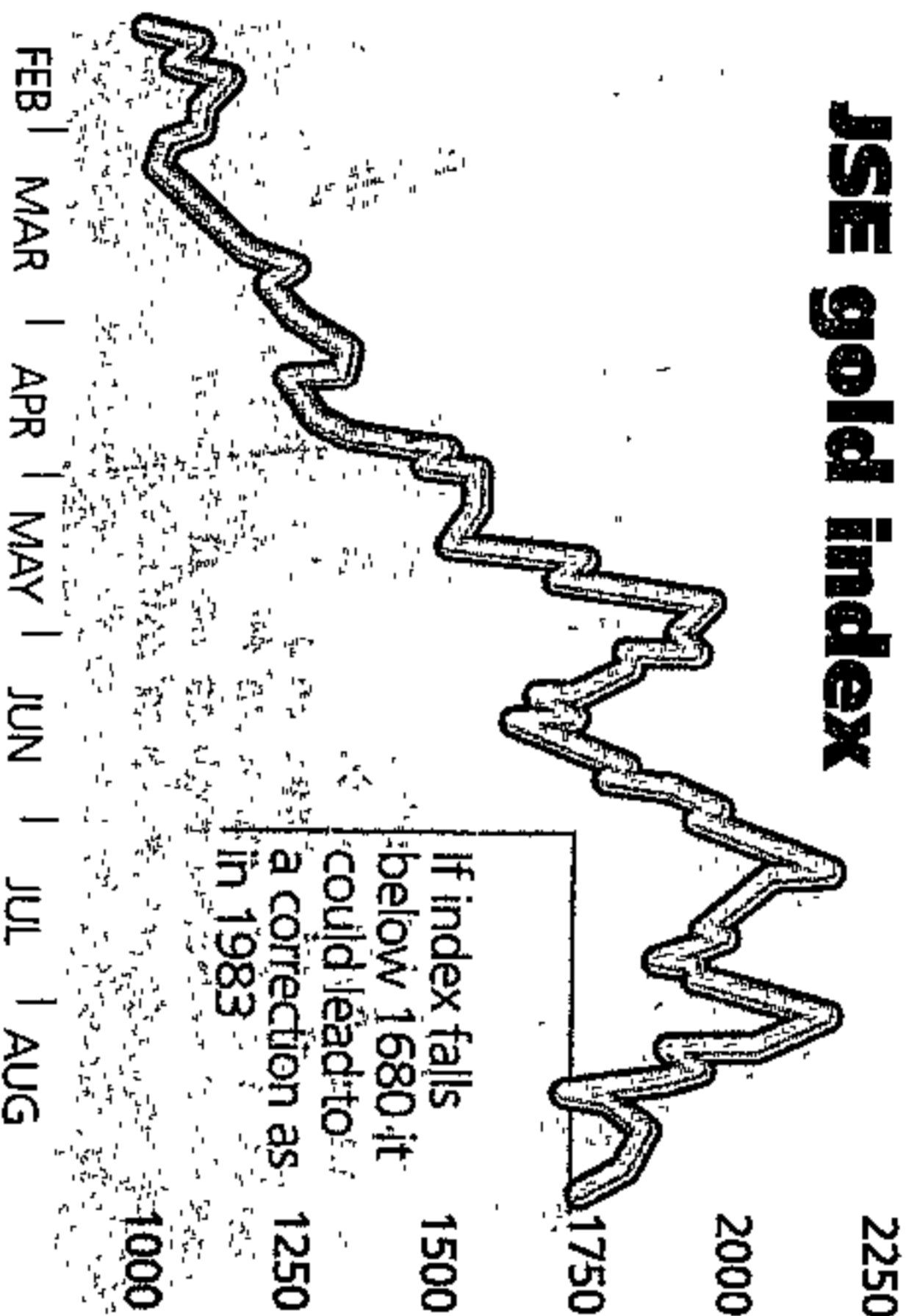
*Worse before better, say many analysts*

# Gold shares on knife edge

Stear 1/9/93

**INVESTORS are anxiously awaiting the end of gold's correction phase. When it comes, will the next move be up or down?**

## JSE gold index



### ■ BUSINESS STAFF

If the gold share index falls below its August 13 intermediate low of 1667, gold shares will fall heavily.

That is the message from a prominent technical analyst. Gold and gold shares have slumped into a state of inertia. Most analysts are agreed that once the markets are reactivated, they will move rapidly. But which way will they go?

Few are prepared to commit themselves, though the majority appear to believe gold and gold shares will move lower before rising again. Technical analyst Issy

Bacher is non-committal on the near-term outlook, but he does offer some guidelines on what action investors should take, given various scenarios.

The most treacherous of such scenarios for those who are expecting gold to resume its bull trend in the near future is a repetition of the 1983 first-phase correction.

Bacher refers to the observations of Joseph Granville, the

If index falls below 1680 it could lead to a correction as in 1983

when the gold index rocketed up to 2 098.

"We are now deep into the first correction, prompting the questions: How far can the correction go and what is its time-span likely to be?" (79)

He notes that the 1982-83 gold run fitted the Granville Time Clock like a glove.

Accordingly, analysis of the 1983 correction could provide some indication of how far the present correction can go.

The 1983 correction took two-and-a-half months to develop.

In the course of the correction, the gold index fell from its 1090 top to 720.

Bacher points to some of the percentage falls registered by gold shares in 1983:

- Randfontein from R180 to R130 (27 percent).
- Lesite from 630c to 380c (40 percent).
- Southvaal from R82 to R57 (30 percent).
- Vaal Reefs from R57 to R100 (36 percent).

- Lorraine from 1 100 to 560 (49 percent).
  - Western Areas from 950 to 510 (46 percent).
- Surprisingly, Bacher observes, the marginals fell no more than 10 to 15 percentage points more than a blue-chip gold share like Vaal Reefs.
- He contends that if the present correction, which has lasted a little more than a month, simulates that of 1983, the gold index could fall to 1406 (currently 1747).

By August 13 the gold index, at 1667, had, in making an intermediate low, registered a 20 percent fall from its high of 2098.

"This makes 1667 a crucial point to watch.

"A fall below this level would imply that the potential downside of gold shares could equal the extent of the 1983 falls, both in terms of price and time."

The important support level for gold to hold, says Bacher, is \$365.



# Golds gain in dull trade

**JOHANNESBURG.** — Activity on the JSE yesterday was "dull and uneventful," a dealer said.

There was a firm undertone on the market, but volumes were very low.

The Gold Index notched up a five-point gain to end at 1 752. But the Overall Index was down six points at 4 028 and the Industrial Index declined five points to 4 628.

The gold price was hovering around recent levels but the market did not know if it would hold or whether another selling spree would kick into

place, he said. "It is difficult to get trade in the gold shares going."

Shares were mixed on the gold board, with Vaal Reefs down R2,00 to R354,00, while Western Deep gained 50c to R156,50.

Mining financials and holding companies' shares were steady, with buying interest at the lower levels.

But there was no corporate activity. De Beers fell 25c during the day to end at R87,00 and Anglos lost 50c to close at R141,50. (79) CT 219793

# 'Bullion demand to soar by 1997'

79 CT 2/9/93

By ARI JACOBSON

BY 1997 demand for gold bullion will have outstripped supply to such an extent that "jewellery manufacturers will be knocking on the door of central banks" according to Anglo-American's gold division chief Clem Sunter.

Speaking yesterday at an Investment Analysts Society mid-day meeting Sunter's bullish outlook was an overview for the main topic — that of Anglo

American's Moab project, which could, bring in as much as R14bn in foreign exchange over the life of the project.

Full production was expected in the year 2003 and was estimated to cease in the year 2024.

The latest technology is to be introduced on this project such as ice technology instead of water reticulation, radars to forewarn of underground hazards and diamond wirecutters

to remove slabs of reef instead of the antiquated blasting methods. This would also "allow for cutting around the clock".

Sunter said that this project would "give a vote of confidence to the entire gold mining industry".

He said some 5 000 jobs would be created directly and "many more indirectly".

Vaal Reefs regional GM Nap

Mayer said capital expenditure so far had been far less than that budgeted for — totalling R200m against the forecast R400m at this stage.

Main shaft production was expected to start in 1997 and sub-shaft production by 2000.

"We are betting on a much tighter gold market by 1997," which Sunter said was based on a widening gap between demand and supply.

# Gold shares poser looms for investors

79

ARG 2/9/93

**Business Staff**

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That's the message from a prominent technical analyst.

Gold and gold shares have slumped into a state of inertia. Most are agreed that once the markets are reactivated, they'll move rapidly. But which way will they go?

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The most treacherous of such scenarios for those who are expecting gold to resume its bull trend in the near future is a repetition of the 1983 first-phase correction.

Mr Bacher refers to the observations of Joseph Granville, the internationally acclaimed stock market analyst of the 1980s, who

demonstrated how most bull markets go through a predictable cycle of three phases.

The first phase is of short duration, lasting between six to nine months.

Mr Bacher believes it is now clear that the present gold bull market's first phase extended from mid-January to July 30, when the gold index rocketed up to 2098.

"We are now deep into the first correction, prompting the questions: How far can the correction go and what is its time-span likely to be?"

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"A fall below this level would imply that the potential downside of gold shares could equal the extent of the 1983 falls, both in terms of price and time."

The important support level for gold to hold, says Mr Bacher, is \$365.

# Gold price slides \$7

GOLD lost \$7 to close at \$363,75 in New York last night. Earlier in the day, gold closed at \$363,75 in London, \$6 down on the afternoon fix.

On the New York Commodities Exchange, comex gold closed sharply lower, but with pared

losses, as shortcovering and profit-taking helped the market make a moderate recovery (79)

December gold settled \$6,30 lower at \$366,30.

Meanwhile, on the JSE, shares drifted to a lower close in thin trade.

CT319193

"It's a market that's lacking any clear direction and just waiting for a signal to push it either way," a dealer said.

Dealers said there was no major selling, but a featured loss of the day was the developing Northam Platinum, which dipped 75c, or 8.6%, to a new year-low of R8 on continuing negative sentiment over production problems.

The Gold Index closed 30 points lower at 1722 while the Industrial Index shed seven points to 4620. The Overall Index lost 17 points to 4010.

The Liberty Life Group's industrial investment arm Libsil was steady at its R9,25 debut, 25c above the issue price, with sellers asking R9,30.

Leading counter De Beers was unchanged at R87 while associate Anglo, like most mining houses exposed to gold, retreated, losing R1,50 to R140.

Oil and chemical company Sasol lost 10c to R19,25. Safren lost 25c to R77,50 ahead of annual results next week.

In gold shares, Vaal Reefs shed R4,50 to R349,50 and Kloof lost 75c to R43,75. — Reuter

## New highs

	PRICE	PREV
A:ALPHA	3950	3900
BEARMAN	750	560
AFCOL	950	900
WOOLTRU-A	8300	8200

JOHANNESBURG. — A slight improvement in the gold price after Thursday's overnight dive steadied but failed to lift gold shares, which ended sharply lower on the JSE.

"We're still in very nervous territory," a dealer said, referring to the gold price's short-term direction.

"It could move lower to the mid-\$350s and if it doesn't break through \$370 again, it fall back to the mid-\$340s," a dealer said.

Dealers said rumours of Russian gold sales were not helping the market, but said it was clear that prospects for gold to go better on overseas inflationary concerns had dimmed.

Latest indicators showed that the US economic recovery was sluggish, they said.

Industrials came off in quiet trade as negative sentiment spilled over and dealers said there were no few fundamentals for a turnaround.

The Gold Index lost 77 points, or 4,5%, to 1 645, pulling the Overall Index down 55 points to 3 955. The Industrial Index shed 21 points to 4 599.

Leading counter De Beers came off

## Gold's tumble in jittery trade

(79)

CT 4/9/93

R1 to R86 while associate Anglos, which is heavily exposed to gold, lost R7,50 to R132,50. Its gold arm Amgold dived R19,50, or 6,1%, to R297.

Platinums lost ground, but P P Rust which was officially opened yesterday gained 25c to R16,75.

In gold mine shares, Vaal Reefs lost R17,50 to R332, Kloof was R1,50 lower at R42,25 and marginal mine Loraine fell 85c to R10,65.

Libsil was steady at its Thursday's debut price of R9,25, 25c above the issue price, while oil company Sasol gained 25c to R19,50 as the market digested improved year results.

● **Dimension Data** said yesterday it had acquired a 25% stake in the Digital Networking Holdings group, including its subsidiaries, Digital Networking and Choice Communications, for an undisclosed sum.

The acquisition is effective from September 1. — Reuter

# Gold industry's fortunes hang on a shrinking rand

BIDAY 7/19/93

ANDY DUFFY

THE gold industry would have to rely on the rand's continued shrinkage rather than an expanding gold price to lift earnings for the rest of this year, industry sources said yesterday.

Though the dollar gold price was thought unlikely to retreat much further after last month's bleak performance, industry sources said a renewed upward assault from bullion was also out of the question.

The metal, which closed in London yesterday at \$364,25, was judged to be approaching a floor.

Commentators said a month at current levels could persuade buyers that stability had returned, prompting a revival in physical demand.

But the speculation, predominantly from the US, that had propelled the metal toward \$410 in July had disappeared, they said.

Though several sources believe gold fundamentals remain favourable, hopes for higher mining house revenues were pinned on the rand's deterioration.

"The only momentum carrying the industry is the rand's appalling efforts against the dollar," said one senior industry source.

"The confidence in gold has gone and the market is very much in the doldrums."

The volatility last month which outfoxed most commentators has splintered market opinion on the metal's next move.

According gold index and gold price charts compiled by Mathison & Hollidge analyst Rob Gillan, the gold bull actually departed in mid-May, leaving the field open to speculators.

But Fergusson Bros analyst Trevor Pearton said European currency turmoil in July had led gold to overheat, forcing the current "overcorrection".

A senior industry source cautioned

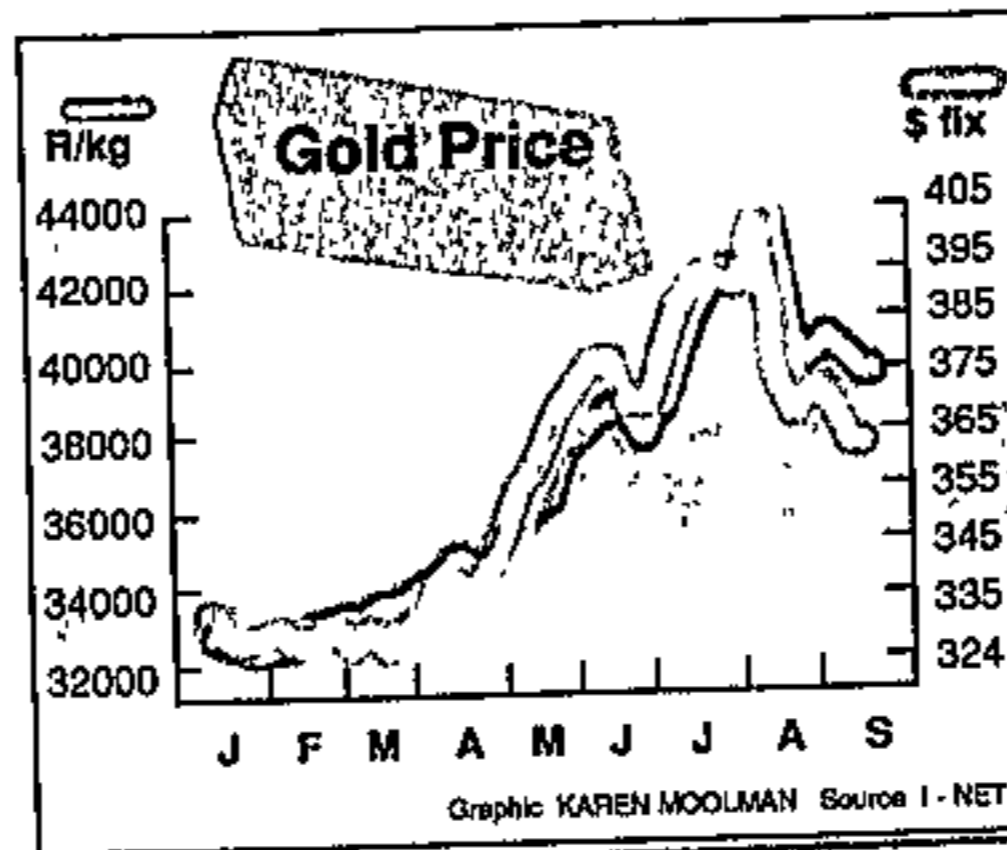
that gold's fortunes hung on the behaviour of "long" buyers on New York's Commodities Exchange (Comex). "It's in equilibrium, unless they decide to leave the party," he said. "And who in Johannesburg understands the mentality of the New York Comex?"

(79)  
With the rand gold price — which yesterday stood at R39 621,50/kg — still at end-June levels, sources said it was too early for mining houses to reshelve projects dusted off when the metal was rampant.

But it was likely companies would take their cue for such schemes from Gengold. The Gencor-owned company has opted to push ahead with schemes that can be switched off quickly should the market turn against it.

The metal's decline was also not expected to trigger a mass reversal in the new hedging policies unveiled by much of the industry in the June quarter.

Anglovaal finance and administration manager Rick Menell said the company's policy of unravelling forward positions would continue. Anglo American said its hedging policy remained "intact."



# City council can't reverse rates hike

Staff Reporter

THE city council cannot reverse its controversial decision on new rates structures for home-owners and submit to calls for a moratorium.

This was announced yesterday by exco chairman Mr Louis Kreiner as the row took another turn.

The move follows Monday night's statement by Western Cape DP leader Mr Hennie Bester after a meeting between the DP and its council caucus that the council would "certainly" back down.

Mr Kreiner said exco would today meet Cape Administrator Mr Kobus Meiring to discuss the relevant municipal and valuation ordinances. "These ordinances effectively prevent the council from taking dramatic action," he said. DP caucus leader Dr John Sonnenberg said proposals to soften rates increases of up to 300% were put to exco following a "tidal wave of public outrage".

## Special fund

But Mr Kreiner said unless the law was changed "the council cannot legally declare a moratorium".

Exco will recommend at this month's council meeting that a special fund be created to assist those pensioners hardest hit by increased rates.

A spokesman for the Administrator said that Mr Meiring lacked the authority to change an ordinance but "believes there are ways to get around the ordinances and alleviate the problem".

Newlands Ratepayers' Delegation spokesman Mr Dave Erleigh last night said ratepayers from the "greater Claremont" area had joined forces to launch the Southern Suburbs Ratepayers' organisation, which would call for urgent meetings with mayor Mr Clive Keegan and Mr Meiring.

Over 30 representatives from Cape Flats' ratepayers associations, civic and labour organisations and businessmen, said last night they were outraged by the DP caucus' decision as this meant the poor would continue to subsidise affluent ratepayers.

## Gold, rand values down

GOLD bullion tumbled to a \$351,55 close in New York last night, dropping \$12 on Monday's trading levels.

The finrand lost eight cents to the dollar to close at R4,81/\$ from Monday's R4,73.

And the commercial rand crossed into dangerously low territory at R3,4045 to the dollar.

The recent softening of the gold price was reflected in a further fall in SA's critical gold and foreign exchange reserves. But a glimmer of good news offered some relief — new car sales rose 15% and business confidence registered a fillip.

CT 8/19/93  
● Full reports — Pages 8 and 9

## SA poised to press Sri Lanka

From NEALE EMSLIE

COLOMBO. — South Africa fell 20 runs short of their target of 300 by the end of play on the second day of the second cricket test yesterday.

But skipper Kepler Wessels was satisfied with their progress. "We'll be able to put the pressure on the Sri Lankans tomorrow," he said.

South Africa has eight wickets in hand and a lead of 102.

● Runs pile up — Back Page

Disastrous day for the rand

# Gold's plunge sends markets into turmoil

Monday 8/9/93

79

TIM MARSLAND

MARKETS took a battering yesterday as gold succumbed to a barrage of US-based selling, forcing the metal down \$13,30 to \$350,55 in New York, from Friday's \$363,85 close.

Earlier in London, gold slumped \$10 to a four-month low of \$353. It was fixed in the afternoon at \$354,80, from Monday's \$364,25, and closed at \$353,78.

Gold was steady in early London dealings, but fell in the afternoon in line with the heavy US selling. Platinum tracked gold, shedding \$10 to trade at about \$363,50. After US markets opened the metal quickly tested its lowest levels since mid-April.

Gold broke through successive chart resistance levels, on which market watchers based buy and sell signals. "It looks like the (bullion) bubble has burst. The charts, everything, looks sick," a dealer said.

AP-DJ reports that an analyst said the recent precious metals rally had been largely paper driven and that paper was now being liquidated. A recent wave of reports indicating sluggish US economic growth had reduced physical demand.

Dealers had come into the New York market yesterday after Monday's holiday and sold silver — a precious metal with industrial uses, the analyst said — and dragged down all the precious metals.

On the JSE, shares finished broadly lower as the plunge in bullion tore into the gold board, dealers said. The all gold index

fell 64 points or 4% to 1 589, dragging the all share index down 45 points to 3 907. The industrial index eased 11 points to 4 580.

The commercial rand ended what one dealer called "a disastrous day" at a new record low against the dollar, after sustained intervention by the Reserve Bank failed to stem the fall through the psychologically important R3,40 level. The rand ended at R3,4023, just off its low of R3,4075 and down from Monday's R3,3823 close.

Dealers said there had been sustained selling of the rand by importers, who then buy dollars to pay for offshore purchases.

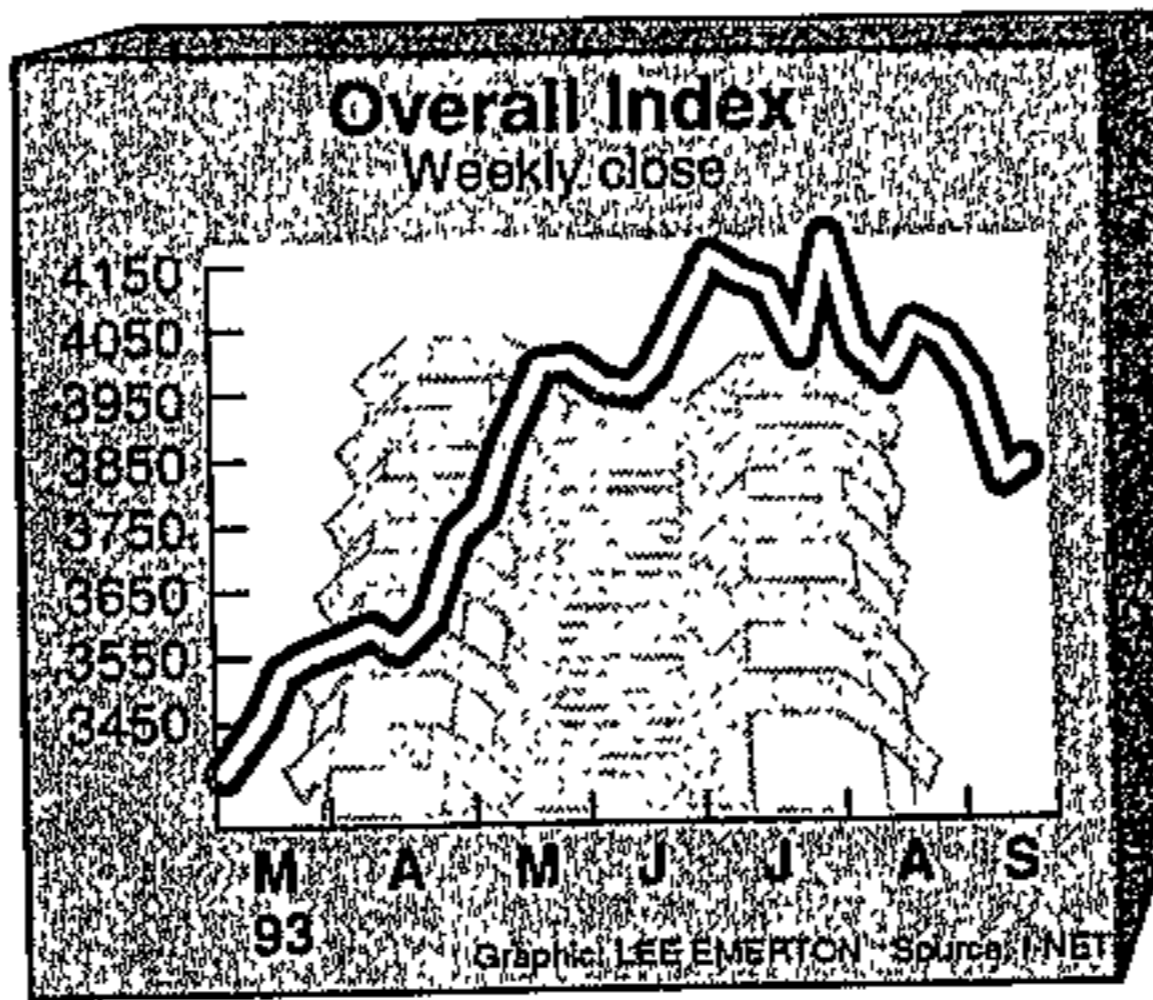
One dealer said it appeared that there were still local corporates who had not yet taken out forward cover and these were active in the market now. This appeared to be behind the demand for dollars.

The financial rand was also weaker, ending at R4,8150 from R4,7425.

Meanwhile, the capital market shrugged off the day's developments, continuing the bull run started on Monday. The key Eskom 168 closed at a yield of 13,60% from 13,68%, while government's long-dated R150 ended at 13,59% from 13,67%.

Dealers said there seemed to be a large player actively buying up stock. They speculated it could be the cash-flush Public Investment Commissioners buying stock on behalf of government's pension fund.





## Dealers hopeful as gold bounces back

TIM MARSLAND

GOLD shares rebounded on the JSE yesterday as a rise in the London gold price calmed the otherwise jittery market.

The all gold index claimed back 77 points to close at 1 553, but industrial shares were not in favour, with the index shedding 14 points to 4 512. The overall index picked up 37 points to 3 841.

In New York gold jumped \$3,05 to close at \$354,30. It rose \$1,90 in London to close at \$353,95.

Some dealers were cautiously optimistic that the worst could be over and gold would start to recover. Others said the bull run in gold was over.

"Gold broke through every resistance level with no trouble at all. The bull run is well and truly over," one trader said.

Bullion traders said a cut in German interest rates had helped gold off its lows, as had the weaker dollar.

There was talk that the Soros Management Fund had bought shares of US gold mining company Homestake Mining during the second quarter, but the market had shrugged this off.

The commercial rand recovered from its record lows with continued support from the Reserve Bank. The unit ended at R3,3993 to the dollar from R3,4143.

The financial rand benefited from the recovery of gold shares, ending at R4,83 from R4,87. It was announced yesterday that the finrand would be traded on a two-day settlement basis from September 24, in line with the commercial rand as opposed to the present pre-set account dates.

Bullish sentiment remained intact in the capital market. The key Eskom 168 long bond ended at 13,47% from 13,50%.

BIDAY 10/9/93  
(79)

# Billion bounces off lows

CT 1519193

79

LONDON. — Gold bounced off its morning lows following the release yesterday afternoon of higher-than-expected US inflation data which caught the market a little short, dealers said.

Gold closed in London at \$345.00, \$45.50 an ounce ahead of the earlier setting of \$342.05. In New York gold ended at \$344.75/\$345.25.

The data sparked off a bit of

buying, but it was basically a catalyst for the shorts to cover," one dealer said.

However, dealers said that despite the brief price jump they expected gold to come under further selling pressure.

Some were still forecasting a slow drift down to test the March lows around \$325/\$330.

In New York nymex platinum was flat and range-bound early

after a disappointing opening, analysts said.

Platinum in contrast to the others, was unaffected by the inflation data, remaining flat at \$350.50/\$351.50, just below yesterday morning's six month low fixing of \$351.50.

Palladium was also weaker, last trading at \$115.50/117 as the industrial buyers noted earlier faded away. — Sapa-Reuter

# Billion plummet to six-month low

79

THE downward movement in gold intensified yesterday. It closed at \$343,70/344,20 an ounce in London — its lowest level since April — and dropped further in New York to end at \$342,75/343,25.

Opinions were divided about its next move. Some analysts said this was a necessary correction before another upward movement.

Others predicted it would plunge to the \$320 level.

Ed Hern Rudolph's gold analyst Graham-Graham-Parker said that it was significant to note that local gold shares had "held up well" yesterday even though gold shed weight from its \$351,50 fix on Friday.

The JSE's Gold Index dropped 62 points to 1482, but in very thin trade with

## Closing gold prices

(In \$ an ounce)

NEW YORK:	LONDON:
342,75/343,25	343,70/344,20
ZURICH:	Fixing am: 348,25
347,00/350,00	Fixing pm: 344,20

no sign of panic selling.

However, Reuter reports that dealers in Zurich were less optimistic one pointing out that "it is very disappointing that the rally to \$356 last week failed and since then there has been no follow-through buying."

Pessimism ensued in London, where technical analyst Stephen Rafael forecast that "gold could now fall to test the year's low around the \$320 level." He hopes the gold market would end last

week reasonably stable were dashed when US producer price data for August re-confirmed that inflation, against which gold traditionally has been a hedge, was under control in the US.

However Santam's GM, Investments, Roy Justus, in his Economic Review released yesterday, forecasts a gold price "of more than \$400 an ounce in the year ahead with the \$450 level being quite possible."

Platinum plunged in line with gold trading just above \$350 in New York, compared with Friday's \$356.

Silver fell 3c to cling to the key \$4 level, helped by bargain hunting at the lower levels.

The JSE's Overall Index ended 22 points down at 3824 yesterday and the Industrial Index was trading three points off at 4535.

CT/4/9/93

# Gold edges up but 'expect consolidation'

By AUDREY D'ANGELO  
Business Editor

THE gold price began to edge up again yesterday to close at \$347.45 an ounce in London and at \$347.75 in New York.

SA analysts and portfolio managers said it could be consolidating before another upwards move.

Board of Executors portfolio manager Ryk de Klerk pointed out that Tuesday's fall to \$342 an ounce

had "brought it back to the previous break-out level.

"Technically it looks very good. The mining houses have already indicated that physical support is coming through at the lower level."

De Klerk said he would expect a period of consolidation before going higher. He pointed out that very few SA gold shares had been sold by Americans. This indicated a positive attitude towards gold.

Gold analyst David Giese of Davis, Borkum, Hare said he was "disappointed but not downhearted" by the return of gold to lower levels.

There had been good physical demand for gold at these levels a few months ago, particularly from the Chinese. He expected renewed demand.

He expected gold to move up again "but not at the same rate as it did before."

The authoritative Gold Service gold mining newsletter, published in the UK, says that overall the SA gold mining industry has sold 171,800 tonnes forward, equivalent to 28% of annual production.

It says most of the major producers in each country "increased or at least replenished their hedging positions during gold's rally in the second quarter."

Although hedging in recent

months meant limiting profits rather than downside protection "it appears that most producers will continue to hold stable positions in the forward market.

"Some producers have moderated or altered the type of their forward exposure accordingly, but they remain an important part of the gold market.

"This is perhaps justifiable given gold's latest retreat."

GOLD SHARES  
**Roller coaster**

fm 17/9/93

(79)

Investors are understandably shell-shocked after the 30% collapse of the All Gold index from its July high of 2 149 to Tuesday's 1 492, triggered by the 15% slide in the gold price over five weeks. But it's not all gloom.

The gold price has gone through an expected correction which turned out much more severe than forecast. Most JSE gold analysts believe the long-term bull trend is still intact, though resumption of growth could be delayed by a few months.

The shares took off from the All Gold index's low of 743 last November for two reasons: the dollar gold price surged; and the rand weakened during this period, instead of appreciating as it usually does when gold strengthens. This combination pushed the rand gold price from below R1 000/oz to highs above R1 300/oz. While the dollar gold price has plunged, the weak rand has cushioned gold mine revenues.

The ruling price around R1 180/oz is still about 20% above the level of the previous four years. That's enough to make a major difference to the mines and lift them out of their depression, says Fergusson Bros analyst Trevor Pearton.

Ed Hern, Rudolph analyst Grahame Graham-Parker says at R1 180/oz, only 1,3% of SA's gold output is produced at a loss. At R1 050/oz, this would rise to 8%. Graham-Parker says if R1 180/oz is maintained for 12 months, gold mine earnings will be 40%-

fm 17/9/93

200% higher — depending on gearing of individual mines to the gold price — than at a price of R1 050/oz.

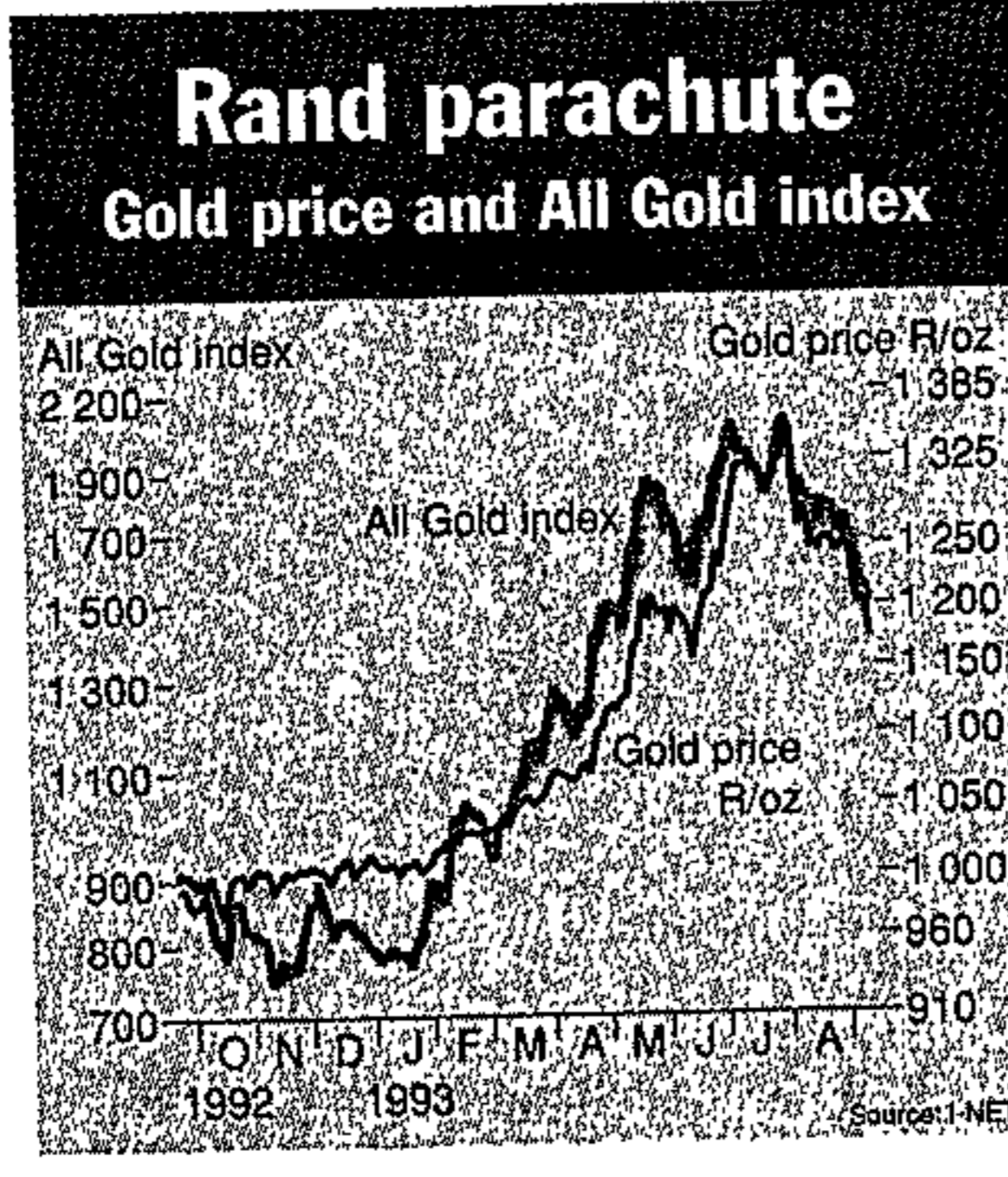
He points out the prospective yield on the All Gold index, should a price of only R1 100/oz be maintained for a year, is about 5,1% compared with a current yield of 4%. Relative to the industrial market, that's attractive. The September quarter should return some bumper results, with the average gold price for the quarter expected to be about R1 250/oz. (79)

Still, the market has dealt savagely with the shares across the board. Analysts appear hesitant about putting out buy signals. Blue-chip Driefontein, which will stand up far better to a lower gold price than marginal producers, has dropped 31% from the year's high. Recovery stock Western Areas is down 27%, while marginals Loraine and Harmony have fallen 40%. Deelkraal was particularly harshly treated, its price dropping 49% before firming on Tuesday to end up 44% below the year's high.

"The gold price rise was triggered by the activity of the commodity funds and that bubble has burst. With the funds now pulling out of the market, the gold price should be less volatile," says Pearton. "However, the trend is against gold and gold shares and it could take a few months for the market to settle down. I believe gold will consolidate above present levels and start to rise again. Share prices will move up as well, but we will not see a repeat of the growth of the past year," says Pearton.

Graham-Parker believes investors should wait for a clearer trend in the All Gold index. This could take a while to emerge because it's going to take some time for the physical gold market to stabilise.

Brendan Ryan



GOLD

Fri 17/9/93

# Hoping for a bright Christmas

79

The paper-driven, minibull market seems to have stumbled over dwindling physical demand. So whither gold now? As bullion groped for the next "resistance level" of US\$340/oz at the start of this week, the answer hinged on what sort of a Christmas is expected by jewellers in the US and Europe and New Year in Japan.

American commodity funds, their imaginations fired by the commitment to gold (in the low \$340s) by those international high rollers George Soros and Sir James Goldsmith, aggressively pushed the price through a series of technical levels to \$406. And, since its failure to hurdle \$410, they and their computerised investment programs have progressively hammered gold through the supports as stop-loss orders triggered in the US options and futures markets.

As long positions on the New York Commodity Exchange were unwound in all the precious metals, silver fell by 12%, outstripping the 6% decline of gold and the 5% wilt in platinum and palladium.

The markets have been here on a fairly regular basis over the past decade. Since the really big swings of 1979-1982, the average annual high-low range of the gold price has been \$81/oz — with 1992's \$29,40 making it the most placid year in absolute terms since the early Seventies. Hence 1993's rally was remarkable only by comparison with last year.

What is different about 1993 are the re-

followed in the next three months.

In its first-ever half-yearly update and unprecedented forecast, another industry-sponsored group, Gold Fields Mineral Services (GFMS) showed a 9.5% drop in demand to 1 718 t in January-June, compared with the same period in 1992.

The big number was jewellery, down 96 t (7%), followed by other non-fabrication demand (bar hoarding, investment and gold loans) which fell 65 t (20%).

Another first was the GFMS forecast of a drop of 7% in the year's jewellery demand to 2 492 t, a hiccup in 10 years of unbroken growth. This has not happened since 1982, when the jewellery sector's offtake fell to 851,2 t, in the wake of the last global recession. Overall, GFMS puts 1993 demand about 6% lower at 3 284 t, with a matching droop in supply — posited on central bank sales shrinking 37% to 368 t and forward sales virtually vanishing to 20 t from 150 t.

Even so GFMS at the time (August 25) suggested that, while \$400 had looked too high in the light of the economic outlook, "in reality, a price range of \$370-\$400 is probably not far out of line with the prevailing equilibrium price."

Of course, that is a matter of opinion. Ted Arnold of Merrill Lynch, almost lone voice, who consistently warned that this year's rally would "end in tears", puts the "true equilibrium" at \$300-\$340.

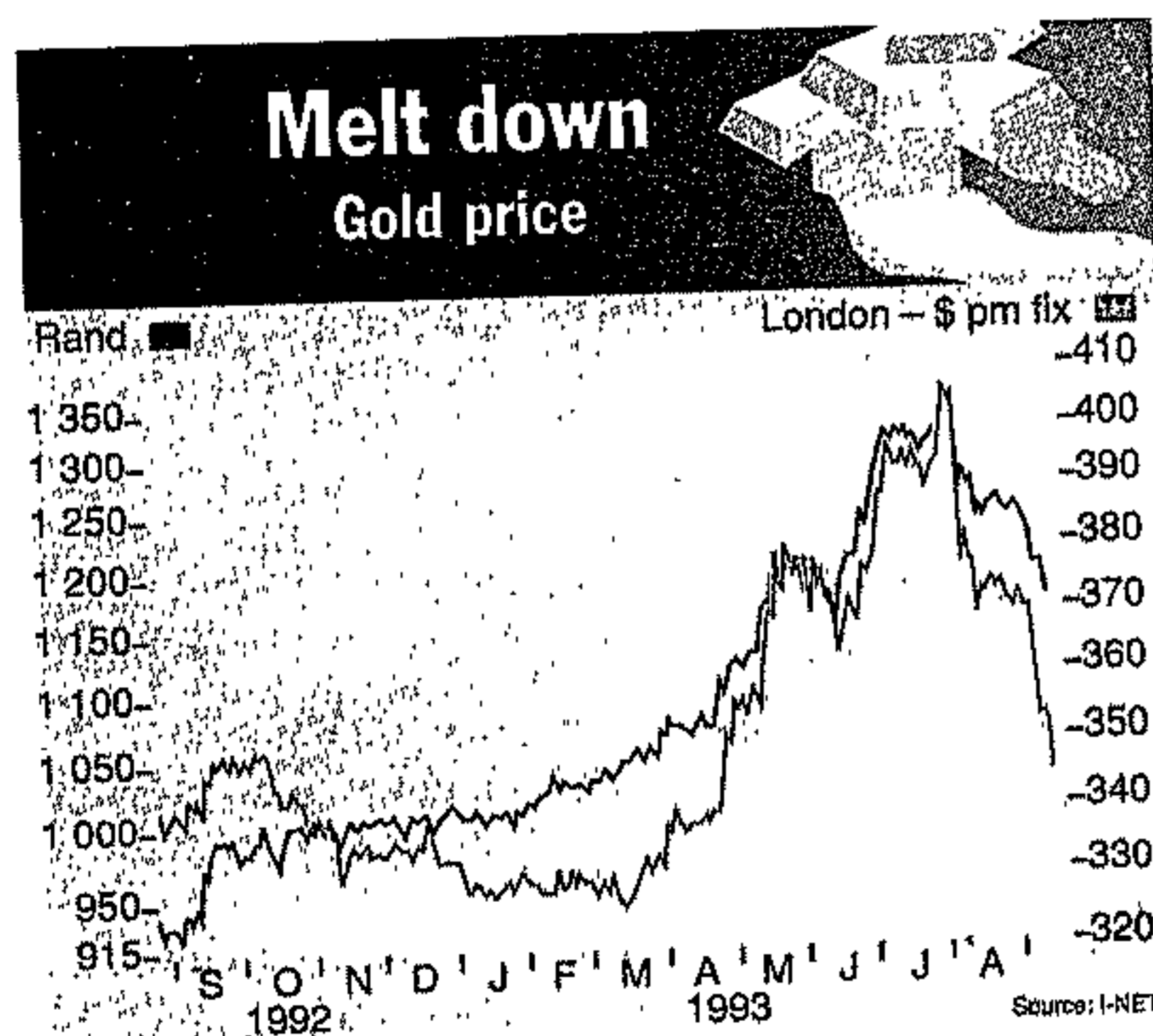
But most analysts voice the view that jewellery restocking for the Christmas season will provide a price buoy in the second half — perhaps to \$400 with no retreat to \$325 expected.

That flies in the face of the prediction by GFMS (funded by GFSA, Newmont of the US and Renison of Australia), which implies that the current six months will see a further cut in jewellery demand to 1 240 t — down 12 t on the first half and 87 t below the second half of 1992.

The economic outlook remains gloomy, even with the pick up in the US, Britain, Canada and Australia. Total OECD growth this year may be less than 1%, which is what it

was in 1991, when the recession was strictly an Anglo-Saxon affair.

There are signs of the tide turning in Germany, the main drag on Europe, but it has to flow much stronger to change forecasts of a 2.4% fall in GDP this year; and the recent 2.2% improvement in industrial pro-



cession in Europe and Japan and the feeble recovery in the Anglo-Saxon economies which is blighting the physical market. After the 24% increase in physical sales (in markets that account for 75% of consumption) recorded in the first quarter by the World Gold Council, it now seems that a slump

# Gold gives shares temporary relief

JOHANNESBURG. — A short-lived gold price rally in mid-afternoon to above \$355 an ounce offered temporary relief to a generally weaker JSE but had little effect on overall price levels, dealers said.

The Gold Index was 11 points lower at 1 647, but it was still 6,8% higher for the week. The Industrial Index ended 12 points lower at 4 520.

The Overall Index finished 14 points lower at 3 848 as the majority of its constituents drifted lower, with market leader De Beers posting its third consecutive decline in losing 50c to R79,50.

Associate Anglos shed a rand to R131, Richemont lost 30c to R42 and SA Breweries was 40c lower at R61,60. Lonrho managed a five cent gain to R8,65.

Anglovaal rose a rand to R83 after reporting a earnings and dividend rise to end-June. Sasol shed 25c to R19,50.

Bankers were mixed as Firstbank rose 50c to R76 and Investec added 50c to R32. Nedcor lost 25c to R21,75 and Absa shed 15c to R8,75.

In golds, Vaal Reefs was R2,50 firmer at R315 and Kloof shed 50c to R45. Rusplats added 50c to R66,50.

# Lower gold price drags down SA trade surplus

Business Editor

SOUTH Africa's trade surplus continued its downward trend in August as the gold price eased. It slipped to R1,84bn from R2,06bn in July and a record R2,3bn in June, as exports dipped and imports rose.

But it is still above the surplus of R1,76bn in August last year.

Exports were R7,14bn compared with R7,25bn in July and R6,41bn in August last year.

Imports were R5,31bn compared with R5,19bn in July and R4,65bn in August last year.

The surplus in the first eight months of this year totalled R13,27bn compared with R11bn in the same period last year.

Exports totalled R51,38bn compared with R44,85bn. Imports totalled R38,11bn compared with R33,85bn.

SA Foreign Trade Organisation (Safto) economist Carlos Teixeira said that although the drop in exports was disappointing, the surplus was still healthy. Exports had grown steadily for the previous four months but had "lost pace" in August.

However, Safto's latest survey of exporters, based on forecasts for the next 12 months, had shown that confidence was at its highest level since the fourth quarter of 1991.

Teixeira pointed out that the average gold price in August was 3,2% lower than in July. In spite of this,

exports in the unclassified category, which included gold, were still 22% higher in the first eight months of this year than in the same period last year.

But growth in the precious stones category was down to 32% for the first eight months compared with 46% for the first seven months.

The mineral products category continued to be affected by the poor state of the international mineral commodities market. "After reaching growth of 18,9% in the seven months to July it has dropped to 8,8% in August," he said.

"Base metals showed a positive growth of 2% for the seven months to July and the slight uptick in the demand for semi-finished steel products is reflected in a slight increase to 2,7% for the first eight months of the year.

"However, the markets for the metals used in steel, such as ferrochrome, remain poor due to oversupply.

"Export growth in the machinery and transport equipment sectors remains high at 27% and 21% respectively, for the first eight months.

"Imports in the unclassified category, which includes oil, were five per cent lower than in the first eight months of last year. In July they were 13% lower than in the first seven months of last year."

Nedbank chief economist Edward Osborn and Sanlam chief economist Johan Louw said they had expected a drop in exports in August because of the lower gold price.

17/8/93

79



## Krugerrands to be relaunched abroad

KRUGERRANDS would be relaunched abroad next month, starting in Germany, the Chamber of Mines said yesterday.

This follows an eight-year hold on promoting the coin in world markets because of sanctions. Despite sanctions, and the advantage given to competing coins from Australia, Austria, Britain, Canada, Mexico and the US, the Krugerrand as a brand had retained remarkable strength in its historical markets, the chamber said in its latest newsletter. *B/Day*

In Germany, for instance, 18% of the population owned at least one Krugerrand, and 56% of adults knew of the coin without having to be prompted. *21/9/93*

With 45,7-million ounces of gold sold in the form of 53,7-million coins in four denominations, the Krugerrand's circulation was double that of all its competitors combined, the chamber said.

At current values, Krugerrand sales since it was launched in 1967 have earned SA R70bn.

The relaunch follows a jump in world gold prices from a seven-year low of \$326/oz in March to \$409 on August 2, and the subsequent relapse to current levels just below \$355. *(79)*

It also follows a marked drop in interest in gold coins in recent years, coinciding with a slump in the bullion market and better returns on alternative investments.

Senior chamber GM Dan Pollnow said although the gold price had shown less cause for excitement recently, he was optimistic over conditions for the coin.

The chamber said the German relaunch would focus on the coin's ability to safeguard existing wealth, with this role being reinforced by uncertainty linked to eastern European developments. — Reuter.

# Gold breaks through \$370 mark

GOLD punched through \$370 in London yesterday, propelled by speculative activity and reports of physical buying (79)

It closed \$7 higher at \$372,05, as Wednesday night's New York comex rally rippled across European and Far Eastern markets. The resurgence continued in New York with gold opening at \$373,85, from the previous close of \$367,45. It was at \$373,45 in late trade.

Dealers said the rally was rooted in technical buying from US investment funds, and reports that demand from the Middle and Far East — long absent from the market — had re-emerged. European institutions were also signalling plans to take up positions in gold.

Industry sources said the metal could swiftly push past \$375, breaking out of the

B/Bay 5/11/92

ANDY DUFFY

technical trading range in which it has recently been embroiled.

"There's very good reason to feel very constructive about the market, said a senior Anglo American official.

The rally also gained momentum on fears that world markets were overheating, and rumours that international investor George Soros was selling US bonds ahead of a return to the gold market.

The JSE gold index, already enjoying heavy interest prior to gold's gains, ended ahead 72 points at 1798. Vaal Reefs jumped R11 to R365, Western Deep rose R7 to R163 and Kloof gained R3 to R45.

Gold's gains helped pull platinum to its highest level in two weeks at \$374,50, and silver rose to \$4,43 (\$4,34).

# Gold continues

## surprise surge

Star 6/11/93

**DEREK TOMMEY**

THE surprise rally in the gold price continued yesterday, and the metal price gained \$5.75 to reach \$377.75 an ounce, its highest price since August. This brought the increase in the gold price since Wednesday morning to \$14.75 or just more than 4 percent.

Rumours that George Soros, the American fund manager who set the gold market alight earlier this year, was again buying gold contributed to the rally, dealers said.

(79)  
But the possibility that the new regime in Russia might start withholding gold from the market could also have contributed to the rally.

Russia recently started issuing gold-backed bonds in a bid to mop up surplus cash in the system. It needs to retain gold to back these bonds.

Gold share prices rose strongly on the Johannesburg Stock Exchange yesterday following the higher gold price. Investment analysts point out that because of the gearing factor, a 10 percent rise in the gold price could lead to a 45 percent rise in earnings for every ounce of gold produced.

# New index for gold bugs

The Argus Foreign Service

LONDON. — The Financial Times will be launching a new gold index in coming weeks.

The new FT Gold Index will comprise 34 gold producers from North America, South Africa and Australia.

It will replace the present FT Gold index which began in 1947 and is composed of only South African producers.

It will thus become far more representative of gold share performance throughout the world.

The index will not only be a standard for gold share performance, but is likely to encourage the formation of gold share index funds.

These funds will merely track the index and have a vital impact on the performance of constituents.

In a lengthy review ahead of publication in the Financial Times, newly formed London mining brokers, T Hoare & Co have produced a booklet on the new index and its constituents.

The new index covers 15 South African gold shares, 12 North American miners and seven Australian companies.

Criteria for inclusion in the index are: sustainable gold production of 300 000 ounces a year; at least 75 percent of the revenue must be derived from mined gold; and a minimum of 10 percent of the shares should be floating freely.

Total market capitalisation of the 34 companies included in the index is \$46 billion.

This is 65 percent of the market capitalisation of total listed gold shares worldwide. The breakdown by area is a weighting of 61 percent for North America (ie Canadian and US companies), 27 percent for South Africa and 12 percent from Australia.

The North American gold shares are American Barrick, 16,9 percent of the index, Placer Dome (12,7 percent), Newmont Gold (10 percent), Homestake Mining (5,9 percent), Echo Bay Mines (3,1 percent), TVX Gold (2,9 percent), Lac Minerals (2,4 percent), Hemlo Gold (2,1 percent), Battle Mountain and Pegasus 1,7 percent each and Cambior and Royal Oak Mines each representing 1 percent of the index.

There are 15 South African gold shares. Driefontein has a weighting of 5,4 percent, Vaal Reefs

3,7 percent, Freegold 3,5 percent, Kloof 3,2 percent, Western Deep Levels 2,2 percent, Southvaal 1,6 percent, Elandsrand 1,5 percent, Randfontein and Hartebeestfontein, 1,3 percent each, Beatrix 1,2 percent, Kinross and Western Areas 0,6 percent each, Winkelhaak (0,4 percent) and Harmony and Buffelsfontein, 0,3 percent each.

Funds are also likely to divide the index into zones. American Barrick has the largest market capitalisation of \$7,7 billion and accounts for 28 percent of the North American zone, followed by Placer Dome with a capitalisation of \$5,8 billion and Homestake \$2,7 billion.

Leaders in the South African Zone are Driefontein with a capitalisation of \$2,48 billion, representing 20 percent of the area; Vaal Reefs with a capitalisation of \$1,7 billion or 14 percent, Freegold, \$1,6 billion, or 13 percent and Kloof with a \$1,46 billion capitalisation accounting for 12 percent of the region.

Placer Pacific with a capitalisation of \$1,4 billion accounts for 27 percent of the Australian zone, Poseidon (\$1,1 billion) stands for 21 percent and Homestake Gold (Aus) with \$779 million (15pc).

The new index downgrades the historic South African gold fields considerably.

The main reason is that the market applies a political risk discount to SA companies.

International investors can only buy these shares through the financial rand, South Africa's volatile thinly traded investment currency.

Regardless of the performance of the currency, South African shares for foreigners can rise or plunge because of changes in the finrand. Dividends are received via the commercial rand, after withholding tax.

Hoare projects that South African shares in the index are trading on a price earnings ratio for foreigners of 13, against 16 for Australia and 36 for North America. Market capitalisations of the North American shares are thus much higher, so their weighting increases.

Now that sanctions no longer inhibit international fund managers, the South African rating is already improving. Much, however, will depend on the government's ability to stabilise violence and to attract foreign investors.

# 'Exports alternative to gold must be found'

Business Staff

ALTERNATIVE exports would have to be found to replace gold, ANC president Nelson Mandela told international oil and minerals experts in Cape Town today.

At a conference on sub-Saharan oil and minerals, Mr Mandela said two-thirds of South Africa's gold reserves had been exploited.

Research commissioned by the ANC showed that at a price of \$350 an ounce, gold output would drop from 614 tons in 1992 to 414 tons in 2007.

"This constitutes a loss of about R8 billion or 15 percent of total exports."

ARC 29/11/93  
Mr Mandela called for a major foreign investment effort in oil and minerals in South Africa and on the whole sub-continent.

Major oil companies had indicated to the ANC that there was a hydrocarbon potential off the West Coast, Mr Mandela said.

"South Africa is renowned for its huge reserves of gold, platinum, chromium and manganese. In addition there is iron, coal, copper, nickel and zinc which are vital to industrial development."

"Unfortunately, this amazing wealth has been exploited almost exclusively for the benefit of a small racial minority."

# USE golds gain from renewed momentum

JOHANNESBURG. — The renewed momentum of the gold price pushed shares on the JSE higher yesterday. A dealer said the increase in the gold price had run out of steam and the price appeared to have peaked for the day. Trade had been inhibited by a lack of scrip. The Gold Index jumped 80 points to 4 275 and the Industrial Index rose 58 points to 4 961. He

expected the market to remain firm in the short- to medium-term. There had been fairly good demand for mining house stock during the day. De Beers stock rose by R1.75 to R160.00. On the gold board, Yaal Reef's surged R8.00 to R398.00 and Western Deep jumped R183.00. Industrials were generally firmer. SA Breweries increased R3.00 to R79.00. However, Ri-

of its "indifferent" results and expectations of flat future earnings growth. Its share ticked up 10c to R38.35. — Sapa-I-Net

On international markets, profit-taking in London after the market's surge to new all-time highs following Tuesday's government budget dragged share prices into negative territory by the close. The FTSE 100 index ended 93 points down at 3 223.9.

In Tokyo stocks closed higher on heavy vol-

— Sapa-I-Net-Reuters

December 16. The DAX-30 index closed up 20.66 points at 2 110.53.

The Frankfurt market finished at a record closing high but below intraday peaks. Minor disappointment that the Bundesbank left its discount and Lombard rates unchanged was sweetened by hopes that it will ease policy on

The Nikkei average finished at 17 458.75 up 333.44 points.

time but off early highs as profit-taking and fears that prices had run up too fast took hold.

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# Frenzied trading as gold soars

Own Correspondent

JOHANNESBURG. — Pandemonium erupted on the JSE yesterday afternoon as gold breached the important \$380 level, sweeping shares sharply higher across all sectors in frenzied trading.

Dealers said gold's surge of more than \$7 to a high of \$384.25 in early New York dealings electrified the market after what had been a session of flat trading. Aggressive buying of golds lifted

the Gold Index 4.6% or 88 points to 1990 but dealers said the rise was eclipsed by the Industrial Index breaking through the 5 000 level for the first time.

The index recouped early losses to end with a gain of 1.1% or 55 points to 5 025 to help propel the Overall Index up 2.2% or 94 points to a new record high of 4390.

"The market turned on a ticky. One moment we were sitting idly but within minutes sentiment swiftly

changed as gold started moving up

Gold rallied to fresh four-month highs on the back of a strong silver price which broke above the key \$5/oz level on Middle East buying. Platinum lagged the rise of the other precious metals, firming nearly \$4 to a London afternoon setting of \$380.20.

In London gold closed at \$382.55/383.05 an ounce, up from its afternoon fix of \$382.30. In New York the metal closed at \$383.50/384.00. Dealers said gold had met stiff re-

sistance between \$378 and \$379, held in check by Australian producer selling for the past few days. "But once the funds came in, it went through \$380 like a hot knife through butter," one said.

Meanwhile comex gold ended sharply higher, as the market managed to hold onto most of the gains scored during an early rally led by silver.

Analysts said gold now looks poised to test upper resistance at \$390/\$389 an ounce.

(79) 07 01/12/93

*Price at highest level since August*

# US investment funds lift gold

Star 9/12/93

■ BY DEREK TOMMEY

Gold jumped \$6.40 to close at a four-month high of \$383.80 in New York last night after strong buying by US investment funds.

Earlier it had closed in London at \$383, up more than \$7.

The rand price, which added R22 to R1 288, is also at a four-month high.

Gold shares rose sharply in both Johannesburg and London.

Dealers attributed the renewed US interest in gold to technical factors, specifically to the upward trend in the metal price.

They believe in "the trend is your friend", a dealer said.

The US funds have billions to invest and the continuing rise in the price shows that gold is in a bull market.

Consequently, they are "buying the market" and are likely to keep on doing so until the trend changes.

There was some hesitation at the start of the month after

**GOLD shares on the Johannesburg and London exchanges rose sharply as the metal broke through the \$380 barrier** (79)

the drop in the gold price to \$369 on the slide in oil prices and the fall in the silver price.

But technical analysts see gold's failure to fall below \$369, and its subsequent sharp recovery to \$377.15 at the fixing in London yesterday morning, as a sign that the upward trend is still intact.

Confirming this view was the ease with which the gold price broke through the \$380 resistance barrier — something it had failed to do on two previous occasions.

Market technicians now believe the US funds will continue buying gold until it reaches \$385. However, some take the view that the next resistance could be around \$394.

One of the major attractions of gold for US investment funds is that even a small investment can produce a sharp increase in the price.

The latest rise in the gold price has come at a time when reports have again started to circulate that some central banks might start offloading part of their extensive holdings — which shows how little the bullion market thinks that this could actually happen.

However, gold was not the only metal to perform well yesterday.

Silver added 20 US cents to reach \$5 an ounce — a gain of 4 percent on the day.

Dealers suggested that part of the rise could be the result of bear-covering.

The silver price dropped sharply 10 days ago to \$4.44 on reports that Polaroid had developed a silver-free photographic process.

It then emerged that the process would affect only a small portion of the X-ray market.



# US funds drive gold through \$380 barrier

79 ARG 9/12/93

## □ Banks unlikely to sell reserves

The Argus Correspondent

LONDON. — Gold has soared through a key resistance level of \$380 an ounce as large United States funds decided to drive precious metals higher, dealers said.

The catalyst was silver, dealers said, and as the price surged through a key chart point of \$5 an ounce, fund money poured into the market.

Gold stocks followed suit in Europe and the US with some South African counters jumping by 5 percent.

Swiss and German gold dealers said physical demand from European and Far Eastern jewellers and hoarders had waned considerably when gold prices recently rose above \$370. Purchases from the Italian jewellery industry, the biggest in the world, was particularly slack, they said.

"Yet the buying power of the funds is presently the most critical factor in the market," said George Milling-Stanley, a first vice-president at Lehman Brothers. "They were aiming at penetrating \$380 and succeeded," he said.

Moreover, some European gold banks had lost market share to US firms, he said. Thus sizeable amounts of gold were still being shipped from the US to the Far East.

Mr Milling Stanley, who was attending a conference on central banking, said central banks were unlikely

to take advantage of the gold rally and sell any of their reserves.

He and Robert Guy, a director at N M Rothschilds & Sons, said central banks were lending gold to the market, writing options and swapping the metal for foreign exchange. Yet they were generally leaving their reserves unchanged. Canada was one of the few exceptions in recent months and so far this year had sold 109 tons.

At the same conference, Federal Reserve Governor Wayne Angell suggested that central banks should "target gold" as an indicator of inflationary expectations.

He refused to comment on views of other Federal governors, but intimated that the Fed and other central banks should consider tightening money if gold surged.

Investors would then be encouraged to believe that inflation and sound currencies were here to stay, he said. In those circumstances there would not be any point in holding gold, he said.

Mr Angell refused to comment on his voting intentions this month on a Fed discount rate hike. Yet he said that he consistently voted against reductions below 4 percent. He hinted strongly that a rate of 3 percent was too low.

"I don't know if inflationary pressures are building up (in the US)," he said, "I just have to worry about it."

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in the money" options on Long Term Government Bonds We now suggest a modified strategy for existing investors who wish to hold to maturity for the half-year to September.

## Gold price jump

Business Staff

ARG 9/12/93 (79)

GOLD has jumped through the key \$380 an ounce barrier after strong buying by investment funds in the United States.

The price was fixed at \$382,50 an ounce in London today. The rand price of gold, which the mines receive for their exports, jumped to R41 320 a kilogram — a three-month high.

The upsurge fuelled a rush to buy gold shares in London and Johannesburg.

Today gold shares on the Johannesburg Stock Exchange were up nearly 3 percent.

Bullion dealers in Europe said physical demand for gold for jewellery had dropped recently when the price rose above \$370.

# Gold producers move to lock in higher prices

Star 13/12/93

BY NEIL BEHRMANN

London — North American, Australian and South African producers are selling gold through futures and options markets to lock in higher prices.

Gold broke through the important \$380 barrier last week when commodity funds went on a buying spree.

When other buyers failed to follow suit and drive precious metals towards \$390, an increasing number of producers decided to hedge their production and lock in profits, Swiss bullion dealers say.

## Manoeuvre

Fund managers, who already held large amounts of gold futures and options, carried out a tactical manoeuvre when they pushed gold through key chart points.

The market was relatively quiet and thin.

So it was an ideal time to precipitate what is known as "delta hedging" in the options market.

Professional dealers and other participants take a calculated risk when they issue options — that is, sell an option to buy gold to funds and other speculators. Their risk is that gold could rise through specific ranges.

If gold jumps suddenly, they cover their pre-determined positions by buying gold futures and other derivatives in the market. This is known as delta hedging.

Dealers and other option writers made easy profits in 1992 when gold was on a downward trend.

But when it surged in April, they were forced to cover their positions frantically.

This delta hedging thus caused prices to soar and was a major factor behind the gold surge, which pushed the metal to \$410 in August from \$345 in April.

other American speculators.

The market is unlikely to get much support from traditional buyers.

Swiss, German and US bullion dealers are noticing that physical demand from European and Far Eastern jewelers and hoarders has waned considerably at gold prices above \$370.

Orders from the Italian jewellery industry, the biggest in the world, are particularly disappointing.

On the other hand, commodity funds and speculative players have sufficient buying power to push the market higher, say dealers. The problem is that these players are unpredictable.

For example, says a New York bullion manager, some funds have applied "contrary thinking" tactics and have begun to take profits.

"They are concerned because surveys indicate that 97 percent of US fund managers, brokers and dealers and other participants are bullish.

"In terms of contrary opinion analysis, those who expound bullish views and are predicting higher prices are already holding gold positions.

"Since the clear majority of positions is in the futures and options market, the people surveyed are unlikely to be long-term holders.

## Segmented

"Precious metals markets are thus segmented into two distinct sectors," Morgan Guaranty says.

"The first sector comprises price-sensitive physical purchasers who are prepared to buy gold only at prices around \$20 below present levels.

"The second sector includes commodity trading funds, speculators and dealers who are influencing short-term movements and are reacting to developments in bond, equity and foreign exchange markets."

Little wonder that growing

## Conservative

This time round dealers are chastened and hold much more conservative positions.

So the renewed attempt to precipitate frantic covering of gold options and another technical rally has so far failed.

For the gold price to run to towards \$400 there must be sustained buying by commodity funds, hedge funds and

numbers of gold mining companies have decided to be prudent and lock in profits.

European and US dealers say gold should consolidate above \$380 for the market to believe that an assault on \$400 is possible.

If the price fell below \$380, players would be disappointed and might divert their attention to coffee, cocoa or pork bellies.

Best-performing international equities

# SA gold shares lead world pack

Star 17/12/93

■ BY NEIL BEHRMANN

London — By a considerable margin, SA gold shares have been the best-performing international equities this year.

Comparing all share indices in dollars, the Financial Times SA gold share index has risen by 260 percent, against Malaysia's 104 percent, Hong Kong's 89 percent, Finland's 77 percent, Singapore's 58 percent, New Zealand's 50 percent, Switzerland's 39 percent, Mexico's 35 percent, France's and Germany's 32 percent and Australia's 26 percent.

Remarkably, Wall Street, based on Financial Times indices, has risen by only 6 percent and London by 14,5 percent.

Japan rose by 28 percent in dollars because the surge of the yen outweighed the share market slide.

Foreign holders of SA gold shares experienced a "double whammy" through SA's two-tiered currency system.

SA gold shares abroad must be bought through the volatile financial rand.

It collapsed by 40 percent to an all-time low of 19,8 US cents (5,05 finrand to the dollar) in November last year from 33c (3,03 to the dollar) late in 1991.

Now the currency is trading at 22,3 US cents, up 13 percent from its lows.

The appreciation helped lift the value of SA gold shares on foreign bourses, although the shares themselves created the windfalls.

An investor buying Western Areas would have experienced capital appreciation of 2 163 percent. In other words, an investment of 10 000 shares would have grown to \$90 500 from \$4 000.

In fact, South African gold shares have been re-rated and the turnaround in bullion market sentiment has been the major factor.

## Tumbled

The huge price increases are also the result of a re-adjustment from an acute bear market, in which SA gold shares tumbled 91 percent on foreign markets from their peaks in the early 1980s.

International investors have begun to examine gold shares in terms of both the international bullion price and the rand gold price.

From its low point of \$327 in January, gold is up by 18 percent. But, aided by a sharp depreciation of the rand, the mines' gold price has risen by 40 percent.

Profits differ because of costs and hedging programmes, where mines lock in lower prices.

A depreciating rand means that dividend income has not increased as much for foreign investors. But with those capital gains, they could not care less. (79)

However, with gold shares now much pricier, investors are likely to be more careful.

Now that the re-rating has taken place, performance in the coming year will depend crucially on the gold price and political stability.

The overwhelming view of London mining brokers is to buy gold shares. This contrasts with the majority viewpoint at the bear market low.

Brokers, nevertheless, are hoping that there will be a correction in gold share prices after the surge in the past few weeks to enable them to pick up shares more cheaply.

■ Percentage gains in SA gold share winners this year, in dollar terms:

Western Areas .....	2 163
Leslie .....	383
Western Deep .....	372
Randfontein .....	342
Hartebeestfontein .....	323
Harmony .....	317
Southvaal .....	314
Elandsrand .....	263
Freegold .....	261
Deelkraal .....	260
Vaal Reefs .....	254
Kinross .....	238
Grootvlei .....	236

From ANDY DUFFY

JOHANNESBURG. — Share prices for gold mines controlled by SA's leading mining houses have jumped on average more than 300% in the past 12 months, easily outstripping the rise in the All Gold Index.

Bullish sentiment toward gold through the year and a late burst of international buying have propelled the index to levels last seen nearly four years ago. But investors have targeted mines run by Anglo American.

# Gold mine shares reap bullish rewards

Gengold, JCI, Anglovaal, Randgold and Gold Fields. Trade in just three Anglo mines — Western Deep Levels, Vaal Reefs and Freegold — approached R4.5bn. Anglovaal posted the strongest gains, its mines including Loraine and Hartbeestfontein gaining an average 800% in JSE value, while the share for JCI's three mines leapt on average 730%.

Anglo American, though running heavyweights such as Vaal Reefs and Freegold, trailed the field with an average gain of 178%, roughly in line with the year's rise in the index. Marginal mines registered the greatest gains, due in part to their heavy gearing to the gold price, but also because of the lack of quality scrip. Anglovaal's Loraine has only

recently moved out of survival mode, but the mine's share has gained 1 900% on the JSE from its January opening of 100c. Nearly 17-million shares have changed hands in deals worth R170m. Investors have also bought heavily into Gold Fields' Doornfontein mine, lifting the counter 412% from 80c over the year in deals worth R65.2m. Durban Deep, condemned by

while struggling H J Joel has jumped 187%. Western Deeps, one of SA's largest producers, has surged nearly 340% to R206.50 in deals worth R1,06bn. Vaal Reefs, at R440 yesterday, has gained 223%, with the value of trade — R2,25bn — leaving it the second most active stock by value, just behind De Beers. The weakest JSE performers among mining house stocks were Gengold's Oryx, up 23%, and Randgold's East Rand Proprietary Mines, up 55%.

## Foreigners

Investors have also bought heavily into Gold Fields' Doornfontein mine, lifting the counter 412% from 80c over the year in deals worth R65.2m. Durban Deep, condemned by

## Industrials demand

settled overnight at 10-12C  
Villiers's Tradition de Charles de Fere is a

# 'Gold looks set to assault \$400 level'

CT 31/12/93

79

By ARI JACOBSON

GOLD bullion reached its highest level in five months in London trade yesterday when it was fixed in the afternoon at \$391,50 an ounce and looks set for an assault on the \$400 an ounce level, according to market players yesterday.

At a time when share markets around the world are soaring to new highs, the one ingredient that needed to come in line was a higher bullion price.

The gold price closed at \$390,65 in both London and New York last night. Shortly after the official close on the JSE, the All Gold Index added 50 points or 2,35% to 2 176 — marking a massive 19% gain in the gold index in December. The All Share Index was 88 index points higher at 4 889 and the Industrial Index gained 37 points to a record 5 502.

Syfréts analyst Peter Major said that he was confident the "\$400 an ounce mark would be breached in January".

## Closing gold prices

(In \$ an ounce)

NEW YORK:

390,40/390,90

LONDON:

390,40/390,90

Fixing am: 391,50

Fixing pm: 391,75

ZURICH:

391,00/394,00

— Reuter

Major said that there was "far more optimism" about bullion getting over the \$400 level "this time" than in July — when it succeeded for the first and only time in 1993.

He saw gold bullion "firmer" in January but added that it could start to lose some glitter in February "and that is probably a good time to close positions".

Frankel, Max Pollaks gold analyst Trevor Pearton felt that profit-taking could take place in January but said that the long term

trend "would take the price above the \$400 level later in the year".

Board of Executors (BoE) Rob Lee said that "bullion will be well over the \$400 an ounce in the next 18 months".

Gold Futures at present are trading "a few hundred points" above the spot price — a clear indicator that the metal is anticipated to rise in the future.

A trader on the market said that "although script is scarce — everyone is fundamentally bullish about bullion".

Yesterday most of the action came from the Far East where "year end book squaring by Australian producers helped the metal retain its earlier gains".

On the JSE, shares ended higher after the gold rally and even a sharply firmer financial rand, at R4,30/\$, failed to halt the upward momentum.

On the gold board, where interest from both London and the US was reported, leader Vaal Reefs collected 600c to R435, while Kloof inched up 150c to R53,25.

# Gold price plunges to its lowest point in 11 years

Star 5/7/97

(79)

Gold prices melted to their lowest point since December 1985 yesterday, after the Australian central bank said it had sold off two-thirds of its strategic reserves.

Prices plummeted to \$323 an ounce at the start of trade on the London bullion market, which was almost \$10 lower than the opening price on Thursday.

The Reserve Bank of Australia said late on Thursday that it had sold a massive 167 tons of its 247 tons of gold holdings in the past six months, for an estimated price of A\$2.4-billion (R8,14-billion).

The London-based trading house GNI said the announcement came as "further confirmation that central banks no longer feel that gold has a significant role to play in their reserves ... and now not just the Dutch and Belgian, but the rest of the world, too".

At the Merrill Lynch trading house, precious-metals analyst Ted Arnold stated that "we will see much more mobilisation of reserves by central banks over

the next 24 months".

In June, the market was severely affected by rumours that the Belgian government was seeking to offload some of its reserves.

The quantity of gold mentioned by the Belgian authorities was relatively insignificant, set against the total volume of daily trade on the bullion market.

The government said it planned to sell just 26 tons of gold a year from 1999 onwards.

However, the market was concerned the plan may represent a shift in asset holdings at European central banks, which are seeking to offload gold reserves in favour of currency.

In early 1997 the market was cast into turmoil by an announcement from the Dutch central bank that it had sold 300 tons from its reserves in 1996.

A decision by the Swiss parliament to allow the Swiss National Bank to manage its own gold reserves, and to generate profits by lending it, added to market fears of meltdown on the gold market. - Sapa-AFP



# Gold in danger of losing status as store of value

ANDI SPICER

Johannesburg — Gold continued its downhill slide on global markets yesterday, bouncing down nearly \$7 to \$318 an ounce at the afternoon fix in London from Friday's \$324.45. It fell even further, to \$313.60, in late London trade.

The metal's rollercoaster ride prompted fears that gold would lose its international status as a store of value.

Traders saw the next point of support at \$310 but, if this was breached, then bullion could

quickly dip to \$280, market observers said.

"Look out the window — isn't there blood on the streets? Just when (traders) thought nothing else could go wrong, it has," Andy Smith, a gold analyst with UBS in London, said yesterday.

He argued that, like silver a hundred years ago, gold was becoming demonetised.

But while silver's role had changed over a generation, gold was losing its influence in months as central banks sold the precious metal from their once-sacrosanct reserves.

Belgium, the Netherlands and Canada have been persistent sellers of gold from central bank holdings for the past 10 years. Australia's central bank announced last week it had joined the selling by putting 167 tons on the market.

This came soon after Belgium's parliament passed legislation that would allow it to sell 10 percent of its gold holdings over a five-year period starting in 1999.

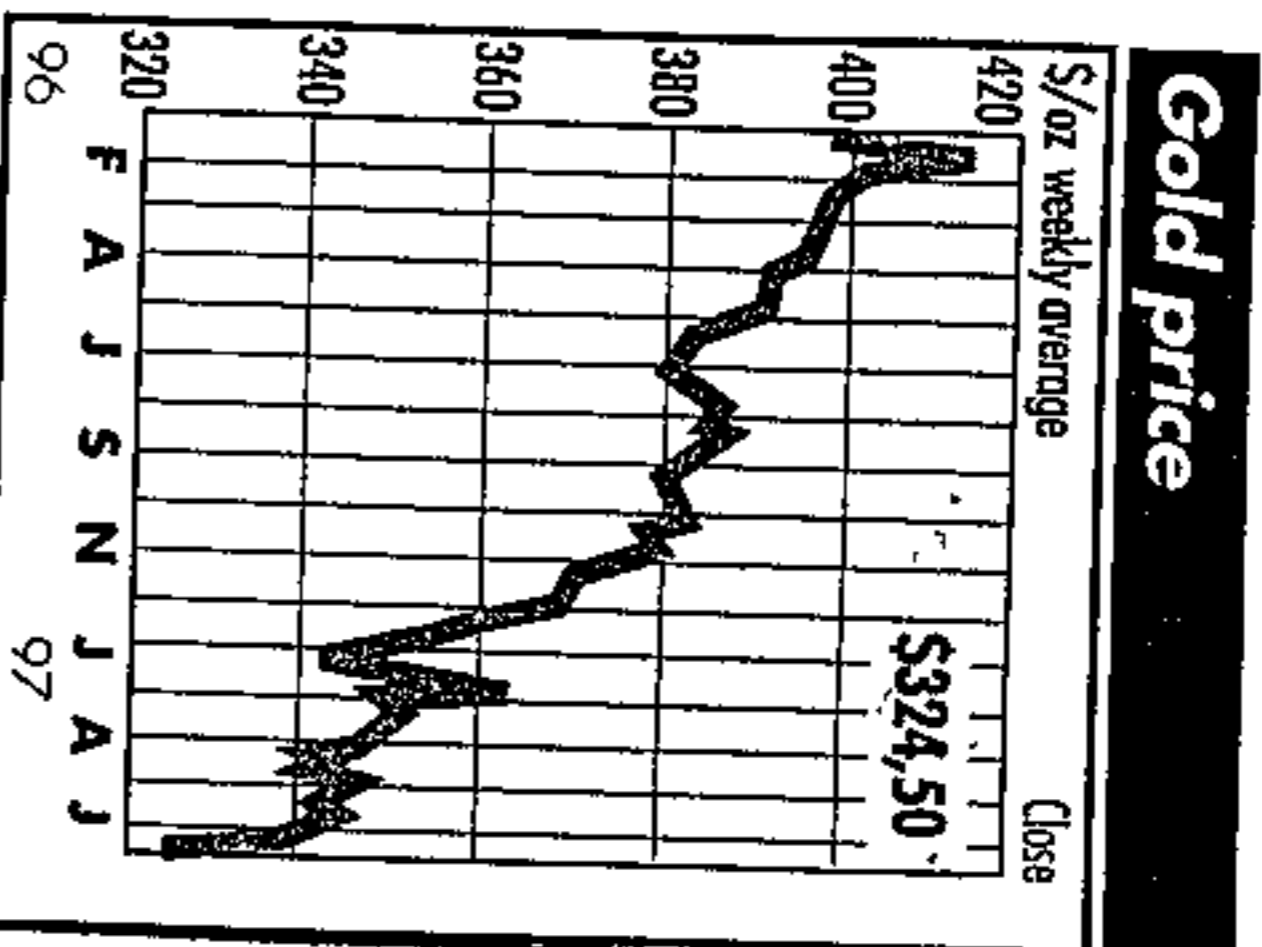
Switzerland, one of the strongest supporters of holding gold in reserves, has also sig-

nalled its intention to "mobilise" its bullion reserves. Under law, the Swiss franc must be 40 percent backed by gold in reserves. But banking authorities want to change this legislation.

"The market is structurally cracking up. Physical users of the metal are rationally standing by and the fall is well-based and logical. The penny should have dropped (that gold is becoming demonetised) some time ago but now it has dropped with a thump," Smith said.

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79 (BSE) 8/7/97





# Gold loses its glitter

**T**HE decline in gold prices over the last few months – and the plunge last week to a 12-year-low – has alarmed many in South Africa, where gold remains a key source of business to the economy.

With the commodity price of gold in the \$320-an-ounce range, the index of gold-mining shares on the Johannesburg Stock Exchange is down roughly 38 percent so far this year.

A decade ago, in a South African economy severely pinched by international sanctions aimed at ending apartheid, gold accounted for a quarter of the gross domestic product (GDP) and half of export earnings.

Today, with the nation's growing economic vigour, it still creates five percent of the GDP and accounts for 20 percent of exports.

Though decades of ore extraction and the convulsions leading to the new South Africa have sharply reduced the productivity of the nation's mines, the gold industry employs 400 000 people in the mines and in related industries like explosives, steel, drilling machinery and engineering.

With a gold price that lingers below \$320 an ounce, 50 000 or more jobs could be lost, economists estimate, and this year's projected three percent growth in output could drop to 2.5 percent.

That kind of damage could shake confidence in the rand. Only a week ago the Reserve Bank allowed South African citizens to invest money overseas for the first time and, to its relief, there has been no outflow of capital on a large scale so far. The rand has held steady at 4.55 to the dollar.

## Undermine confidence

Layoffs, moreover, could undermine confidence in President Nelson Mandela's government, which has promised its constituents jobs, housing and a larger share of the national wealth. If black South Africans are thrown out of work, the ruling party will come under heavy pressure to do something about it.

Last week's slide in gold prices was set off by an Australian Central Bank decision to sell 167 tons of bullion, 60 percent of its reserves.

The transaction has aroused fears in South Africa that other central banks will gradually unload their gold and ultimately discontinue their use of the metal as a repository of national wealth, much as they abandoned silver decades ago.

That would deluge the market with hundreds of tons of the world's gold now stored in central bank vaults, and presumably depress prices for years.

With low inflation in the industrial nations stripping away much of gold's financial mystique, central bankers have already become

Once the mainstay of the South African economy, the precious metal is now being stripped of its financial mystique. **Donald McNeil Jnr** surveys its bleak future...



**The Benoni plant of the East Rand Proprietary Mines which closed down on Monday as a result of the falling gold price.**

PIC: LEN KUMALO

aggressive lenders of the metal, a practice that spurs trading in options and puts more downward pressure on gold prices.

Some traders in South Africa predicted that gold, which sold for \$800 an ounce in 1980, would drop below \$300. A report that a Merrill Lynch analyst said it might go below \$250 was widely quoted, spreading new pessimism.

Even at \$320, said Leon Esterhuizen, a gold stock analyst with Societe Generale Frankel Pollak in Johannesburg, more than half of South Africa's 30 gold mines are unprofitable. At \$305, only five could stay open for long.

South Africa holds an estimated 40 percent of the world's gold reserves, but its operating costs, once the world's lowest, now vie with Australia's for the highest.

And production has dropped – to 495 tons last year from 1 000 tons in 1970.

Since trade unions for black workers were legalised in the mid-1980s, wages and working conditions have sharply improved, but productivity has dropped and workers have opposed efficiency measures like seven-day-a-week

(79)

operations. Also, the ground is getting harder to work. In 30 years, average ore grades have declined from 15 grams of gold a ton to about five grams.

And the richest lodes are at greater depths – as much as four kilometres underground in thin, mechanisation-resistant veins – which means shorter work shifts, high air-conditioning costs and greater danger to workers.

Marginal mines like Durban Roodepoort Deep, situated just west of Johannesburg, are in serious trouble. The 102-year-old mine had as many as 18 000 workers in its heyday but now employs 2 600.

## Ambitious expansion

Its pipes and winches and hoists are rusting. It breaks even at a gold price around \$360 an ounce and the company's reserves will last 35 years at that price, managers said.

Their ambitious expansion plans were written when gold was at \$400.

"Now, since the gold price smacked us in the face, the whole revival we had going for two years is falling over the cliff," said Michael Prinsloo, managing director of the company that owns the Durban Roodepoort Deep/Mille.

"You try to keep a mine going because closure is fatal. Things are vandalised, equipment deteriorates and start-up costs are huge."

It is much cheaper, he said, to employ a skeleton crew that will maintain the equipment than to shut down a mine and then reopen it.

But the mine's operator, Randgold and Exploration Co, may not be able to pursue this course for long. Randgold, one of South Africa's oldest mining houses, has been under aggressive new management since 1994 and specialises in taking risks.

It runs several marginal mines, carries lots of debt and does not hedge by forward selling, preferring to gamble on a gold-price rise that would mean bigger profit. (Forward sellers contract for deferred delivery, reducing their risk if the price drops.)

"In hindsight," said Anton Lubbe, Durban Deep's general manager, "we might have hedged enough to support capital projects like the new plant."

But he said the chairman, Roger Keble, sees no reason to be more cautious because he "is very bullish on gold" – though, long term, after the recent price drop. – *New York Times News Service.*

# Low gold price a disaster - analysts

By MELANIE CHEARY

South Africa is facing a major social crisis with sliding gold prices threatening an unwanted surge in unemployment, analysts said yesterday.

More than 50 000 miners could lose their jobs if bullion prices languish at the current 12-year low of about \$320.

"It could be the worst thing the country has ever seen. This gold crisis is the last thing the country needs right now," an analyst said.

It is not just miners, mostly black and earning around R2 000 a month, who are threatened. Gold mines are the only source of income for many small communities which could become ghost towns.

"It will have a catastrophic effect. All these towns would become sleepy pension villages," said Grahame Graham-Parker, general manager of Infinity Asset Management.

South African deep-level gold mines have suffered falling output since the 1970s.

Production in 1970 was just more than 1 000 tons. Last year it was 496, and this year 500 tons is forecast.

The gold industry has already cut miners' jobs from around 530 000 in 1987 to some 350 000 in 1996.

More mines are being flung into the marginal camp and more jobs are on the line as producers seek to cut costs.

Roger Baxter, chief economist of the Chamber of Mines, said in the first three months of 1997, nine gold mines employ-

ing 63 000 people were classified as marginal and seven of those were operating at a loss.

Newspaper reports put the number of 100 000 mine jobs under threat. Analysts say the figure is likely to be more than 50 000.

With a third of the country's workforce unemployed and many thousands more underemployed, further cuts would be a blow to a Government struggling to reverse the trend.

The National Union of Mineworkers (NUM) says the

crisis might have been avoided if employers had met labour half-way years ago.

"But ... the industry didn't have a social responsibility in terms of downsizing," said Ben Molapo, NUM spokesman. "For years, we have been negotiating with them. But from both the Government and from the industry, we never got a concrete response."

Producers and analysts say that labour action has hit already falling productivity.

79 Star 12/7/97

Picture: JULIAN VAN DER WESTHUIZEN



SOME PROGRESS . . . gold division MD Keith Spencer says industrial relations are excellent

# Gold Fields steels itself for the rocky road ahead

The group's three quoted gold mines made R192-million profit but lost R38-million after capex, writes JULIE WALKER  
ST(BT) 13/7/97

**G**OLD Fields of SA's management put on a brave face when it not only announced June quarter losses from several operations, but also said it expected lower commodity prices across the board for the balance of the year.

Two divisions have new chairmen: Richard Robinson at gold and Barbara Day at coal. Robinson acknowledges that he took the reins at a challenging time, but hopes that the gold market is near the bottom. The price received by GFSA mines during the June quarter slipped 4.5% to R49 411/kg and is currently even weaker at about R46 780.

The group's three quoted gold mines, Deekraal, Driefontein and Kloof, made R192-million profit after tax in the quarter, but capital expenditure absorbed R230-million, resulting in an overall loss of R38-million. This was in spite of a 4% rise in gold output to 24 3 tons.

Deekraal was affected by a seismic event. Nevertheless, its production and yield were both lifted and, says GFSA gold division MD Keith Spencer, industrial relations are now excellent. Deekraal's merger with Elandsrand will go through after October.

East Drie had a good quarter, long overdue, says Spencer. A tunnel-boring machine such as used in the Lesotho Highlands Water Scheme is to be introduced, which Spencer hopes will quadruple the rate of face-advance. West Drie also performed well and cut costs. But the consolidated mines' result reflected the weaker gold price — profit after capex was only R38-million and for the year to June, R195-million.

Yet Dries paid out R306-million in dividend for the year to June. Dries had the funds, but sister mine Kloof also paid R97-million in dividend in spite of reporting a small loss after capital expenditure. Kloof has borrowed money from the bank to pay dividends.

Robinson says both mines have under-appropriated capital expenditure. "We expect to get the money back over the life of the mines' projects." He adds that Driefontein will realise cash should the Asteroid deal be approved. Driefontein and GFSA hold equal stakes in Asteroid, a partner in GFSA Holdings and the subject of possible disposal to New Africa Investments (Naii).

Kloof has three operating divisions, two of which made losses. Leeudoorn — "the black sheep of the family" according to Spencer — lost more than R60-million after capex as operating

costs jumped 18% to R65 000/kg.

Leeudoorn has not returned a cent of the R1-billion plus capital sunk so far. Spencer is also worried about seismicity at Leeudoorn's 78 level operations, which are in relatively unmined territory where ground tremors are rare.

Spencer wants to break more ground and lift production — a familiar refrain. Rationalisation studies are under way, including possible downscaling. Some 5 000 jobs are at risk.

Kloof's Libanon division also lost money, but Spencer says there is no reason why Libanon cannot make a profit even at the current gold price. This sounds optimistic, considering the mine has incurred losses for most of the past five years. Spencer agrees that a 25% improvement in tons milled at the best grade is needed.

The Kloof division itself did better than in March in terms of tons, yield and profit, but is far from optimal.

Elsewhere in GFSA, platinum miner Northam almost broke even for the quarter after a good June, but lost R28-million for the year to June before R20-million of capex. Chair Peter Janisch says the introduction of hydropower means that one man can run three stope-drills instead of two per drill. Agreement on salaries has been reached without difficulty. "It is not yet a bonanza, but if platinum gets up to \$500/oz, Northam will be a good buy."

Day says the Cosmos renewal project at Gold Fields Coal's colliery is progressing well while remnant mining continues. Day says coal prices have been under severe pressure; GF Coal has been partly insulated because of contract sales but the renewable contracts could be affected negatively.

Day also chairs the O'Okiep copper mine and Zincor. She says O'Okiep has set out on a strategy to put a floor price to some of the copper production to lock in revenue because of the marginal nature of the operation. Copper has been buoyant, but the price trend is seen to be sharply downward.

GFSA has always been against hedging its gold; now the margins are being whittled away it is to be hoped that Day's influence extends. Zincor made R31-million profit after tax and capex — more than all the gold, coal and platinum mines together in the June quarter. Base metal mine Black Mountain made R9.6-million after tax and capex in the June quarter, and O'Okiep R12.7-million. GF Namibia lost R10 4-million.

Case number 97/18695

SOUTH AFRICA  
DIVISION)  
1997

Justice Snyders

of

CORPORATION LIMITED  
of South Africa  
339/06)

Applicant

isel for the Applicant and upon reading the notice of motion and the other documents filed on record

... ("the scheme meetings") be convened in terms of section 311(1) of the Companies Act 1973 amended ("the Act")

... ordinary shareholders of the Applicant registered as such on the close of business on the day (excluding public holidays) immediately preceding the date of the scheme meetings ("the voting record

... preference shareholders of the Applicant registered as such on the close of business on the voting

... debenture holders of the Applicant registered as such on the close of business on the voting record

... than NK Properties Limited ("NKP") (collectively "the scheme members"), by the chairman referred to in clause 2 of this Order ("the chairman"), who shall fix the times, dates and places of the respective meetings, and shall, of considering and, if deemed fit, agreeing, with or without modification, the three schemes of shares and debentures in the Applicant ("the Applicant securities") registered as such on the record of the Applicant.

... a partner of Werksmans Attorneys, or failing him, such other partner of Werksmans Attorneys as the Applicant may nominate, to act as such, be and is hereby appointed as chairman of the scheme meetings, and the Applicant's solicitor, and the Applicant's scheme meetings is authorised to

... for the purpose of the scheme meetings;

... validity and acceptability of any form of proxy submitted for use at the scheme meetings;

... meetings from time to time if the chairman considers it necessary to do so, and

Since the experts congregated at the Prague gold conference last month, the industry has been hit by doom and gloom

# Bullion faces same fate as silver — effective

ANDY SPICER

MINING AND RESOURCES EDITOR

One hundred years ago, silver had a significant place in government reserves and its role as a store of value was matched only by gold.

But over a generation, starting in the late 1890s, the precious metal lost its shine and became demoralised as international institutions sold their holdings and individuals followed.

The great fear before South Africa enters the new millennium is that the same fate is about to happen to gold, one of the cornerstones of the economy.

Since the Prague gold conference last month, when almost all of the world's gold experts and professionals came together to discuss the future of the metal, there has been doom and gloom

in the industry. Most delegates expected that central banks would continue to sell gold from reserves and that a fundamental shift away from large gold holdings by governments was taking place.

"Look out the window, isn't there blood on the streets? Just when (traders) thought nothing else could go wrong, it has," Andy Smith, a gold analyst with UBS in London, said earlier this week.

He argued that "the market is structurally cracking up. Physical users of the metal are rationally standing by, and the fall is well-based and logical."

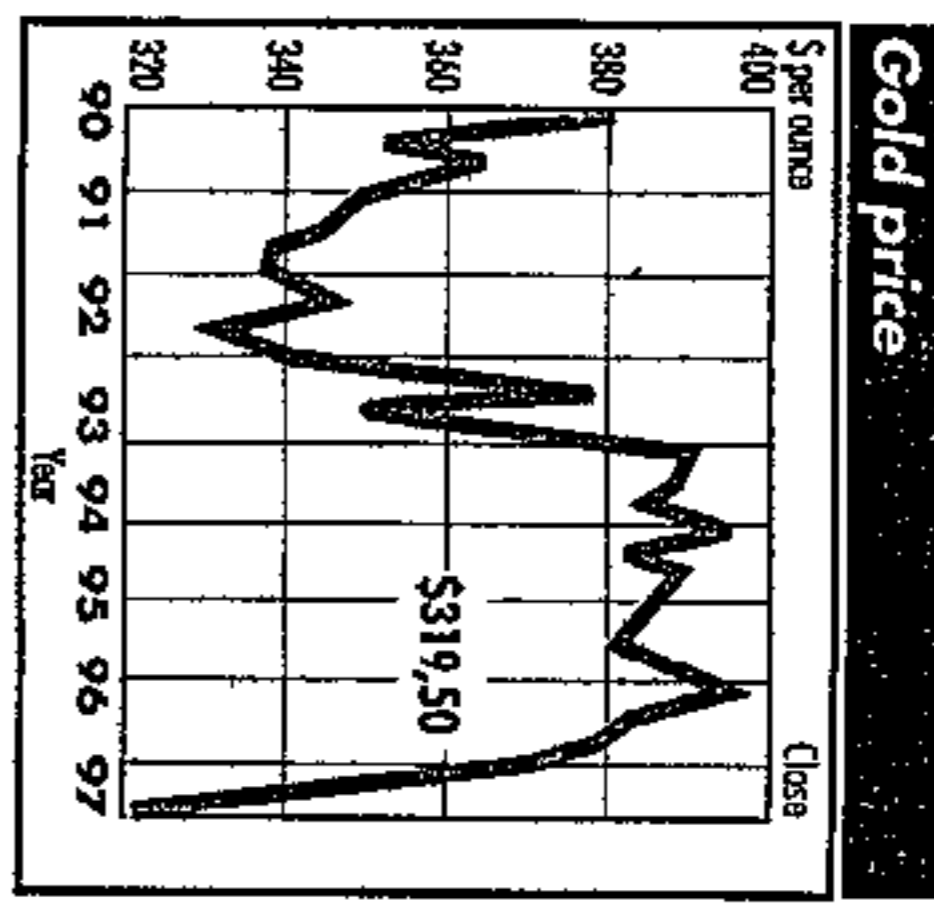
Gold reserves have been the rock upon which many countries' central banks value their total reserves. While they would hold stocks and other governments' debt, foreign currency and other paper assets, they

would make sure their gold reserves were a significant part of their holdings. Unlike paper assets, gold is no one's liability, and in market crashes or times of crisis the metal gains value and, at worst, usually holds its value.

But now there is a crisis of confidence in the gold market. Bullion has hit 12-year lows, trading just below \$320 an ounce, and the knock-on effect on gold shares has been just as dramatic.

The root cause of gold's problems lies in the low-inflation environment in the major economies of the world. Now gold is competing with well-performing interest-yielding paper assets, such as equities and bonds, and has done badly in keeping its relative value.

Belgium, the Netherlands and Canada have been sellers of gold from central bank holdings for



the past 10 years. The sales were initially in small lots, but they started to get bigger in the past few years. The central banks sold gold and bought paper assets.

The IMF was also involved in a debate on its reserves, as some member states wanted a portion of holdings to be sold to alleviate developing world debt. This debate opened the door to gold

sales, as bullion in central bank vaults was previously seen as sacrosanct. Under Swiss law the central bank has to hold 40 percent of the value of its notes and coins in circulation in gold. It also values this gold at a very low price to smooth out the peaks and troughs in the gold price.

But Switzerland is reassessing its reserves and, in its own words, will "mobilise" these holdings. This could mean they will become more active in gold leasing activities, but it would allow them to sell large amounts of gold too. Switzerland is also revaluing its reserves upwards, closer to current market prices, which would allow it to hold less gold to match the 40 percent criteria. The Swiss government is also setting up a Holocaust victims' fund in response to criticism that it kept money held

in bank accounts after owners had died at the hands of the Germans during the Second World War. This fund will use the money generated by the revalued bullion reserves, and gold could also be sold to fill up its coffers.

European monetary integration has sent a shiver through the gold market, as selling gold will help European countries meet the economic figures under the Maastricht Treaty to allow them to join the single currency block. Belgium and the Netherlands have accelerated their sales because of this, and Germany was considering revaluing and selling gold from its reserves for the same reason.

Until now, the German government was one of the most ardent supporters of holding gold to underpin central bank reserves.

Many thought gold couldn't fall below this support level because the low prices would generate large amounts of buying. But the fall has been so rapid that the metal fell through this point in days. Physical buyers are standing on the sidelines expecting lower prices, and will not buy until it has reached what they consider the bottom.

The only real support gold can find now is the closure of marginal mines across the world. Seven South African gold mines are classified as marginal and loss-making, another two as in profit but still marginal. As mines close, production shrinks and supply decreases. The trouble is that there is so much gold in bank reserves. Many believe this gold could be sold in the near future and fill the gaps made by the mine closures.

France, another supporter of gold holdings, is also considering its position on bullion reserves. The most recent dip in the bullion price can be attributed to Australia's central bank announcement that it was joining the selling by putting 167 tons on the market and buying US, German and Japanese bonds to replace the bullion. This came only a week after Belgium's parliament passed legislation that would allow it to sell 10 percent of its holdings over five years, starting in 1999. The short-term outlook looks weak for gold. Technical analysts indicate \$310 as the next point of support in the market, and below that the precious metal could fall to \$280.

Physical demand — coins, bars and jewellery — was thought to be strong in the \$330-\$340 band.

14/7/97  
Demonetisation

# Gold loses much of its lustre as price takes a rollercoaster

**JOHN BERRY OF THE WASHINGTON POST TAKES A HARD LOOK AT THE PRECARIOUS FUTURE OF GOLD**

The price of gold, which rests fundamentally on the notion that the soft, yellow metal holds its value through thick and thin, is falling.

The concept of gold as what economists call a "store of value" has lost a lot of its lustre in a world in which the threat of nuclear war has all but vanished and more and more nations have brought inflation under control. Even some central banks have begun selling part of the stocks of bullion that historically backed up the value of their paper currencies. Last month the Reserve Bank of Aus-

tralia, that country's central bank, announced that over several months it had sold 167 metric tons - or about 60 percent - of its gold to improve management of its portfolio of assets.

What the bank meant was that, unlike its holdings of United States dollars or other reserve currencies, gold can't be invested to earn a current return. Furthermore, the value of gold has been in a long-term decline since it peaked in the late 1970s.

Gold futures contract prices have fluctuated but generally declined since 1986. The price rose sharply in 1987 during a period of turmoil in world financial markets that culminated in stock market crashes that autumn in the US and other industrial nations.

It bounced up again in 1993 when the US economy began to grow strongly and fears of inflation rose. But inflation didn't rise in that and other industrial countries. Instead it has come down - and so has the price of gold.

On an inflation-adjusted basis, the current price is the lowest since 1976. The Australian sale had a major impact on world gold prices - partly because some analysts who follow gold expect some European central banks to sell part of their gold too.

Such sales would raise cash to help those countries meet tight budget criteria for joining in a single European currency, the euro, in 1999. Collectively, governments held about 19 percent of the approximately 5.9-billion troy ounces in the world's stock of gold at

the end of 1995, according to a recent Federal Reserve research paper. Included in that 5.9-billion ounce figure, along with the governmental holdings, are about 2.3-billion ounces of identified but unmined gold in mines around the world.

In other words, so-called official gold comprises the bulk of the world's above-ground supply.

So if other governments and central banks - such as those of Australia, Canada, Belgium, the Netherlands and others that sold gold in the 1990s - should decide to unload part of their gold, that could drive the price down much further.

The US has about 262-million troy ounces of official gold, which at the current world price is worth \$83.4-billion. The bulk of the US gold is in depositories at Fort

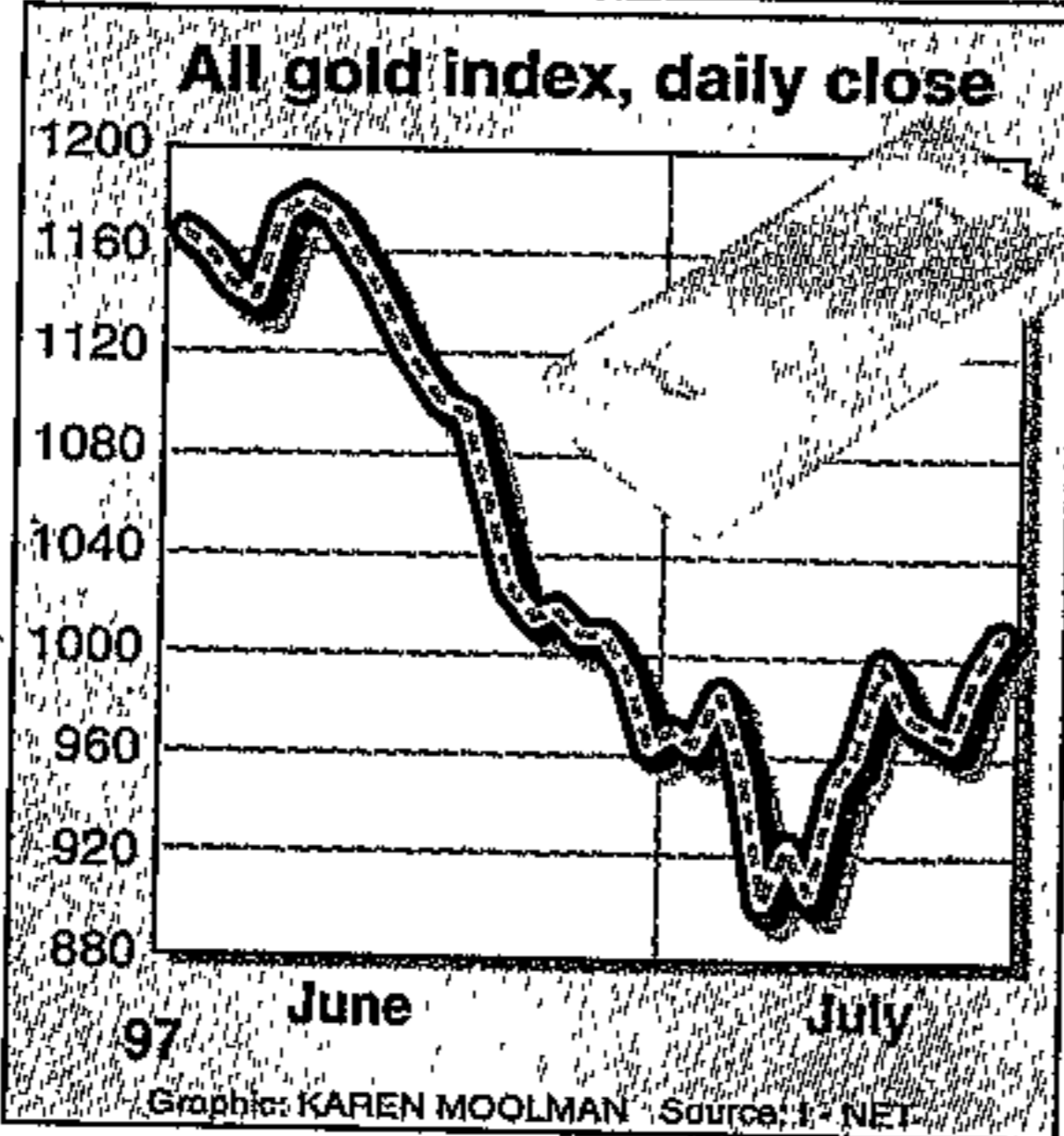
Knox, Kentucky and at West Point, New York, but smaller amounts are held at government mints in Philadelphia, Denver and San Francisco and at the Federal Reserve Bank of New York. The amount hardly varies from year to year.

If the official US gold were sold and the money used to retire Treasury debt, the interest saved yearly would likely be about \$3-billion to \$5-billion, depending on the price at which the metal was sold.

But neither the Fed nor the Treasury officially is contemplating a reduction in the size of the US stock of bullion. Such a proposal probably would meet strong opposition from senators and representatives of gold-producing states in the West. It could also roil foreign exchange markets, some experts say.

ride

**Return to the four-digit level**



**Gold index creeps up as dollar hurts rand**

Josey Ballenger

INVESTORS showed cautious confidence in SA gold shares yesterday, sending the Johannesburg Stock Exchange's all gold index above the 1 000-point level for the first time in three weeks, but the rand weakened to its lowest level in six months.

The all gold index skipped from Friday's close of 992 to open at 1 014 and jumped up to 1 022,5 in early trade, but ended at its weakest intraday level of 1 008 — still a net 1,6% or 16-point rise. The move was in sync with bullion's gains at the weekend in New York and Hong Kong. It traded as high as \$329 in Europe, but then edged down to \$328,25 at the London close — still a \$4,75 rise from Friday.

Gold closed at \$325,55 in New York last night, down \$3,40 from Friday.

However, SA analysts were reluctant to make predictions. "The gold price is up on short-covering (buying shares at a lower price than they were first sold at). There is renewed confidence in the market, but I would not predict (the gold price) on more than a week-by-week basis," said HSBC Simpson McKie gold analyst Rob Edwards. He said the gold index "may tip below 1 000 again this week".

ING Barings mining analyst David

Continued on Page 2

local importers pushed the rand over the R4,57 to the dollar level, from Friday's R4,5660. They attributed the mild weakening to general dollar bullishness and uncertainty about emerging market currencies and SA assets in particular.

"If two or three big fund managers get themselves into trouble (in one country), a lot of them get out and put their money somewhere else... They have been reducing their weightings (in rand-denominated assets)," said the chief dealer at a major SA bank. He pointed to the "correction" on the bond market in the past two weeks, which led to net outflows of foreign investment. He said although there were weaknesses in the rand, "it is not just one-way traffic".

**Gold** (79)  
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Continued from Page 1

Hall said: "Even though we've seen a rise in the gold price, I still remain cautious." The outlook for gold had improved because of Wall Street's mild selloff at the weekend as investors could be "putting more into gold, which obviously translates into (higher prices in) the gold shares... Fears of inflation again in the US will also help (gold)."

He predicted that the index would not see further gains "unless the (gold price) does — \$330 is an important psychological barrier to break through". Meanwhile, currency dealers said dollar demand by offshore banks and

# Demand for gold still the key to price

Gold producers should look at physical demand rather than be panicked into anticipating an avalanche of central bank sales, argues Kelvin Williams of AngloGold

**A**fter the unhappy performance of the gold price in recent weeks and the negative debate in the media about central bank sales of gold reserves, one might be forgiven for losing perspective about our market. However, the price of the metal has steadied, although unfortunately at the lower extreme of the long-term range of \$325/oz to \$390. This pause provides us with an opportunity to look more realistically at the influential forces in the gold market today and what those particular elements are likely to mean.

Setting aside both popular sentiment and current speculative positions in gold (particularly in the futures market on the New York Comex), the concrete figures of physical supply and demand present a quite different perspective. The fundamentals of supply and demand continue to become increasingly favourable for the metal, and the relative influence of individual elements in the mix of supply and demand shows a very different picture from that painted by journalists and analysts.

We start with the basic elements of the major source of gold supply and the major source of gold consumption. Supply from newly mined gold production has increased over 10 years by 35.3% from 1 733 tons to 2 346 tons last year, while demand for gold for jewellery fabrication has moved more than 110% from 1 334 tons to 2 807 tons last year.

The shortfall between demand for gold in jewellery and mine production amounted to 461 tons.

However, compared with total demand last year of 3 290 tons for all fabrication, mined production last year of 2 346 tons fell 944 tons short.

This gap was filled by old gold scrap, official sector sales, and gold flows arising from producer forward selling in one form or another.

In this mixture of physical supply and demand, gold from official sales has contributed an average of only 213 tons a year over the past 10 years. Over the more recent cycle of central bank gold sales since 1989, average net sales of 295 tons over eight years have had to be absorbed in the total annual physical offtake of gold. In 1996, net official sales amounted to 239 tons, or only 21% of the net shortfall between total demand for gold and newly mined production of the metal.

The net shortfall between total demand and total supply over the past eight years has been filled by net official sales. It is not easy to connect this line to the current levels of media hysteria on the subject of official sales, or to the negative view taken by speculators over the metal in New York.

Compared with the amount of about 2 100 tons of net sales of official gold holdings over the past 10 years, an amount of almost 6 900 tons has been bought by

Asian countries in the same period, placing the metal in hands where it is most certainly seen as a store of value.

The incongruity between the reality of central bank sales, and the current reaction in the media and the market to these sales, is reflected in a number of different areas.

Critically, commentary on this subject has largely ignored the fact that movement of gold in the official sector has always been two-way, while publicity has focused on the few individual large central sales of gold since 1989, there have also been official sector buyers of gold throughout this period. Last year Gold Fields Mineral Services reported a total of 19 net official buyers to 16 sellers, of the 16 official sellers only five actually sold more than 10 tons.

In addition, in evaluating the price fall on the announcement of the Australian sale, it should be noted that price weakness associated with official selling has almost always followed the completion of the sale, and has not been a result of the sale.

In other words, banks which have completed major sales have placed the metal in the market with little if any noticeable disruption of the gold price. The damage done to the gold price has almost invariably been done after the official announcement of the completion of an official sale and is far more the result of the activities of traders than the central banks.

This phenomenon was no different for the Australian sale, as Australian Trade Minister Tim Fisher pointed out, blaming "the screen jockeys" rather than the Australian Reserve Bank for driving the gold price down.

Looking to future sales, it is again instructive to look at the profile of central bank reserves before drawing broad speculative conclusions.

In the first place, about 66% of official reserves in national central banks are in the hands of only five national banks: the US, Germany, France, Italy and Switzerland. The first four of these have shown no inclination to sell, and it is a moot point whether the announcement in Switzerland regarding more active management of gold reserves can lead to any material sales within the foreseeable future.

The position of these banks was more likely summed up in the speech by Jean-Pierre Patat of the Banque de France in Prague last month, where he indicated that for gold in central bank hands, "its function as a store of value is set to continue".

The successful rebuff by the

Bundesbank of the political initiative to revalue German gold reserves sends the same message.

On the issue of European gold reserves in general, the credence given last year to predictions that wholesale European bank sales of gold were inevitable as a means of qualifying for membership for the new European central bank, was simply wrong.

European authorities ruled out any once-off adjustments to national accounting for the purposes of Maastricht qualification, and

there are rumours that sentiment in Europe is almost certainly moving against further central bank gold liquidations, with pressure being brought by banks which have no desire to sell their gold reserves on other banks to moderate their selling activities.

There is evidence of this in the recent Belgian announcement of that country's intention to sell a further 133 tons, but only over a period of years and in the relatively unrestrictive form of coin sales of 26 tons a year.

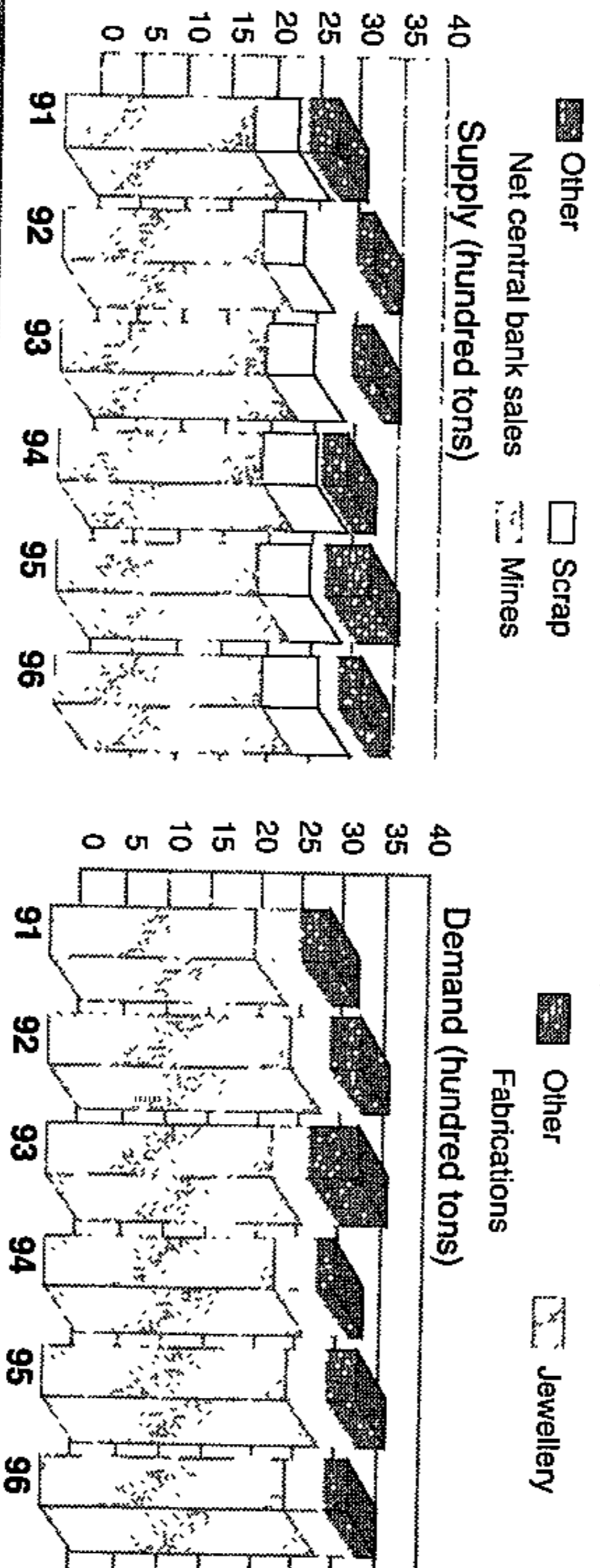
On top of this, it seems increasingly likely that 1998 and 1999 will bring uncertainty about the central bank itself and a rough passage for either the European currencies or the Euro.

Convergence has not yet been achieved, and the conflict between what was a vision of European politicians of the 1960s and the realities of national economies in the 1990s is material.

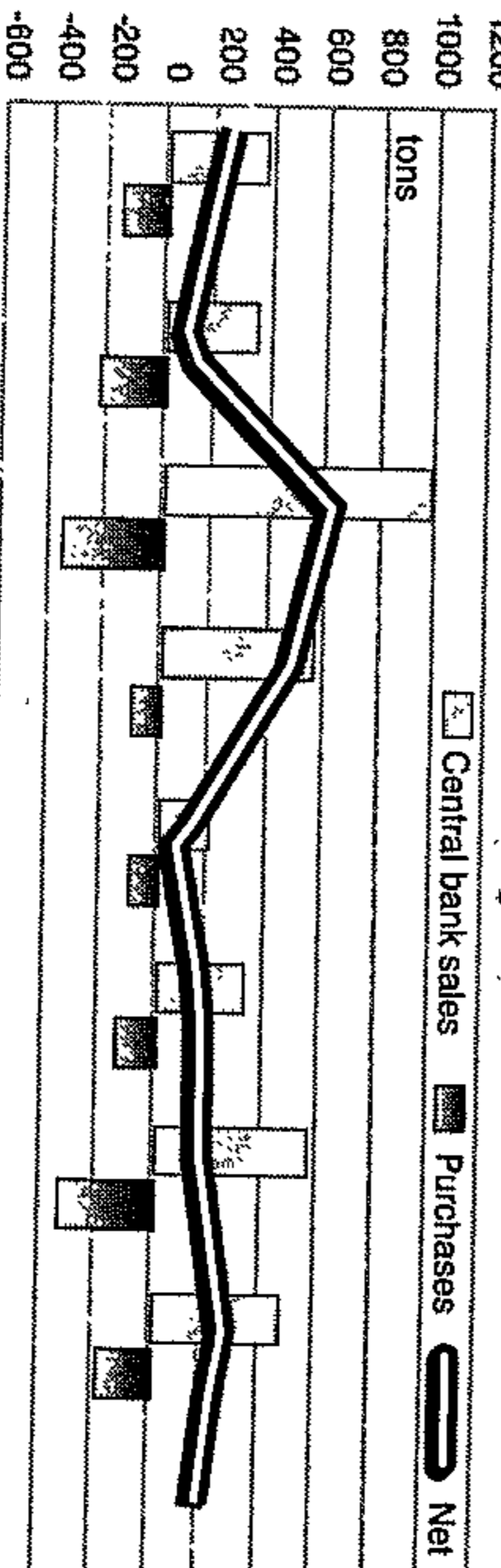
Under these circumstances, European gold reserves are likely to remain in central bank hands at

## Gold: the real picture

### Supply and demand provide a favourable mix



### and the official sector remains a two-way affair...



### With little pressure on most central banks to sell

#### The Big Five's holdings

USA	8 140.4 mt
Germany	2 960.4 mt
Switzerland	2 590.3 mt
France	2 545.8 mt
Italy	2 073.7 mt
World holdings	18 310.6 mt

#### Other main holdings

Japan	754 mt
Russia	401 mt
India	398 mt
China	395 mt
Venezuela	356 mt
Austria	334 mt
Lebanon	287 mt
Algeria	173 mt
Brazil	155 mt
Total	27 827.7 mt

least for the foreseeable period of uncertainty and currency revaluation, and there has to be a strong possibility that gold will continue to play a strategic part in the management of reserve risks in the period ahead for Europe.

Outside of the gold reserves of the US, the European Union and Switzerland, only nine banks in the world actually hold in excess of 5-million ounces (155 tons) of gold. Of these nine countries, many are certainly not sellers of gold. China and Russia, among the nine, were both buyers of gold in 1996. Russia has specifically indicated an intention to further increase gold holdings. Venezuela is constrained by law from selling of its holdings, while Austria has its own coin sales programme from reserves. All in all, the profile of those with 150 tons and more simply does not look like a constituency of imminent sellers.

Our conclusion has to be that the issue of central bank sales is yet another of the many tradeable issues which have inhabited the gold market in the almost 30 years of its existence (and will probably not be the last).

There will certainly be further official sales in the future, but we believe that they will carry on much as they have in the past. Where substantial individual sales are made, these will be handled as they have been for the past eight years, in a fashion which is well managed and which causes little disruption to the price at the time they are made.

The central bank gold business will remain a two-way business and the net flow on to the physical market will continue to be a necessary part of the balancing of supply and demand in our business. Since the overwhelming source of the short position lies in the US markets which have a limited time horizon in trades of this sort, we can reasonably expect some relief from the weight over the market as the speculative shorts are squared in due course.

Thereafter we would expect the gold price to return again to an equilibrium underpinned by firm physical offtake.

Already we are seeing the signs of a tightening in the physical market as demand begins to respond to the lower price. It would be more appropriate for gold producers to pay attention to the health of physical offtake than to be panicked into anticipating an avalanche of central bank sales, rather than the steady and orderly selling of recent years. To quote Morgan Stanley from an investment research paper published in late June 1997: "We still believe that the physical supply and demand balance for gold is the most encouraging thing going for the metal."

Williams is executive director, marketing at AngloGold. This analysis was given at a briefing on the company's quarterly results yesterday.

COLD- 1994



# Gold poses the first big question in 1994

ARL 11/194

(79)

All anxious to learn exactly Where will the yo-yo finish?

## BRUCE CAMERON

Business Editor

THE big question for 1994 is where is gold going — through the roof or through the floor?

The past week has seen the JSE Gold Index yo-yo on slight fall-backs in the price of the metal with investors collectively taken by surprise on Thursday when bullion suddenly pushed through the \$390 resistance level.

The year itself has seen a roller coaster with the price falling to 325.85 dollars an ounce in March — its lowest level since January 1986. In August it rose to 409.75 dollars an ounce — its highest since September 1990. In September it dropped like lead to \$342 but climbed back steadily to end the year at the \$390 level.

Stockbroker Peter Bartholomew of Mathison and Holidige, who has been watching the metal for the past 20 years, is confident that there is a solid bull run underway and South African gold shares could see a major breakout in the New Year.

Mr Bartholomew expects a breakout of about 400 points on the JSE gold index. The index was pushing to the 2 200 mark this week. This would take the index beyond the 2 500 all-time high it reached in 1987.

This would be on the back of a gold price which he confidently expects to trade above the \$400 dollar barrier in 1994 with no reason why it should not break the \$500 an ounce barrier before a major correction sets in.

Mr Bartholomew said: "I think that this is a golden opportunity for investors to build up substantial positions with a view to excellent returns in 1994."

Mr Bartholomew backs his position with a number of arguments which include:

■ South African gold shares are "strikingly cheaper" than those in the United States and Canada and half the price of Australian shares. The price/earnings multiple on South African gold shares is about 13 times, the same as in Australia, while the multiple in north Americans is about 38 times. The forward dividend yield on South African gold shares is 7.3 against the 3.1 for Australia and 0.3 for north America.

■ The re-entry of foreign investors who had reduced exposure to South African gold shares to virtually nil.

■ Gold shares are the cheapest sector of the JSE.

■ Soviet Union gold sales down from 213 tons in 1992 to 59 tons.

■ Additional demand from China including the minting of gold coins to mark the centenary of Mao Tse Tung's birth on December 26, and

■ Gold out-performing platinum in the bull market particularly when inflation or monetary instability is worrying financial markets. Investors see gold as a currency of last resort. For the first time in many years gold is trading higher than platinum.

Mr Bartholomew concedes gold shares are already discounting the higher price of gold and shares and "may appear to be in high territory".

But "the potential for a very substantial increase in dividends together with the relative cheapness of South Africa's gold shares... means that there is still enormous value in our market and the opportunity should be taken to increase holdings."



WHICH WAY WILL IT GO? Gold ... some see it as a golden opportunity.

# Gold breaks \$390 level in \$5 fall

NEW YORK. — Gold fell below the \$390 level when it closed almost \$5 down in New York last night compared to the previous day's close and yesterday's London fix.

The yellow metal was fixed at \$387.55 in New York while it closed at \$393.35 in London. It closed at \$392.25 in New York on Wednesday.

In the US, Comex gold ended sharply lower after a sell-off at midsession, when

trade and bank selling pushed the market through sell stops and sent prices tumbling to a one-week low, traders said.

"This is a short-term move," said one New York commission house analyst, who added that the market had been "overly long from the speculative side."

Gold's test of the downside coincided with a slip in silver, although both metals held at near-term support levels.

"We needed this to shake out some of the

weak longs," said one floor trader.

Analysts saw no connection between today's tumble and recent television and news reports that a Swiss bank allegedly holds more than 1 200 tonnes of gold stashed away by former Philippine president Ferdinand Marcos.

Analysts added that a recent survey of investor sentiment indicated investors were overly bullish on the precious metals.

— Staff Reporter, Reuter

(79) CT 21/1/94

# SA mines miss out on gold price bonanza

From ANDY DUFFY

JOHANNESBURG. — The SA gold industry missed out on revenues worth more than R300m in the three months to September, as forward selling prevented most mining houses from exploiting the burgeoning gold price.

Figures released by the Chamber of Mines show the gap between average spot prices for the September quarter and actual revenues received hit its widest point since hedging records began 12 years ago.

The R300m of potential revenue forfeited in just one quarter compares with the R1,02bn the industry netted from hedging in the two years to last June.

Analysts are divided about whether the gap will narrow in the current quarter, despite attempts by several mining houses to unravel forward positions.

The Chamber's figures show the average gold price for the quarter was R45,194/kg, up R4 588/kg on the previous quarter.

But hedging left average revenues received at R43,081/kg, cutting total revenues back R303m on the total 143 521,1kg produced by the six mining houses.

## Closing gold prices

(In \$ an ounce)	LONDON:
NEW YORK:	393,60/394,10
393,75/394,25	Fixing am: 395,00
ZURICH:	Fixing pm: 394,10
393,00/396,00	— Reuter

Chamber economist William Houtman said many mining houses had adjusted forward selling positions with the onset of the bull run, though not without exception.

The quarter had extended a trend started in the June quarter, in which hedging cut revenues by R34m. The jump comes despite a fall in forward selling from around 30% to 25% of total production over that period.

Many mining houses have said hedging is not aimed at making a profit, but in securing tonnage and, sometimes, survival. But the size of lost revenues, and the prospect of further shortfalls in the December quarter, is likely to strengthen calls for the industry to reconsider hedging plans.

Only Gold Fields does not hedge its production, and to date only Gengold has made clear it will unravel forward positions. Anglovaal, JCI and Anglo American are maintaining a watching brief, while Randgold, which hedges around 80% of its production, has ruled out any reduction in forward selling.

Irish & Menell Rosenberg analyst Duncan Ingram said gold's continued rise could prompt a retreat from forward sales: "Many believe that gold will go above \$400 so there'll be further unravelling."

He said it was not clear that September had seen the gap between quoted and received gold prices at its widest.

Frankel, Pollak, Vinderine analyst Trevor Pearton said the gap should narrow for the December quarter. Gold had not repeated its performance during the three months to September. The average quoted gold price is thought to have been around R42 000/kg for the December quarter.

But other analysts said that many hedged contracts struck in the three months to December 1992 had been at very low prices. This could see the loss in potential revenues grow in this quarter.

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## Gold rallies to close at fresh high

GOLD continued its new year rally on <sup>Bill Day</sup> ~~bullion~~ <sup>bullion</sup> markets yesterday, closing in London at a fresh five-month high of \$396,25 on the back of a firmer Comex opening.

The rise came after the JSE closed, but expectations that the metal would soon make an assault on the \$400 level helped buoy the market. The all gold index ended marginally lower, but bullish sentiment was reflected in bellwether share Vaal Reefs surging R13 to a R490 peak.

Reuter reported that gold was boosted in early New York dealings by purchases from a leading trade house in good volume. "The market wants to move up. It depends on the flow of funds and you can't stand in their way," a dealer noted.

Blue chip industrials succumbed to profit-taking on the JSE but the index was off session lows as investors bought shares on

<sup>Bill Day</sup> ~~bullion~~ <sup>bullion</sup>  
MERVYN HARRIS

the way down. Foreigners were again prominent buyers in all sectors.

The overall index eased two points to close at 5 086 with share gains matching losses. "We needed some consolidation but we did not have much of a breather yesterday," a dealer said. The market was likely to take off again today if gold maintained its higher levels. (79)

Yesterday's pause in the upsurge of shares was reflected in a volatile Anglo American.

The shares climbed 400c to touch a R239 high, eased, then rose again before slipping back to close 150c down on the day at R233,50. Shares worth almost R100m changed hands in 312 deals, lifting trade during the past three days to R262m.

# Gold's fall leads to jitters over JSE

CT 7/1/94 (79)

By ARI JACOBSON

GOLD bullion plunged almost \$11 in London yesterday afternoon to \$385,40 an ounce before recovering slightly late yesterday.

The problems began in New York on Wednesday when the metal fell some \$6 to \$390,85 and the downtrend persisted yesterday when it closed in London at \$388,70.

In New York last night the metal was fixed down almost \$2 at \$389.

The fall comes at a time when the local share market is caught in "scary" territory, with most market players considering the JSE to be "at the mercy of US fund managers".

Although gold remained under pressure in volatile trading on bullion markets yesterday, dealers noted its ability to bounce back and said the fall was a correction in a bull market which remained intact.

A tumbling silver price and producer selling sparked profit taking yesterday by US funds with the selling extending to the Far East.

Platinum shadowed gold's decline, slumping nearly \$9 to a London afternoon setting of \$389.

Analysts said bearish fundamentals such as higher SA output and the sluggish economy in Japan, the world's largest platinum user, had been weighing on the market in recent weeks.

Gold's decline took some of the steam out of JSE mining shares with Anglo American leading the

## Closing gold prices

(In \$ an ounce)

NEW YORK:  
388,75/389,25

LONDON:  
388,45/388,95  
Fixing am: 390,60  
Fixing pm: 385,65

ZURICH:  
388,00/391,00

— Reuter

softer trend with a fall of 750c to R226 with shares worth R60m changing hands.

The All Gold Index gave up 2,7% or 64 points to close at 2 259. Western Deep showed the largest loss of 4,1% among quality stock, falling 900c to R206 but several lesser-priced shares defied the easier trend. Vaal Reefs, however, fell R12 to R478 and Kloof slipped 175c to R56,50.

Among mining financials, Gencor was steady at 940c as shares worth R37,6m hands in 46 deals.

The fall in gold comes at a time when gold shares are considered to be discounting a gold price around the \$420 an ounce level.

Syfrets gold analyst Peter Major pointed out that based on "fundamentals" gold bullion should be at \$380 an ounce.

However, he was fairly optimistic that it could be "traded" to the \$400 level this month.

He did warn that "SA equities

and gold bullion are being controlled from New York".

Davis Borkum's partner Dana Wakfield said that on "technical" gold bullion was looking "solid" and could push towards about the \$425 an ounce mark.

"The metal should not plunge but rather consolidate around \$390, before moving upwards."

She said however that "there is something strange about bullion" because it is no longer motivated by inflation" but rather by "currencies and global economic changes".

The Industrial Index resumed its march to new highs with a gain of 31 points to surpass the previous closing high of 5 717 to finish at 5 719. Dealers said the high level of shares spurred some selling but buyers were waiting to pick up stock on the way down.

Shortly after the close, the All Share Index was 24 points down at 5 062.

But a senior trader pointed out that "the market has moved too fast, too soon" and added "at the moment it is miles too high".

He pointed out that Hong Kong's Hang Seng Index — which has mirrored the JSE's Overall Index over the last six weeks — yesterday shed some 6% as US fund managers bailed out.

"These guys (US fund managers) are throwing money at world markets because there isn't any value on Wall Street. When they pull out, there is going to be a vacuum."

Among key industrial shares, Barlows firmed 25c to R55,75 and Remgro added 50c to R35,70.

# Analysts unfazed by gold's decline

By ARI JACOBSON

GOLD bullion took a dive yesterday, dropping \$4.30 to close out in London at \$383.35 an ounce, but market players came out in support of the long term "bullish prospects" for the yellow metal.

New York trade boosted gold's price to a \$384.75 close, lifting the metal from its lowest level in a month.

On the day, the weaker bullion price and the news of gunfire allegedly aimed at Cyril Ramaphosa and Joe Slovo in Katlehong pushed all the indices down — the Gold Index closed 79 points or 3.5% lower at 2 210, the Industrial Index shed eight points to 5 742 and the Overall Index was 38 points lower at 5 044.

However Board of Executors (BoE) portfolio manager Rob Lee said that bullion was in a long term "uptrend" and short term "volatility" could be expected along the way.

Frankel, Max Pollak's gold analyst Trevor Pearton tended to agree saying that bullion had created a "good base" and he was "bullish" over the longer term.

He said that the gold market was small yet consisted of big traders, and this resulted in "the over-reaction" as seen yesterday.

He said that by midyear the

## Closing gold

(In \$ an ounce)

NEW YORK:

384,50/385,00

LONDON:

383,10/383,60

Fixing am: 382,20

Fixing pm: 383,70

ZURICH:

381,50/384,50

— Reuter

yellow metal would be above the \$400 mark.

The metal was driven lower yesterday according to dealers, based on heavy fund selling out of New York and Far East.

The explanation was that poorer than expected unemployment data in the US, released on Friday, meant a slower economic recovery and therefore a slower increase in inflation, which was bad news for bullion.

However this was described as a "feeble explanation" by a trader and Syfrets portfolio manager called it "paralysis by analysis".

The JSE in general has been a source of concern at its high levels — however, Woolford said that a period of "consolidation" was expected rather than a "sharp correction".

He said that should economic growth prospects tie up with the prevailing forecasts "there is still value in the market".

(79) T 11/1/94  
A senior trader said that the market was still wary: "No-one wants to be caught short or for that matter long — so at this stage its getting tricky".

He added: "We are seeing more private clients getting out who prefer to sit on the sidelines in the run up to the (April) election, but every day there is someone from abroad getting into the market, and in a big way."

Leading counter De Beers came off the day's lows to add R1,25 to R109 while associate Anglos shed R2,50 to R221,50 — but also off the day's lows.

The new-look smaller Barlows, after it effected the unbundling of some of its major industrial shareholdings yesterday, was well-above market expectations of a share price between R23 and R24. The share hit R30 before falling back to an R28 close.

In gold, Loraine shed R1 to R20,25, while Kloof lost R2,25 to R55 and Vaal Reefs fell R21 to R463.

Gold Fields shed an early R1 to R112 and was unaffected by later news of lower gold mine profits for the quarter to end-December.

Oil company Sasol ended 25c up at R19 after the day's heaviest trade in which 1,4m shares worth R26.5m changed hands.

Banking group Sechold continued to fall on news of a "meaningful" futures market loss, dropping R2,75 to R6,25.

JOHANNESBURG. — Gold Fields of SA yesterday reported a 2% drop in after-tax profit to R388m for the quarter ended December 1993 compared to R397m in the previous three months.

Despite a modest decline in the gold price, executive director Alan Munro said an uptick in gold production enabled the group's mines to post a combined working profit unchanged at R491,7m.

Gold production increased 5% to 30,7 tons (29,3 tons) while the average price per kilogram declined from R41 640/kg to R39 758/kg.

After-tax profit declined slightly largely as a result of lower sundry revenue at R38,5m (R53,9m) relating to insurance claims and proceeds from

# Gold Fields profit dips on lower, bullion

the sale of assets but interest on investments was slightly better.

The group kept total working costs almost constant at R730,1m but unit working costs fell to R23 795/kg from R24 899/kg.

The level of capital expenditure in the next six months would exceed the spending in the last half-year, he said.

● Kloof gold mine sailed through the December quarter barely affected by the accident which damaged one of its deep-level shafts and disrupted underground production in October. The mine, mainstay of Gold Fields'

Kloof gold mining company, kept the quarterly amount of ore treated at 540 000 tons by putting ore stored above ground through its mills.

Kloof division succeeded in lifting its grade to 13,9g a ton (13,8g/ton) — which raised gold output slightly to 7,5 tons.

As with the other mines, good operating results were knocked by weaker gold prices received. Kloof's working profit fell to R144,5m from R153,3m.

The Leeuodoorn division achieved a 6% rise in working profit to R14,8m (R14m) on unchanged production of

2,2 tons while the Libanon division recorded a 27% climb in working profit to R9,9m (R7,8m) as gold production increased slightly to 2,7 tons.

● Driefontein Consolidated performed well, registering a 5% increase in profit after tax and state's share to R194,4m (R186m).

East Dries lifted gold production to 7,5 tons posting a 14% rise in working profit of R156,1m (R137,2m) as the yield increased to 10,5 grams per ton (9,4 g/t).

Despite a slight rise in its gold production to 7,6 tons, West Dries' work-

ing profit dropped to R145,9m (R154,9m) as working costs increased marginally.

● Deelkraal's profit after tax and state's share dropped a fifth to R15m as working profit slipped 16% to R17,2m (R20,5m) with gold production constant at 2,2 tons.

● Doornfontein posted profit after tax five% lower at R4,3m (R4,6m) as working profit eased 11% to R3,3m (R3,7m) with gold production slightly higher at 949 kg (908 kg).

● Meanwhile, Gold Fields of SA's coal and base metal operations mostly

performed better in the quarter to end December 1993 as a result of a firmer undertone in prices.

Copper, lead, silver and zinc producer Black Mountain posted a remarkable turnaround to R5,7m (R4,6m).

● O'okiep Copper Company plunged into the red with a loss of R8m from profit after tax of R1,9m.

The Zinc Corporation lifted its profit after tax 10% to R7,4m (R6,7m). The closing down of Rooberg Tin achieved profit after tax of R419 000 (R623 000).

Gold Fields Coal's profit after tax was almost halved to R3,9m from R7,1m. — Business Staff, Own Correspondent and Sapa-Reuter.

# Sharp uptake in gold likely to hold in '94

(79)

LONDON. — A sharp resurgence in broad based investment demand for gold from North American and European funds buoyed the gold price in 1993, according to the preliminary report on last year's bullion market by Gold Fields Mineral Services.  
Net investment buying totalled 119 tons, up 765%, and offset declines in demand, especially in jewellery fabrication caused by the rising price.  
Overall, the world gold market branched by 4.5% to 3 348 tons, says the FMS report published today.  
Estimated mine production rose by early 2% to 2 231t. SA output was 8t higher at 622t, helped by the weaker and which with increases elsewhere lifted African supply by 19t to 729t. Latin America rose by 21.4t to 231t.

North America was unchanged as a small drop in Canada was balanced by improvement in the US but the Oceania total fell 9t to 320t due to a 16% drop in Papua New Guinea to 60t. Outside the West, another year of decline in the former Soviet Union was more than offset by China and others — Chinese output, up 35% since 1990, was 10t up at 128t — to produce a total of 381t (376t).  
The biggest swing on the supply side was the 24% drop in net official sales which are estimated at 440t — much of it attributed to the exercise of call options written by central banks before the price jump which followed

the Goldsmith-Soros deal.  
And net forward sales were down nearly 13% at 131t — the bulk by North American mines but with Australian and SA mines also playing a part.  
But there was a sharp rise in the supply of jewellery scrap, up 68t (12%) to 508t, especially in the Middle East as the moved moved above \$380/oz.  
On the demand side, price sensitivity produced the first drop in offtake by the jewellery industry since 1986. Jewellery accounted for 2 493t, nearly 7% down. The major decline was in the Far East where jewellery fabrication dropped 12% to 629t as stocks built up by the 108t surge (18%)

in 1992 were worked off.  
In China, which is not included in the Far East, jewellery was 16% lower at 155t.  
The slide into recession in Europe saw its fabrication fall 7.5% to 620t and the only bright spots in the west were a 3.5% increase in North America at 146t and Latin America, up 12% to 60t.  
Official coins were boosted by the 36t used for the Japanese royal wedding commemorative issue and a return to the market of Kruggerands as sanctions against SA were lifted. American Eagle sales (500 000oz) were also the highest for four years, boosting coinage offtake by 15.3% to 106 t.

the first six months was swamped by buying of 151t in the last.

It says the most surprising aspect of 1993's investment was that it came against the background of declining inflation in Europe and North America.

Dr Stewart Murray, CE of Gold Fields Mineral Services, said a number of factors were at work "including perhaps a belief that inflation numbers in the industrialised world indicated a cyclical low."

He concludes that the gold market is entering 1994 in "good shape". Physical demand was recovering as excess inventories were worked off and "consumers in Asian countries have now adjusted to the fact of higher gold prices and as a result are now ready to resume buying".

But bar hoarding in India and the Far East (not China) slumped. Following the 139% jump in 1992, estimated bar hoarding for the Indian sub continent is estimated to have dropped from 52.5t to 8t while in other Far Eastern markets it was down by 55.5t to 105t. In addition Latin America continued to be net sellers of bar gold, although only 17t (52.2t) in 1993.  
The report shows that western investment in bullion continued. The 119t estimate for the year (74t in the first half, 45t in the second) compares with just 14t in 1992.  
But the 1992 net total was struck after net investment selling of 137t in



# Gold shares weak but industrials up

CT 27/11/94 (79)

JOHANNESBURG. — Gold shares closed softer in light JSE trade yesterday on bullion's inability to break out of its lower trading range, but industrials gained ground on renewed institutional interest at their lower levels.

Traders, who described dealings as extremely thin and directionless, said the gold price, which continued to hover around the \$380 level, had injected a note of caution into the market.

Gold closed slightly up in London yesterday afternoon at \$384,05 from \$382,45 and in New York late last night at \$384,55 — up \$3 from Wednesday's nights close at \$381,45.

Gold-related shares in London were a touch weaker yesterday as the price of bullion eased but business was extremely light, dealers said.

Shortly after the official close, the All Share Index was five points off at 4 757 as the All Gold Index slipped six points to 1 952, but the Industrial Index was six points higher at 5 458.

Market leader De Beers mirrored the generally softer trend on the market, losing 125c to R108,25, but associate Anglos reversed Tuesday's losses to firm 100c to R195,00 on turnover of R10,32m — the day's highest.

On the gold board, heavyweight Vaal Reefs was 200c down at R418,00 and Kloof eased 50c to R48,00. However, Western Areas remained a positive feature, gaining 400c or 11,76% to R38,00 on locally-driven demand after reporting a "sparkling" set of quarterly results on Tuesday, dealers said.

Among key industrial shares, expected to reflect further foreign interest in the short-term, Barlows managed a 20c rise to R28,00 and SA Breweries collected 125c to R83,50. — Sapa-I-Net

# Volatile gold breaks through \$380 again in \$7

Own Correspondent

JOHANNESBURG. — The JSE's all gold index rose 72 points to 2 024 points on the back of firm demand for gold shares and an improved gold price early yesterday, but gold plunged almost \$7 in New York late last night.

The gold price yesterday closed at \$381.05 in London from \$382.45 the day before. In New York, it closed at \$377.75 yesterday from \$384.55 on Wednesday.

JSE dealers said that there was initially some futures buying, which then moved into gold shares. But as the metal hovered around the \$384 level in London, there was some profit-taking.

Interest in gold shares yesterday came from home and abroad. However, the All Gold Index still has a way to go to match its January 5 high of 2 333.

Analysts cautioned that the bullion market

was being driven by large international funds, which were manipulating it to their advantage. Frankel, Pollak, Vinderine gold analyst Trevor Pearton said: "This is a fund managers' market and they are doing everything in their power to tweak it in their favour."

The gold price will remain volatile in the short term as the funds manipulated the market to try to make a quick profit, he said.

"The market is not being pushed by supply

and demand factors. Gold is one of the only attractive avenues the funds can make profits and, as their dealings are so big, they can — and are — moving the market in their favour."

On the gold board, Vaal Reefs stepped up R11,00 to R429,00, while Kloof earned 300c (6,25 per cent) to R51,00 and Western Deep scored a 375c rise to R165,25.

The Industrial Index climbed 39 points to 5 495, nudging the All Share Index 36 points

28/1/94

## US drop

higher to 4 792.

Market leader De Beers sustained a 275c loss to R103,50 on the back of fears of renewed Russian diamond selling, while stablemate Anglos gained 200c to R197,00 as shares worth R10,26m changed hands in 72 deals.

Industrials were mixed, with blue chip Barlows accumulating 75c to R28,75 and Iscor continuing its climb to gain 6c to 244c on turnover of R6,78-million, but Engen fell 25c to R34,00.

# Gold index falls sharply in nervous SA trade

CT 29/1/94

By ARI JACOBSON

THE gold index fell sharply yesterday, as bullion remained in the "unpredictable" \$378 an ounce range in London trade and analysts remained wary about its future path at the weekend.

The yellow métal fell \$3.50 in London to close at \$378.55 and in New York it closed out at \$377.25 — down \$0.25.

Shortly after the official close, the All Gold index was 117 points or 5.8% lower at 1 907, depressing the All Share index by 68 points to 4 724 but the Industrial Index was four points up at 5 499.

Syfret's portfolio manager Guy Woolford said that "bullion was notoriously unpredictable" and more akin "to the throw of a dice".

Frankel, Pollak's gold analyst Trevor Pearton said that there was plenty of "doubts" about bullion and its failure to come back over the \$380 an ounce had made "short term movements even more tricky to determine"

## Closing gold prices

(In \$ an ounce)

NEW YORK:

377,00/377,50

LONDON:

378,30/378,80

Fixing am: 378,15

Fixing pm: 378,25

ZURICH:

377,00/380,00

— Reuter

This at a time when diamond share De Beers, comprising a rough 8% of the All Share Index, lost R9 or 9% over the week, to close out yesterday at R100 a share.

The rumours circulating in New York was that De Beers' control of the diamond market, through the Central Selling Organisation (CSO), was being af-

79  
fected by Russian rough diamond sales, mostly to India.

That country in turn was polishing them up into gem stones and flooding the market, eroding the CSO's control.

A more discernible trend on Wall Street is the swopping of large parcels of SA shares among fund managers and it was hard to 'miss a line' of one million De Beers shares which crossed from one US fund to another midweek.

Yesterday there was a bright spot as industrials gained ground, amid a shortage of scrip and continued overseas demand.

Market mainstay De Beers slipped 350c to R100 and stablemate Anglos was 600c off at R191, while on the gold board, Vaal Reefs plunged R24 or 5.6% to R407.

Among key industrial shares, Barlows collected 130c to about R30 and Wooltru added 500c to R108 but SA Breweries was 50c weaker at R84 on turnover measured at R5.7m.

# Pressure on gold, forex reserves abates

Own Correspondent

JOHANNESBURG. — Finance Minister Derek Key's hints of positive economic developments last week were followed yesterday by the release of figures showing that pressure on the gold and foreign exchange reserves had abated.

The Reserve Bank's balance sheet for January showed a small rise in the Bank's holding of gold and foreign

assets of R33m. The seasonal pattern has been for reserves to rise in January after falling in December, when foreign payments fall due.

However, economists said the modest rise probably masked a better underlying situation, as the balance sheet suggested the Bank had reduced its foreign debt. The small rise should also be evaluated against a lower rand valuation of gold holdings.

The Bank's balance sheet showed

gold and forex reserves of R9,13bn in January. Reserves peaked at R11,5bn in August 1992 and have moved downwards since then.

The Bank's "other liabilities" — consisting mainly of foreign "overdraft" debt — fell R679m in January.

Economists said this was a sign that forex inflows had been used to reduce the Bank's debt, and only R33m was left to add to reserves. The Bank's foreign liabilities, excluding the

IMF's R2,8bn loan, rose by R4bn last year. Economists said the need to extinguish this debt would put a brake on rises in the reserves later in the year.

Gold holdings were down to R5,57bn compared to R5,63m in December, reflecting a lower gold valuation (R1 173,42/oz) and a drop in the volume of ounces held. Foreign currency was up by less than R95m at R3,55bn from R3,45bn.

# Shares lower on back of gold, political fears

JOHANNESBURG. — Shares ended generally lower after running out of support in afternoon trade, dealers said, citing fears of weak world equities, a lower gold price and a continued lack of political progress.

The Industrial Index finished eight points lower at 5 731, the Gold Index was 58 points weaker at 1 885 and the Overall Index shed 42 points to 4 891.

The weaker financial rand was seen supporting prices at their lows.

Market leader De Beers ended a rand lower at R108, Anglos shed R4,50 to R205 and Richemont added 25c to R45,25.

One of the day's largest falls was in

79 29/2/94  
WA, which backed down from earlier bullish predictions by saying it would not return to profitability or pay a dividend in the 1993 year. The share fell 20c to R1,25.

Firmer spots included Lonrho's 65c gain to R11,30, Sappi's 50c rise to R33,75 and Pick 'n Pay's 50c gain to R13,50.

SAB shed R1,25 to R88,50, Hiveld shed a rand to R16 ahead of results, and Engen lost 50c to R32,50, rand.

In golds, Freegold shed a rand to R62,50, Kloof lost R2,75 to R46 and Vaal Reefs ended R14 lower at R404.

— Sapa-Reuter

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# Demand for Krugerrands soars

DEMAND for Krugerrands has soared as investors scramble to move spare cash into safe havens on fears of political turmoil and a possible tax on assets.

The surge in demand is reflected in the coin's price which has risen 3,8% over the past few days, closing at R1 455 yesterday from R1 402 on Monday.

On the JSE yesterday, 3 098 coins worth R4,5m changed hands in 58 deals. This compares with sales of 10 469 coins worth R13,77m in the week to February 4. But it is slightly less than sales in the week ended February 5 1993 when 3 385 coins, then worth R3,39m, changed hands. (79)

A dealer said: "The present price is a pure reflection of demand and supply. There are so many buyers and a limited number of new coins issued every week."

This is in spite of a sharp fall in the gold price, which dropped \$4,10 to close at

9/2/94  
\$380,25 in London yesterday.

But a First National Bank treasury spokesman said the weaker financial and commercial rands were also behind the increased demand and higher price.

"The coin's premium over the gold price has risen to 12% from about 8% a week ago as demand outweighs supply. People are becoming increasingly uncertain and insecure given the present political stalemate and the threat of increased violence."

An analyst said Krugerrands were difficult to trace. While a record was kept of all transactions, there was no formal list of coin holders. Also many coins were bought as presents. "Should a wealth tax or a tax on assets be introduced by a new government, it will be all but impossible to trace every Krugerrand holder to levy the tax."

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PETER GALLI

# Investors rummings for cover

Star 12/21/94

**KRUGERRANDS** and other hard assets have suddenly become the hottest property in town. Faced with the possibility of wealth and transfer taxes, investors are rushing to put assets into gold and — to a lesser extent — diamonds.

The Krugerrand price this week soared to more than R1 540 for a one-ounce coin, a premium of more than 15 percent on the rand price of gold. Until recently the premium averaged 7 percent.

SA Gold Coin Exchange chairman Alan Denby says Krugerrands are a political hedge. "People are running scared and some are buying gold as protection against future political uncertainty. Krugerrands are the easiest way for the average South African to buy gold."

Denby says the prices of rare American coins, notably the St Gauden Double Eagle gold dollar, also reflect increased uncertainty. Some of these coins cost up to R1 million each.

## Carpets

According to a diamond dealer, very much the same is happening in the diamond market, with demand — and prices — rising since September.

Dealers in Oriental carpets and other movable assets are all reporting boom conditions in their sectors. While the upturn is partially the result of generally improved economic conditions, part of the upturn is also the re-

## Rush on diamonds and Krugerrands

**POLITICAL uncertainty and fear of wealth taxes have driven up the price of compact, transportable hard assets, writes Personal Finance Editor MAGNUS HEYSTEK.**

any new government. Fear of wealth taxes or confiscation of wealth has led to a rush for hard assets which are less traceable than investments like shares, unit trusts and endowment policies.

Even expensive watches are very much in demand. Brands like Rolex and Omega can cost up to R100 000, and they are easy to hide and transport from one country to another. A dealer said this week: "In times of uncertainty people look for safe havens for their money. Gold is the ultimate store of value, and Krugerrands are the safest and most transportable way to invest in gold."

The fact that the supply of gold coins is limited has led to the sharp increase in price, despite the fact that the rand-gold price is declining.

Two weeks ago the price on the JSE of a Krugerrand was R1 380. Prices have moved up swiftly since, driven by

ruary 4 more than 10 000 coins worth almost R14 million changed hands on the JSE — only one of the places where coins can be bought and sold.

Other sources of Krugerrands include commercial banks, coin dealers and private sellers.

The SA Gold Coin Exchange has reported three boom months in a row, with business running at record levels.

Although a nominal record of Krugerrand sales is kept, it can be very difficult to trace a buyer as it is easy for a purchaser to give false information.

## Drawbacks

As the foreign market for Krugerrands is once again flourishing, the coins are popular among people wanting to move assets abroad.

The same applies to diamonds. At a price of more than R20 000 for a one-carat diamond, these gems offer an easy manner in which to transport a large amount of wealth

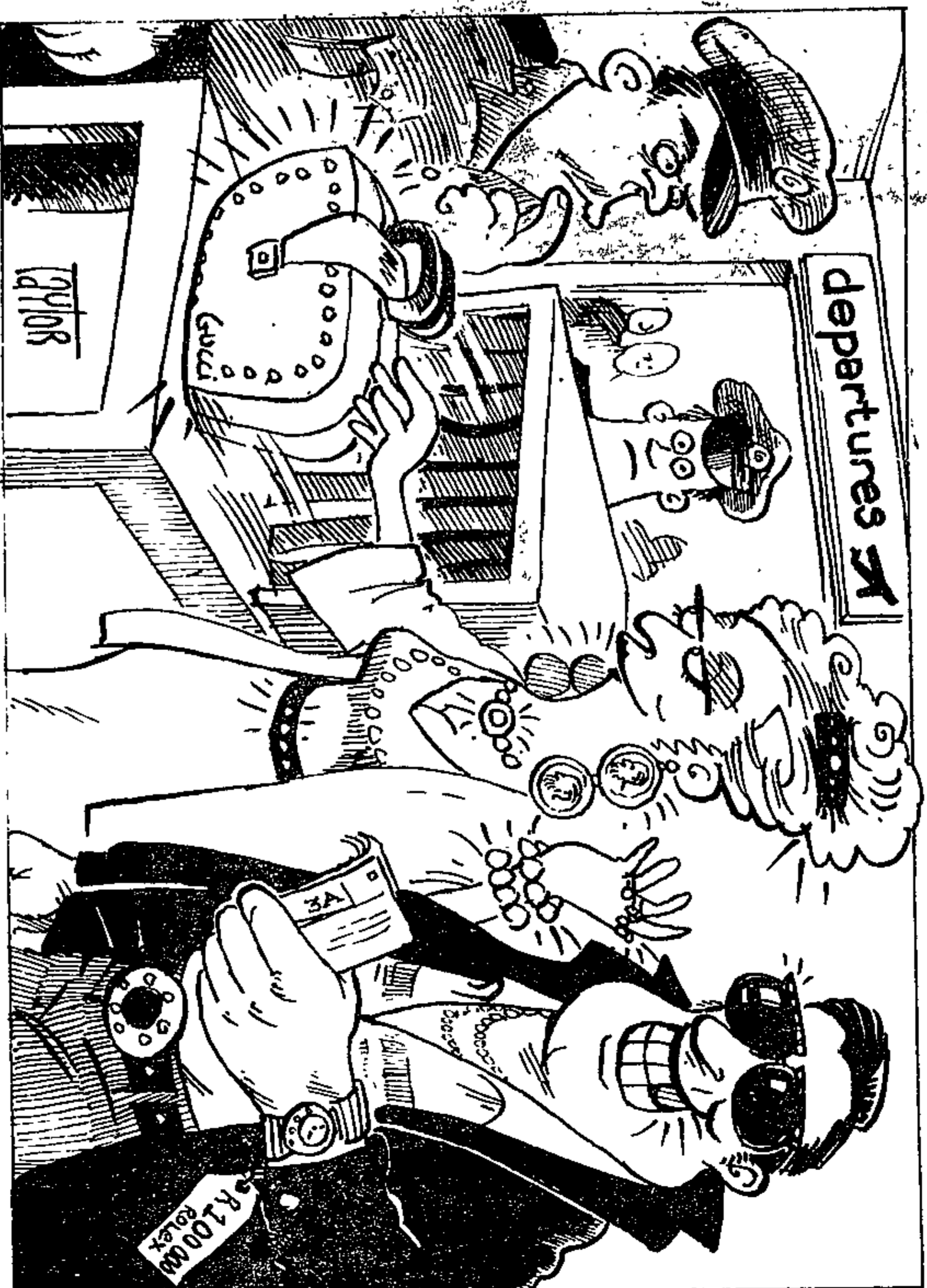
Said one dealer: "A lot of people, coming from Mozambique brought diamonds across the border and used them to set themselves up in business."

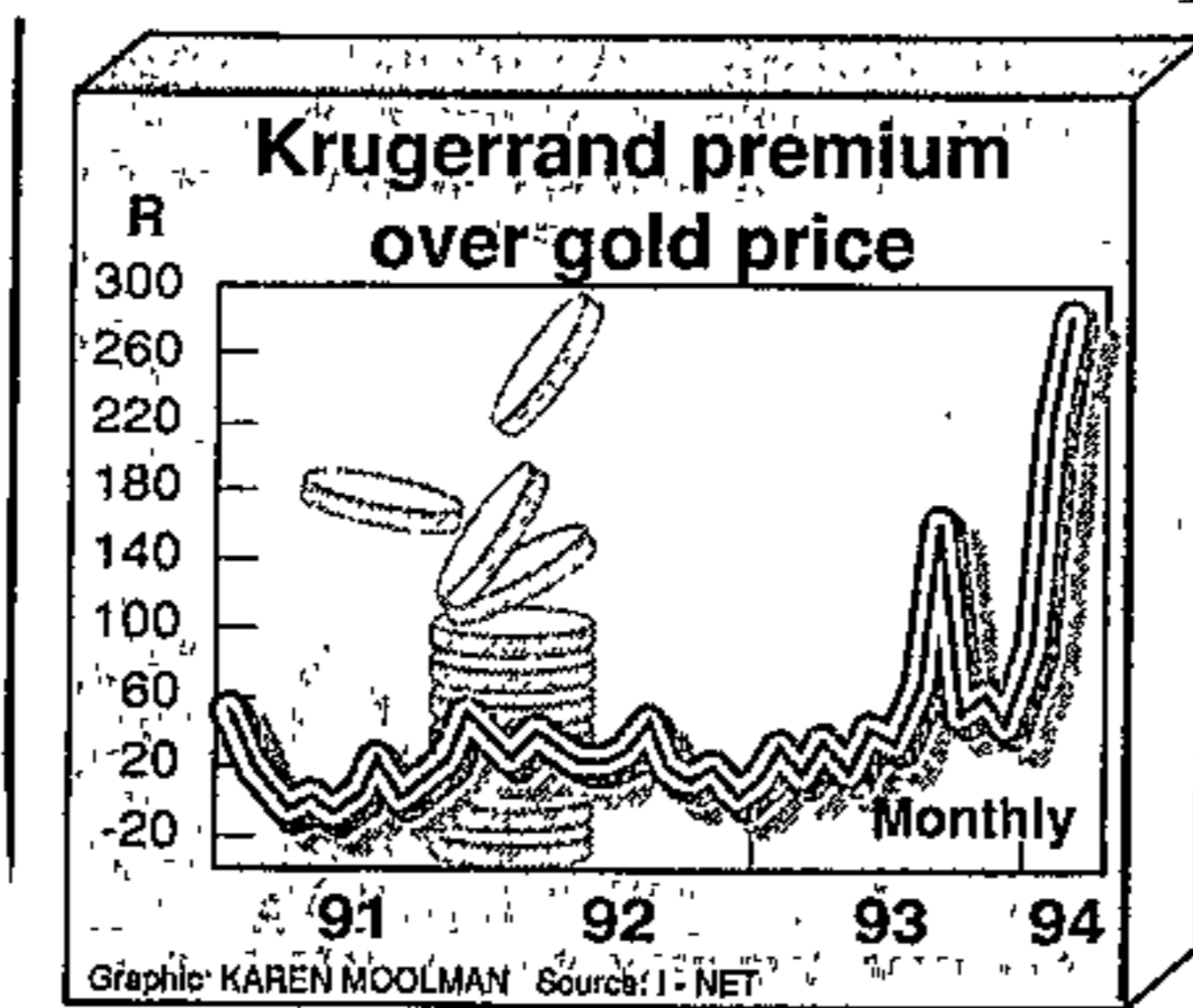
One of the drawbacks with diamonds is that an owner wishing to sell a stone is unlikely to get what he paid for it because of the large retail mark-up lost at the point of resale.

But fear about future government policies is not the only factor behind the mini-boom in hard assets. Analysts report that fear of a massive currency devaluation is also driving prices up.

Financial markets have been awash with speculation about a sharp drop in the rand's value in the run-up to the election.

In the past, Krugerrands have proved an effective rand hedge, as prices tend to increase in line with a drop in the value of the currency.





## Nervous investors grab Krugerrands

PETER GALLI and MERVYN HARRIS

MOUNTING nervousness in the wake of negative political developments continued to power the Krugerrand to new highs yesterday as investors sought security in safe haven instruments. *Biday*

The coin closed at R1 600 after an intraday high of R1 620 and low of R1 538. About 3 224 units worth R5,16m traded in 148 deals. This put the coin at a six-year premium of 21,3% to the gold price. *1512/94*

Since negotiations with the Freedom Alliance stalled a week ago, the coin has gained 14,1% or R198. A JSE dealer said the coin was trading at a 12% premium about three years ago, slipping to between 6% and 7% since then. *(79)*

"The present premium is a direct indication of the nervousness about political and economic developments.

"The rise has come despite a stagnant gold price, which firmed slightly to a London afternoon fix of \$383,25. Unprecedented demand for the coin has seen its price continue to rise. I don't expect it to fall back before the elections," the dealer said.

A spokesman for Absa's securities and settlement house — which handles Krugerrand transactions for the group — said sales of 1oz Krugerrands had increased about 50% from May to October last year. This month's transactions had already exceeded the previous monthly record.

He said demand for the large coin had risen and bulk purchases of investment coins had also increased.



# JSE shares slide as gold weakens

CT 25/2/94 (79)

JOHANNESBURG. — JSE shares ended weaker in active trade yesterday on the back of lower world markets, expectations of higher global interest rates and gold's continued weakness.

Domestic investors were seen taking profits in intraday dealings in line with international selling pressure, dealers said.

Heavy selling of London stocks and bonds by US investors was reported, which in turn "knocked the wind" out

of equities on the British bourse and the local exchange, one dealer added.

Shortly after the close, the Overall Index had fallen 62 points to 4 754 and the Industrial Index shed 53 points to 5 636. The Gold Index slipped 22 points to 1 833 after gold shares eased as bullion remained below the \$380 level, moving to a low of \$375 in intraday London trade.

Dealers said the weaker financial rand had little effect. Market leader De Beers fell 450c

(4,41%) to R97,50 and associate Anglos dropped 500c to R187,00, while on the gold board, Vaal Reefs eased 600c to R401,00 and Western Deep dropped 300c to R172,00. Middleweight Harmony lost 50c to R26,00 and Elands also eased 50c to R25,00.

Among industrials, Haggie fell 50c to R18,50, Barlows slipped 25c to R27,25, Engen lost 100c to R30,50, and Iscor eased 11c (4,09%) to 258c ahead of interim results. — Sapa-I-Net

# Speculators expected to set short-term gold price

8/20/94 8/13/94

ANDY DUFFY

GOLD's short-term price gains will be driven by the whims of investors rather than physical demand, says Anglo American gold division chairman Clem Sunter.

Commenting in his annual review, Sunter said gold's rollercoaster ride last year had stemmed mainly from speculators' activity, with the sharp rise between April and August putting a damper on physical offtake.

The metal hit \$407 early in August, but fell to \$340 in September before the resumption of physical buying from the Far East.

Investors and speculators would continue to hold sway over bullion's fortunes. Demand would catch up with the speculator-driven price "in due course", and would continue to support the market if the price fell sharply.

The spot rand price last year averaged R37 994/kg, against R31 489/kg in 1992. But Sunter said only the US jewellery market had risen — Europe remained static, while Japanese demand tailed off.

Fabrication demand from China was also likely to have been hit by the country's financial reforms. However, the reduction in demand was not "necessarily discouraging", as off-

take would lag a rising market. Sunter said gold's gains should not be used by unions as a bargaining chip in forthcoming wage negotiations. "It will be imperative," he said, "for employee organisations to understand that the price could fall for a variety of reasons beyond management's control."

Anglo would push for profit-share agreements to be included in settlements. Employees at Vaal Reefs, Western Deep Levels and Elandsrand had netted nearly R70m from profit sharing during the current year.

On ANC mineral rights proposals, Sunter said private ownership was crucial to development.

"Mining generally remains one of the riskiest businesses and . . . in deep level gold mining, there is an enormous up-front investment coupled with a volatile and uncertain market."

But the ANC's aims — encouraging small-scale mining, accelerating black ownership, and greater minerals beneficiation — were "broadly supported" by the industry. These aims could be accommodated within the existing legislative framework, given that the state was the largest owner of mineral rights in SA.

# Markets on the boil as gold price surges

CT 11/3/94

(79)

From PETER GALLI  
and MERVYN HARRIS

**JOHANNESBURG.** — Buoyed by a rising gold price, financial markets ended on a stronger note yesterday, with the JSE racing to new highs.

A late surge in the gold price, which closed nearly \$7 higher in London at \$385.25 on the back of trade buying in early New York dealings, helped boost sentiment and is expected to keep markets on the boil today, dealers said.

Last night gold picked up further momentum in New York to close at \$387.25.

Continued foreign and local demand for index stocks lifted the JSE Overall Index 49 points to a record 5 157 points, with advances leading declines by 136 to 22.

The Industrial Index passed the 6 000 level with a gain of 39 points to close at a new high of 6 018, while the Gold Index rose 33 points to 1 888 although gold was hovering only at the \$380 level when the market closed.

"The mood was reflected in the firmer firmand — a major barometer of foreign perceptions — with shares rising both in dollar

and rand terms," a dealer said.

The firmand strengthened 6.5c to close at R4,480 from R4,55, but was off the day's best levels. The strength was on the back of continued good demand.

The commercial rand ended more than 3c firmer in active trade as the Reserve Bank sold dollars into the market to prop up the domestic currency against the crosses.

Dealers said the dollar had weakened overnight, which strengthened international currencies, but the rand had again failed to gain ground against the crosses on the dollar weakness.

"As a result, the Bank intervened to help the rand strengthen in line with a basket of foreign currencies and it remained in the market for most of the day," he said.

On the JSE, despite a lack of fresh factors, quality industrial shares continued their strong upward momentum in active foreign and local buying, Reuter reports.

"We've seen quite a bit of basket (futures) trading in golds but the market is still very much overshadowed by interest elsewhere, industrialists being the most vibrant," a dealer said.

Dealers said the gold price would have to make a significant break through to about \$384/85 to attract gold share buyers.

De Beers was R2.50 better at R112.50 after falling earlier this week after annual results, while associate Anglo's was R2 higher at R225.50. Industrial arm Amic made R8 to R160.

Tongaat-Huilett gained R2 to R39.50 after news of a R92m joint venture food deal here with the us's CPC International.

Cadschweppes added R3 to R50. Richemont slipped 25c to R43.25, but Remgro added R1 to R34. Pick'n'Pay jumped 50c to R14 and Libsif, part of the Liberty Life group, added 25c to R12.50 following good maiden annual results.

Quality gold share Yaal Reef's rose R7 to R422. Kloof was 50c better at R45.25, and marginal Lorraine jumped R1 to R14. Southvaal gained R5.45 to R128.45 and Freegold made 75c to R61.50.

Impala rose R2.50 to R66 and Rusplats gained R1 to R87.25.

Iscor closed at a new high of R3,08, a gain of 6c.

# Gold investors dust off their widest grins

DEREK TOMMEY

ARG 23/3/94

JOHANNESBURG. — The gold price this week reached R1 334 an ounce (almost R43 000/kg), confirming that investors in gold shares will be smiling next month when the mines report their March quarter profits.

In recent months the mines have benefited substantially from a rise in the dollar gold price to more than \$380 for a long period, and from a drop in the rand to R3,45 to the dollar.

These developments have boosted the average rand gold price for the 12 weeks to the middle of March to R1 317 an ounce (R42 343/kg) versus a December quarter average of R39 180/kg. Hence, many mines should achieve higher profits.

Yet while the gold mines had been receiving the higher price, investors should not get carried away.

In theory, the marginal mines — which are only just profitable — should benefit the most from the higher gold price. The percentage increase in their profit margins should be greater than for rich mines.

However, most marginals are selling much of their production forward at fixed prices. While this ensures they get a viable price, it also means they lose out on the higher price, so the leverage effect on earnings is limited.

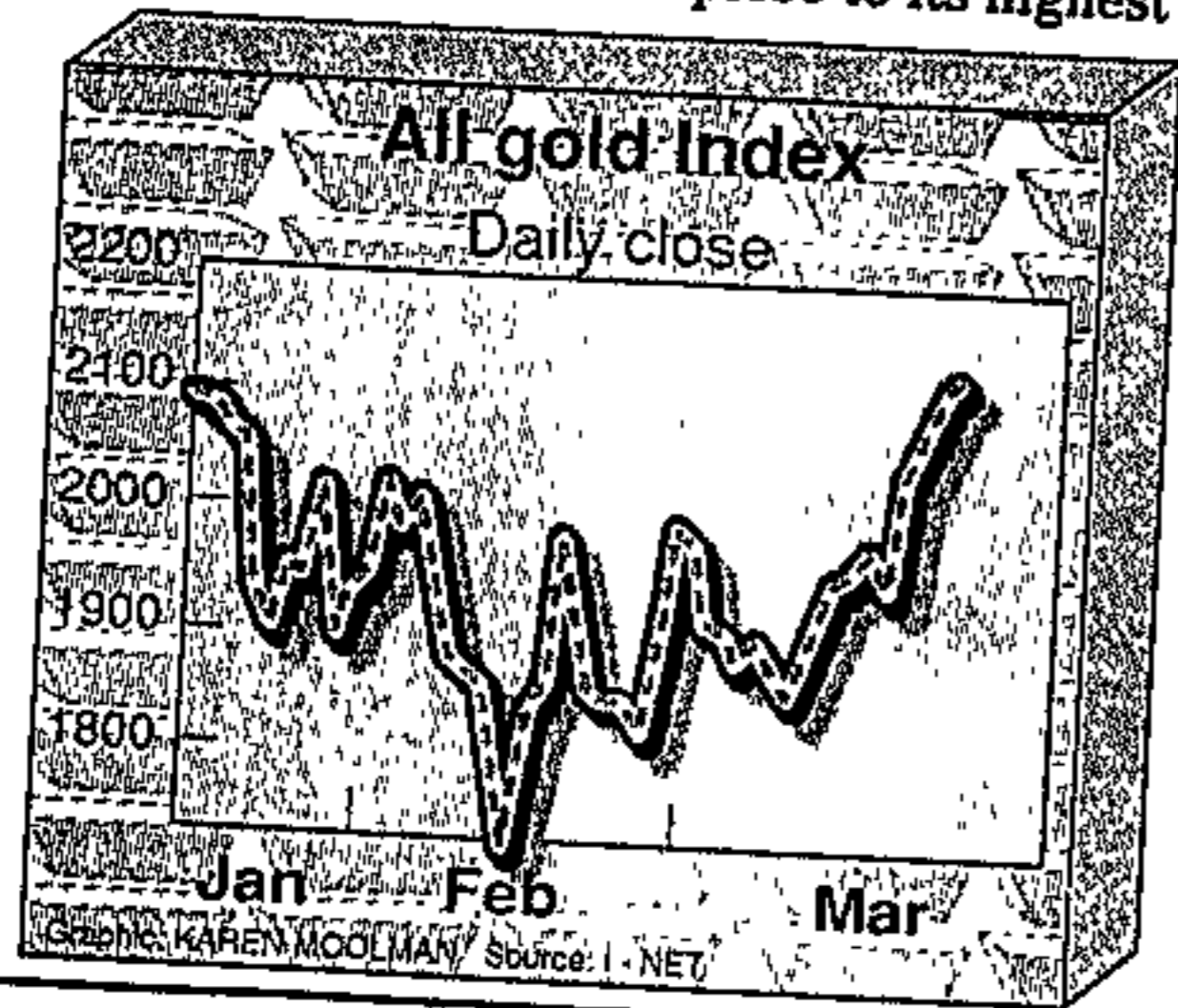
The higher gold price will have made "unpayable" ore deposits profitable. Many mines will start working these low-grade deposits. Earnings, therefore, will not be as high as expected, though the policy makes good sense as it extends the mine's life.

But not all mines have such flexibility, so the blue-chip mines may show the biggest profit gains.

# Precious metal prices surge

PRECIOUS metals surged in early New York dealings yesterday on the back of the volatile political situation in SA ahead of the elections and concern over the deployment of US missiles in South Korea.

The rally was led by speculative silver buying which drove the price to its highest



3 New 2313/94  
MERVYN HARRIS

level in four years, breaching \$5,50/oz. Gold reached a London afternoon fix of \$389,15, its highest level since January 20. It closed \$3,40 up at \$389,25 with platinum on its heels as the metal rose to \$402,15.

The rises came after expectations of a possible rise in US interest rates kept the JSE and global financial markets on tenterhooks. The Federal Reserve Open Market Committee was widely expected to raise Fed fund rates.

The uncertainty weighed on JSE industrials but nudged gold and related mining shares higher for the market to remain steady with the overall index finishing a marginal one point up at 5 231.

The JSE all gold index rose 41 points to 2 121, although the precious metals rally came after the market closed. Advances led declines by 84 to 48 as the industrial index declined 43 points to 6 067.

# Gold bulls are smiling

Star 23/3/94

■ BY DEREK TOMMEY

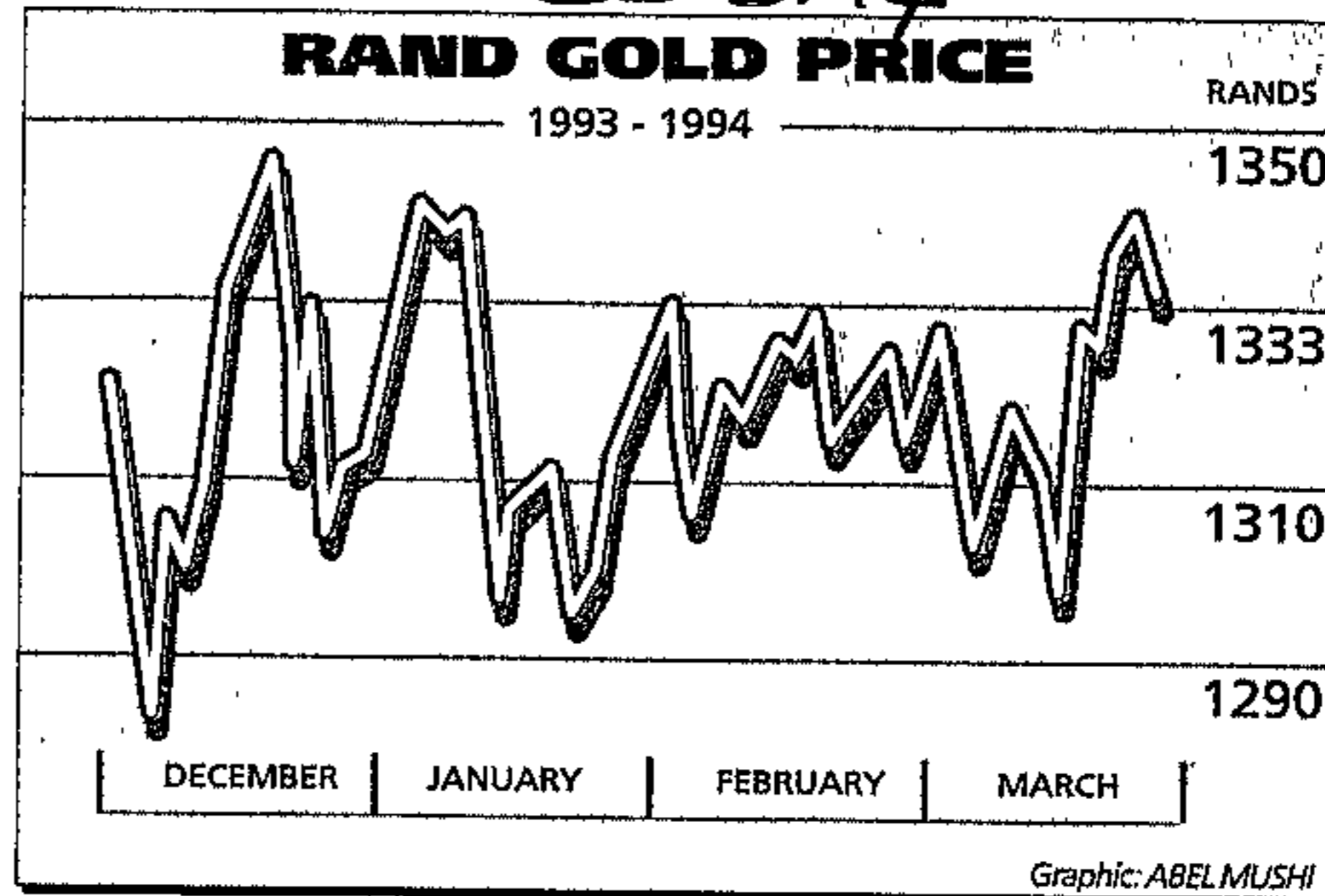
The gold price this week reached R1334 an ounce (almost R43 000 a kilogram), confirming that investors in gold shares will be smiling in April, when the mines report their March quarter profits.

In recent months the mines have benefited substantially from a rise in the dollar gold price to more than \$380 for a long period, and from a drop in the rand to R3,45 to the dollar.

These developments have boosted the average rand gold price for the 12 weeks to the middle of March to R1317 an ounce (R42 343 a kilogram) versus a December quarter average of R39 180 a kilogram. Hence, many mines should achieve higher profits.

Yet while the gold mines have been receiving the higher price, investors shouldn't get carried away. (79)

In theory, the marginal mines, which are only just profitable, should benefit the most from the higher gold price. The percentage increase in their profit margins should



The last three months have been good ones for the gold mines as the gold price has been above the R1300 an ounce level for most of this period.

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However, most marginals are selling much of their production forward at fixed prices. While this ensures they get a viable price, it also means they lose out on the higher price, so the leverage effect on earnings is limited.

The higher gold price will have made "unpayable" ore

deposits profitable. Many mines will start working these low grade deposits. Earnings, therefore, will not be a high as expected, though the policy makes good sense as it extends the mine's life.

But not all mines have such flexibility, so the blue chip mines may show the biggest profit gains.

Higher average level in rand terms seen for current year

# Randgold chairman bullish on gold price

BY STEPHEN CRANSTON

The rand price of gold should be higher on average this year than it was in 1993, says Randgold chairman John Turner.

Turner says that the depreciation of the rand will continue.

And even in dollar terms, the declining trend in the gold price since 1987 showed a welcome turnaround last year, triggered by gold-fund buying in the US, which reflects a generally improved sentiment towards gold.

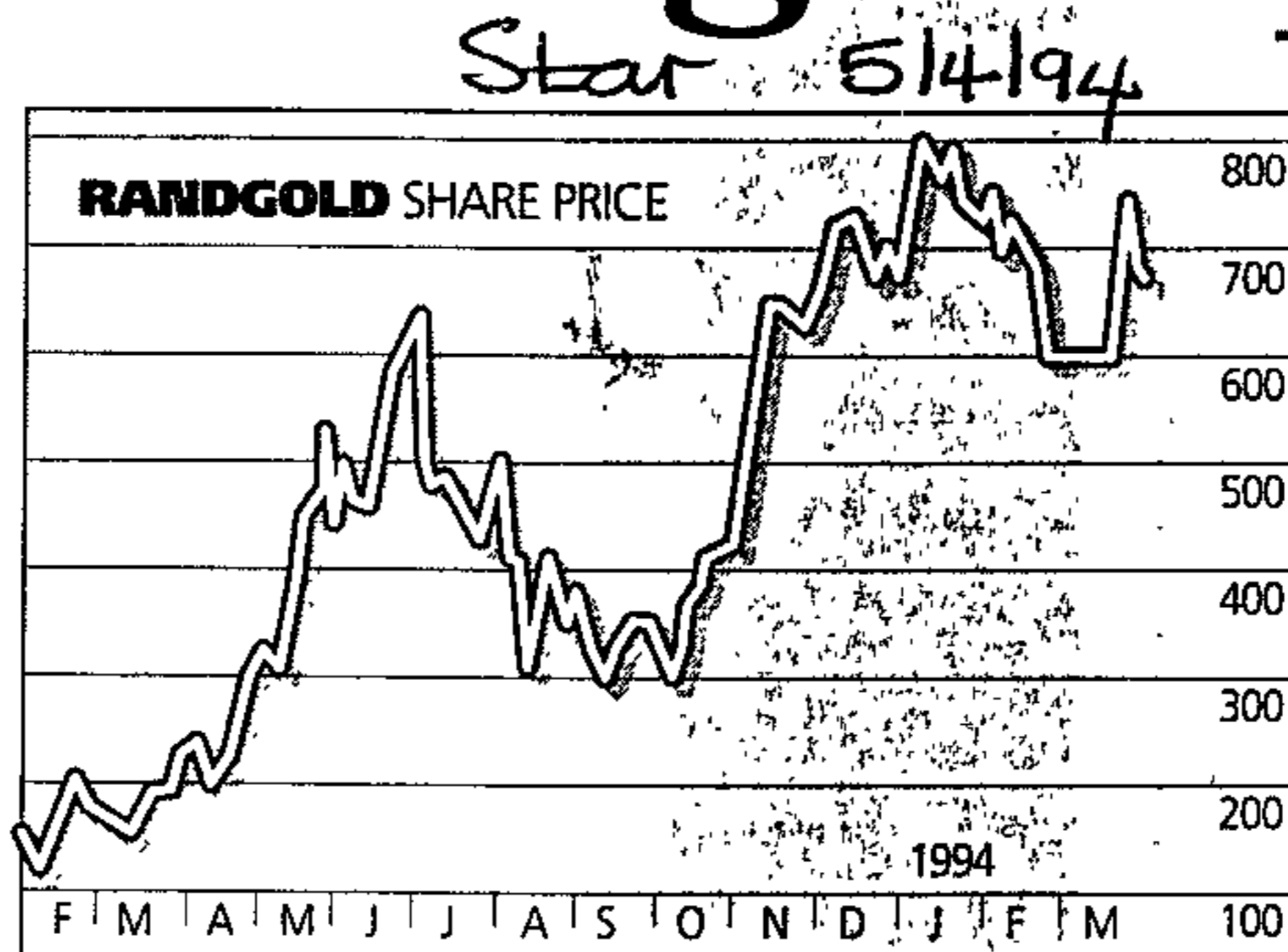
Last year's average price of \$360 was 4,6 percent higher than the previous year, which translated into a 20 percent improvement in rand terms.

## Movements

Turner predicts that gold will trade in the range of \$360 to \$400 this year — although occasional movements above \$400 are possible.

The gold price is crucial to the future of two Randgold marginal mines, ERPM and Durban Deep, which have just released their annual reports for the year to December.

Turner, who is chairman of both mines, says ERPM is now free of its debt burden after its R553 million rights issue at the end of the year, but still requires productivity and production increases before it returns to profitability.



The disappointment of not achieving improvements through seven-day week mining means the company is unlikely to achieve the predicted level of profit or dividend this year.

The 11-shift fortnight has been reintroduced from this month with modifications to include voluntary work on off-Saturdays and -Sundays.

While revenue per kilogram increased by 12 percent and gold production from underground increased marginally, production from surface sources fell by 296 kg as a result of a yield decline.

This decline and cost increases in both underground and surface operations resulted in an overall cost increase of 17 percent per ton pro-

cessed and 24 per kg produced.

The loss for the year of R58,4 million was higher than the previous year's loss of R19,8 million.

Turner says the sinking of the decline shaft below 70 level has been delayed and that the original contractor has been replaced.

Phase 1 of the project below 70 level, which includes the sinking of the decline shaft and the commencement of mining to 73 level, should be completed by the end of 1995.

A decision on Phase 2 of the project, which incorporates the proposed tertiary shaft, will be taken after completion of an underground drilling programme.

Durban Deep's underground

operations remain in jeopardy. Turner says further productivity improvements are necessary if closure is to be avoided.

He says capital expenditure is now vital to ensure that the productivity improvements can be sustained and the lack of mining flexibility rectified.

Good news is that by May, the hedging transactions undertaken in 1993 will be fulfilled and the company should benefit from the projected higher gold price.

## Assistance

Immediate pumping assistance is essential and further assistance may be necessary to meet funding requirements until the combination of improved productivity and a higher gold price make the underground operation viable.

The gold price received in 1993 increased by eight percent to 34 962 per kg, but the increased loss on underground operations resulted in a loss after tax of R12,5 million.

After three years of improvements, productivity last year was 12 percent lower.

Capital expenditure was cut from a forecast R7 million to R3 million and there was a further deferral of essential items, including development.

Turner says dividends may not be paid for the duration of state assistance and no dividend is contemplated while these conditions prevail.

# Foreign investors lose heavily on SA gold shares

(79)

APR 7/4/94

□ Violence fears help trigger selling

DEREK TOMMEY

JOHANNESBURG. — Some gold shares have lost up to 30 percent of their peak values since the beginning of the year — in spite of a record rand price for gold.

Heavy foreign selling has been triggered by fears of tighter money in the United States, partly by the upsurge of violence in South Africa and partly by reports that an African National Congress government might interfere in the mining industry.

This selling overall has pushed down the prices of many gold shares by up to 30 percent from their recent peaks, and by much more in some instances, as the table below shows.

The only consoling factor for South African investors is that their losses have not been as great as those of foreign holders of South African gold shares.

Local investors have had the protection of the financial rand.

This has resulted in the price of shares generally falling by less than they have fallen overseas, as the table shows.

This helps highlight the fact that foreigners who have been investing in South Africa through the financial rand have been having a rough time.

Since the beginning of the year, the financial rand has dropped by about 12 percent against the US dollar — from R4,35 to R4,93.

This means that the value of a foreigner's investment in US dollar terms has fallen by a similar amount — unlikely to be the full loss if the investment is in gold shares. It could be around 30 percent.

This is not the way to treat foreigners whose money South Africa is relying on to give its economy a major boost.

And rubbing salt in the foreign investor's wounds is the knowledge that the local gold price at around R13 500 an ounce is at or close to a record high and that the profits of many gold mines this quarter could also be near or at record levels.

One can argue that when foreign investors piled into gold shares earlier

this year they pushed up prices to unjustifiable levels.

But the subsequent slide in gold share prices, together with the higher gold price, suggests that gold shares now have a lot to offer investors, here and overseas.

All we need is enough peace and quiet to restore the confidence of those bruised foreign investors.

● The table shows the percentage drop from their 1993-1994 peaks in the prices of South African shares traded in London. It shows first the price fall on the JSE and, in brackets, the fall on the London Stock Exchange.

In most instances the falls overseas have been greater than on the JSE. But the fall in the London prices of some of these shares has been less than on the JSE. This is the result of the highs not being the same in both centres.

Coal	0,7	(3,1)
Anglo	16,3	(24,3)
Anggold	4,7	(13,1)
Anglovaal	9,9	(16,3)
Beatrix	26,1	(32,8)
Blyvoor	22,4	(41,9)
Bracken	31,7	(34,2)
Buffels	17,1	(26,7)
De Beers	12,9	(17,5)
Deelkraal	35,5	(38,9)
Doornfontein	56,25	(64,8)
Driefontein	16,3	(16,6)
Durban Deep	13,5	(16,6)
ERGO	35,2	(33,7)
ERPM	69,2	(54,3)
ET Cons	34,7	(23)
Eastvaal	26,5	(22,2)
Elandsrand	31,2	(38,7)
Freegold	20	(27,3)
Genbel	11,25	(12,5)
Grootvlei	30,2	(33,3)
Harmony	1,8	(3,9)
Impala	2,1	(3,9)
JCI	8,5	(10,4)
Kinross	9,8	(23,4)
Kloof	32,3	(30,4)
Leslie	35,2	(42)
Loraine	40,2	(43)
Minorco	10,2	(11,7)
Randfontein	15,4	(19,7)
Rustenburg	5,8	(12)
Vaal Reefs	11,6	(21,5)
Amic	1,9	(5,3)
GFSA	15,5	(24,3)
Sasol	13	(11,6)
SA Breweries	16,9	(23,0)
Tiger Oats	17,8	(20,2)
Tongaat	0,6	(6,5)

(79)

7/4/94



**BATTERED:** Traders on the floor of New York's battered stock exchange take comfort from the news that the economy is not growing as quickly as feared, and the Dow Jones industrial index begins to recover.



From R1 377 the one-ounce coin has risen to a current R1 635

# Day of the Krugerrand

**IN the first three months of last year, sales totalled R35,1 million. In the same period this year, they amounted to R211,1 million.**

■ BY DEREK TOMMEY

South Africa seems to have acquired a new distress (or funk) index to complement the financial rand discount, which is regarded as a measure of foreign concern.

The new index is the premium people are prepared to pay for that one-ounce chunk of gold, the Krugerrand, which has been rising steeply in recent weeks.

However, it must be added that one should not blame this premium entirely on political factors, though they are probably the main reason.

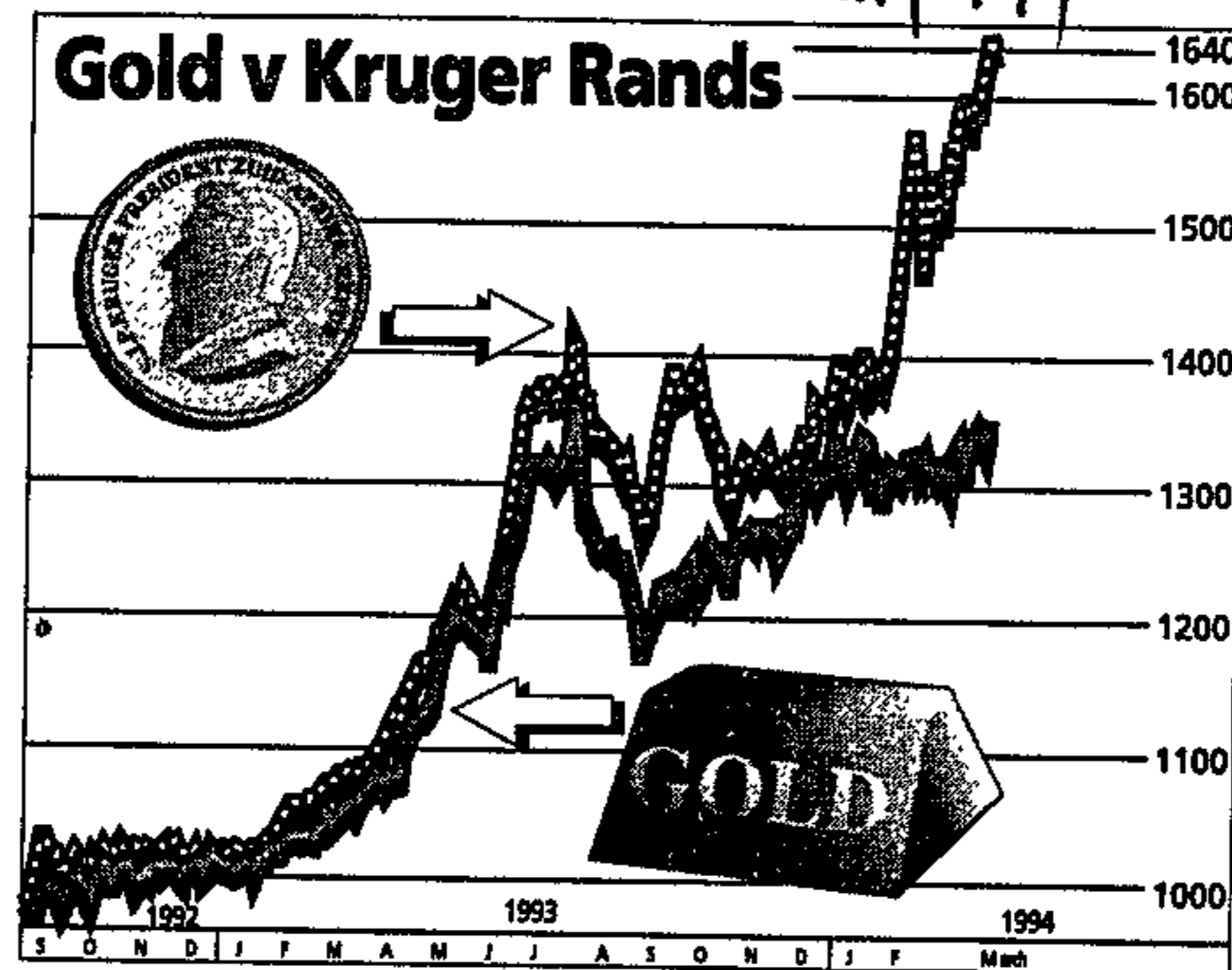
## Investment

Current conditions in the gold market could also justify making an investment in what was once the world's most popular gold coin.

Buying Krugerrands is about the only legitimate and effective way South Africans can invest directly in gold.

While other gold coins are available, they are either issued by other countries or are collectors' items and are much more expensive than the KR, as the South African coin is known.

KRs can be freely bought on



the Johannesburg Stock Exchange and from dealers.

The SA Mint has a monthly tender offer.

This time last year when the gold price was R1 072 an ounce, Krugerrands were changing hands on the the Johannesburg Stock Exchange at R1 086, which was a premium of 1,3 percent above the value of the gold content of the coin.

But various political developments during the year saw the premium spike fairly sharply from time to time before dropping back to previous levels.

It spiked to 3 percent in April, to 6 percent in August and to 12 percent in September.

It then fell back to 4 percent in October, to 4,7 percent in November and to 3,5 percent in December.

Since then, however, the premium has risen sharply.

It reached 7,1 percent at the end of January, 16,1 percent at the end of February and 20,5 percent at the end of March — and is continuing to trade around these levels.

In rand terms, the coin has risen from R1 377 to a current buying price of R1,635.

The jump in the premium is a result of a strong rise in demand in what is an increasingly tight market.

In March last year, some R15,1 million worth of KR's were traded on the JSE. In March this year, sales had risen more than fivefold to R82,7 million.

In the first three months of last year, sales totalled R35,1 million. In the same period this year, they amounted to R211,1 million.

The growth in KR sales reflects increasing fears about the value of the rand in the new South Africa, says Richard Shute, marketing manager of the SA Gold Coin Exchange.

Sales through the exchange have risen sharply in recent months, but in most instances buyers emphasise that they are not buying the coins to smuggle overseas.

Instead, they are extremely worried about the inflationary policies a new government might implement and the effect these would have on the value of money.

Shute says the big rise in demand for KR's is a recent phenomenon.

Only since mid-February have tenderers been taking up the Mint's full allocation.

## Profit

Another dealer says that given fears that inflation will start rising again, paying a 20 percent premium for KR's is not excessive because a buyer could be showing a profit on the gold price within three years.

Moreover, the gold price overseas is expected to rise to above \$400 in the next six months or so.

This, and a further fall in the exchange rate of the rand against the dollar, could well increase the value of the gold content of the KR by 20 percent.

Such an appreciation in the gold price would quickly justify the 20 percent premium being paid.

# A new lease of life for the Krugerrand

The Krugerrand is looking to a fresh lease of life as SA savours its newfound acceptance abroad.

Worldwide sales have, in its 27-year lifetime, doubled those of all competing coins combined, but sales promotions ceased when trade sanctions and other anti-apartheid curbs were imposed in 1985.

As the new South Africa dawns, however, it is again being promoted and its backers expect it to regain its appeal.

"We're convinced that when the market for consumer gold products picks up, the Krugerrand will again be at the forefront of bullion coins," says Daniel Pollnow, gold marketing consultant to the Chamber of Mines.

The end to sanctions and an improving gold price enabled the chamber to resume its international marketing drive for the Krugerrand last October, after an eight-year suspension.

The one-ounce Kruger-

rand, a popular buy with small investors, currently sells at \$376. (79)

The campaign was relaunched in Germany and it will next month turn to the US, formerly a top market for the coin.

The Krugerrand, originally launched in 1967, accounted for seven-tenths of world coin sales between 1970 and 1989, which totalled 2 000 tons. But foreign sales dried up as sanctions took their toll.

Yet Pollnow is encouraged by research undertaken to support the relaunch, despite the advantage competing coins from Australia, Austria, Britain, Canada, China, Mexico and the US enjoyed from sanctions.

"It's SA's best-known product, its only world brand name," he says.

"The Krugerrand remains THE bullion coin. In terms of awareness, no coin comes near it."

Before active promotion resumed in Germany, for instance, 56

percent of adults knew of the coin without having to be prompted and nearly one-fifth of its people owned at least one.

Chamber of Mines officials believe prospects for gold, and hence sales of new coins, are improving after a decade of slack interest.

"Now we think that cycle's changed," says Chamber of Mines chief executive Tom Main, adding investors are again turning their attention to the metal.

"I think we're moving into quite an exciting phase for the gold market."

Even so, the chamber expects no sales miracles.

Other coin makers had exploited the Krugerrand's low profile, the range of gold and gold-related products has expanded, and it will have to compete fiercely with other consumer goods such as designer clothes and electronics. —  
Reuter.

THE CSIR trace gas monitoring laboratory at Cape Point was one of eight stations globally which assisted in the recent National Aeronautics and Space Administration (Nasa) shuttle mission to measure atmospheric carbon monoxide, the CSIR said at the weekend.

REPORTS: Own Correspondent, Sapa-AP-Reuter

## New initiative to aid SA's small farmers

EDWARD WEST

CAPE TOWN — The Small Farmers' Development Corporation aimed to help establish 10 000 new small farmers by 2000, steering committee chairman Louis Kriel said.

The corporation was formed by western Cape agricultural concerns to establish new commercial farmers in disenfranchised communities.

The project should be based on

commercial principles, whereby ideally the private sector operated in partnership with government.

Candidates for corporation aid would be existing rural communities. For example, retiring black workers could be helped to acquire land

## Krugerrand sales boomed in fourth quarter

BARRY SERGEANT

ALMOST half of the near-300% increase in Krugerrand trade in 1993 was posted in the fourth quarter of 1993, according to Chamber of Mines figures released at the weekend.

Statistics show that Krugerrand minting and sales added value to 5,7 tons of gold in 1993, compared with 1,87 tons in 1992, an increase of 204,8%. Higher total Krugerrand sales in 1993 resulted in a year-on-year tripling of the amount of gold benefited in the mining of SA's

leading gold coin series.

Some 270 205 new coins in four size denominations were traded in 1993, valued at R237m, compared to 118 037 in 1992. The trade in Krugerrands for 1993 was almost 290% higher than the R61m posted in 1992.

Nearly 90% of the turnover was in one-ounce coins, with 94% of sales going into the domestic market.

The Chamber said trade in the

coins was not constant, with much of the year's sales success linked to a surge in domestic investor interest in gold in the latter months of 1993. Final-quarter sales alone contributed 46,9% of the annual turnover.

Most sales were of one-ounce coins, accounting for 163 909oz of gold, or 89,5% of the total. (79)

Of the balance, similar quantities of gold went into the half Krugerrand (7 078oz to produce 14 156 coins sold) and the one-tenth Krugerrand (7 247oz to produce 72 477 coins sold).

# Investment in gold hits 20-year high

By JOHN CAVILL

LONDON. — Western investment buying of gold last year soared by 400% to 348 tons, the highest level since 1974, according to Gold Fields Mineral Services (GFMS).

The resurgence provided the main driving force for gold, making 1993 a year to remember "as having marked the end of the five-year bear market" said the GFMS annual survey "Gold 1994" published here yesterday.

## Double-edged sword

But GFMS chief executive Stewart Murray warned that the investment interest of the big American funds could prove a double-edged sword, even though physical offtake by the Asian markets in early 1994 suggested they had acclimatised to the higher price providing "significant support (for gold) in the \$370-390/oz range."

He said: "Much of the investment was via the paper market and the resulting gold has not been purchased and put away — under mattresses or in private bank vaults.

"So there is a danger that we could see a shake-out if the US funds lose interest. On the other hand the fundamentals are healthy and there is still concern in America about inflation — as we saw last week," said Stewart.

"We could see positive investment this year but it is very difficult to predict the behaviour of western investors. Last year nobody was forecasting they would buy nearly 350 tons of gold — we certainly were not."

The report showed that the 279 ton jump in US and European investment demand helped to offset the first decline in world jewellery offtake for seven years, down 7% to 2 501 tons and near-halving of bullion bar hoarding to 137 tons.

Booming personal computer and telecommunications markets also

helped demand by raising electronics and other industrial application use of gold by 8% to 487 tons.

Jewellery consumption fell in all main markets except the US which grew by 6%, reflecting recession in Europe and Japan combined with price sensitivity plus China's economic austerity programme. A big build up in Far Eastern stocks in early 1993 when the bullion price fell below \$300/oz was another factor.

In addition the strength of the dollar increased the average price by more than 10% in Dmarks and Swiss francs — against just 4.6% in dollars — while the recession in Japan was bad enough to counter a fall of 8.5% in yen terms as its currency rose.

Total demand, however, was 3 538 tons, less than 1% lower than 1992's record of 3 570 tons.

On the supply side global new mine production rose by 2% (against 3.5% in 1992) to 2 281 tons and scrap, mainly jewellery, increased by 15% to a record 535 tons while forward sales by producers were 20% up at 198 tons.

## Hedging

While SA's forward sales were reduced — as the rand price climbed — American and Australian hedging increased, most of it when the price was weak because, prior to the investment demand triggered by the Soros-Goldsmith announcements in April, producers had feared the price would fall further. Against this, hedging through options fell dramatically from 103 tons to two tons.

Official sales — including China and the former Soviet states — were a net 80 tons lower at 522 tons. The report said Canada had sold 121 tons and Libya 90 tons while the end of financial sanctions against SA had reduced the need to hold large reserves an "a significant portion" of its gold holdings were cashed in.

# Price still drifting, but gold regains glitter

79

Wm 13-19/5/94

Gold continued to surprise last year, reports **Reg Rumney**

**A**MID the welter of statistics about supply and demand, production, prices, investment and jewellery demand, one impression persists after reading the just published Gold Fields Mineral Services *Gold 94* report — the notorious unpredictability of the price.

It is a cautionary tale for any who might think the gold market has become dull.

The authors note that in the first quarter of 1993 "the gold market was in the grip of an almost psychotic belief that the only way prices could move was further downwards.

"Following the announcement on January 12 by the Dutch central bank that it had sold 400 tonnes, the widespread, if not quite universal, view at the time was that further weakness could be expected from a potent combination of continued central bank sales and accelerated supply from producer hedging, both of which were thought likely to increase on any price recovery and, in the process, cause it to abort."

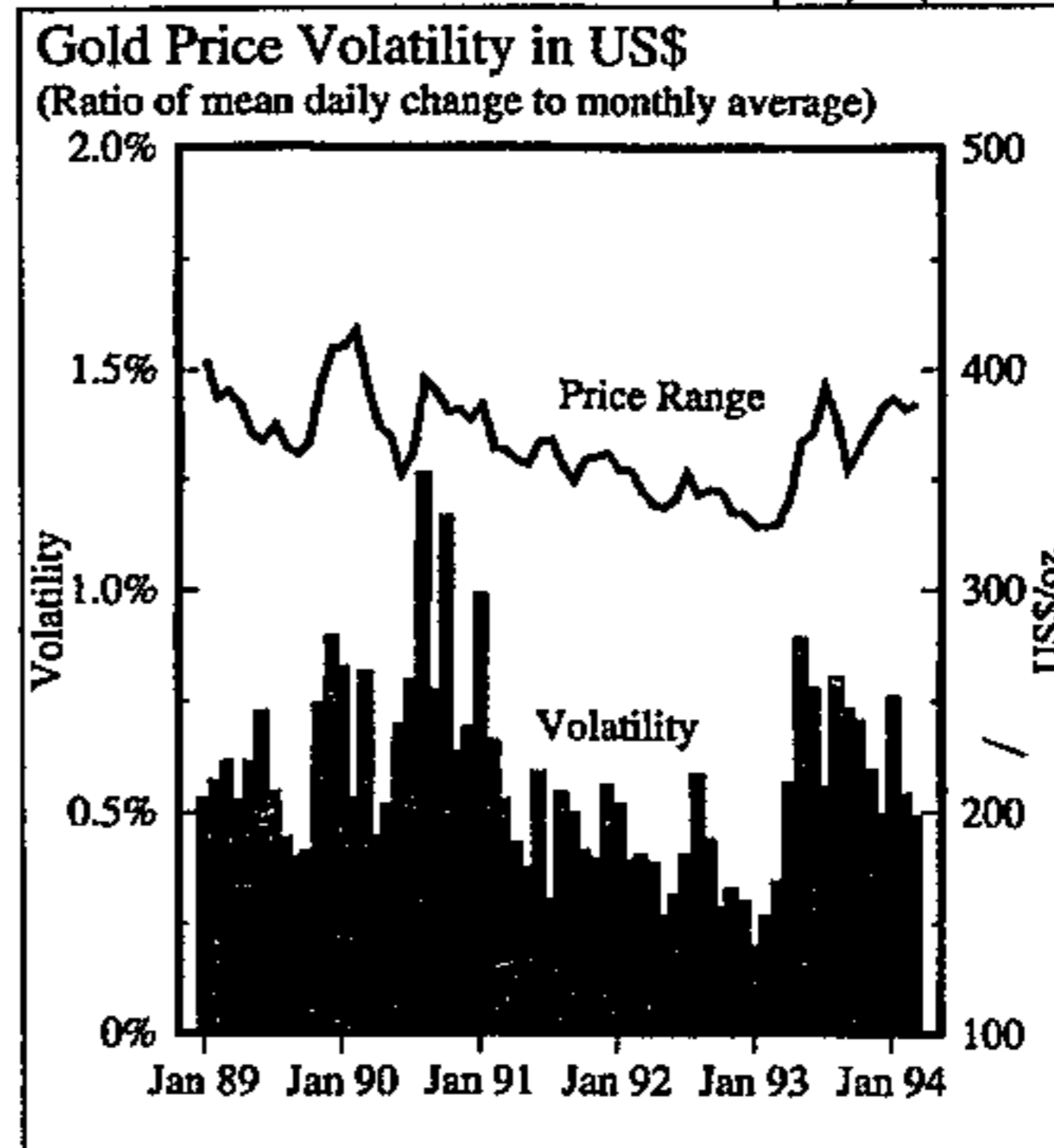
Gold Fields' experts add that improvements in the physical supply and demand equation were thought largely irrelevant or not enough to do more than support the falling price.

A lack of world inflationary pressures and any global tensions were seen as negating any renewed investment demand. In any case the gold price had responded badly during the Gulf crisis. "For many observers, gold was effectively sidelined."

On April 23 a deal between speculator George Soros and Sir James Goldsmith changed all this. The deal involved, inter alia, transferring some of Goldsmith's holding in Newmont Mining to Soros, but by itself did not provide as much of a push as the ensuing media splash, notes *Gold 94*, especially as the deal involved two investors regarded as having the Midas touch. This galvanised the market and brought in other investors.

Suddenly reports started to focus on gold's improved fundamentals, including:

●During the second quarter investment buying, mostly from US hedge funds with some private, physical buying, steadily pushed up the price.



Not dull ... Gold starts to jump around again

SOURCE: GOLD 94

●Then fear of chaos as the European Exchange Rate Mechanism collapsed helped drive gold to its highest level since the onset of the Gulf crisis, reaching \$405.60 on August 2.

That proved to be the high for the year. The apparent resolution of the crisis led to a sharp sell-off.

"For the first time since 1987," says Gold Fields, "the average gold price in 1993 showed a year-on-year increase in real terms over the previous year's level."

"In actual terms, the average US dollar price rose by 4.6 percent to \$359.82, still below the 1991 level."

So the gold price has some way to go before it generates any dramatic excitement.

In the first three months of this year the price has remained within a narrow range of \$375-\$395.

Yet the year ahead is far from clear with various positive and negative factors, including receding inflation fears on the one hand and the promise of renewed buying of gold in Asia, particularly as China's austerity may not necessarily be repeated.

Gold Fields notes: "The one thing that does seem clear is that the market for gold bullion is unlikely to slip back into the torpor which characterised it in the two years prior to 1993."

# Greater optimism dents KR premium

Star 116194

■ BY DEREK TOMMEY

An analysis of trends in market statistics shows some interesting developments.

One trend that stands out is the sharp drop in the Krugerrand premium.

If this is anything to go by, it would seem that South Africans are far less nervous about prospects than they were even eight weeks ago.

At the beginning of April, some people, uncertain about what a new government would bring, were paying up to R1 750 for a one-ounce Krugerrand.

This represented a premium of 27 percent on the coin's gold value of R1373.

Since then, the market in Krugerrands has

changed dramatically.

The coin is now trading at around R1 470, which is some 16 percent below its April high.

More telling is that the premium on the Krugerrand has dropped to a minimal 4,7 percent.

However, the decline in this premium is not just the result of the drop in the price of the coin.

It also reflects an increase in the gold price to a near-record R1 404 an ounce, or R45 150 a kilogram.

This is nine percent above the average price of R41 100 a kilogram, which the gold mining industry received in the first quarter of this year and in itself a good reason for feeling more confident about the future.

Many of the gold

mines, and especially the marginal ones, should report significantly higher profits for the June quarter. (79)

Although many South Africans are disappointed by the apparent lack of foreign interest in local markets since the election, recent statistics show that foreign sentiment has improved significantly.

This is shown in the financial rand discount to the commercial rand.

It has narrowed from well above 30 percent (it was 37,1 percent on April 11) to under 24 percent.

What seems to be a weak financial rand — which some see as a sign of foreign disinvestment — is more the result of a weak commercial rand.

The latter has slipped

from R3,55 to the dollar in early April to around R3,68, which is close to a 3 percent depreciation.

The decline in the rand is mainly the result of the low level of foreign exchange reserves, caused partly by the heavy capital outflow in the first three months of the year.

This has left South Africa pretty hard up in foreign eyes and led to an unwillingness by foreigners to hold rands in case there is a further devaluation.

But SA is a major exporter of commodities, and the upward trend in commodity prices suggests there could be some improvement in foreign currency earnings from this source later in the year.

In the past eight weeks, the copper price has risen 18 percent from \$1 892 to \$2 227 a ton and other base metals have shown useful gains.

Reuter's commodity index has risen by 6 percent, also indicating that commodity prices are on the move.

One interesting development is that rhodium, produced along with platinum and palladium, has strengthened slightly in the past few days to \$692 an ounce after a period of weakness.

Any improvement in this metal — which not so long ago was trading at above \$2 000 an ounce — would be a boon to the platinum industry and also to export earnings.

# Gold reserves at minimum levels — Stals

By JOHN CAVILL

LONDON.— SA's gold reserves had fallen to a level which "effectively restricted" the Reserve Bank's ability to use bullion as collateral for currency swaps, said governor Chris Stals here yesterday.

The "substantial capital outflows" which preceded the new government had forced SA "to reduce its gold reserves and its gold swap portfolio," Stals told the Financial Times World Gold conference.

But as capital flows returned to more normal levels after the transition to the new SA, he said, it was

intended to rebuild official foreign reserves toward "the prudent minimum level of the value of three months' imports".

SA would continue to "maintain a commensurate percentage of gold in our foreign reserves".

Jean Zwahlen, a member of the governing board of the Swiss National Bank, claimed that the fear of "large scale net sales" by central banks had now receded after last year's official disposals of more than 500 tons.

The five largest central bank gold holders, in the US, Germany, Switz-

terland, France and Italy "have signalled no intention" to reduce bullion reserves.

And in Asia "central banks are potential buyers of gold over the medium to longer term" — outside the Organisation for Economic Co-operation and Development, bullion constituted only 6% of reserves compared with an average of 20% in the industrialised nations.

"Official attitudes seem to have turned more positive in 1993. My personal feeling is that no major changes in total official holdings of gold should be expected," said Zwah-

len.

79 716194

Switzerland with 2 600 tons of bullion, equal to 50% of reserves, regarded gold as the "reserve of last resort" — a unique monetary asset and virtually the only one which is not someone else's liability.

There had been pressure on the Swiss National Bank to sell when public sector deficits widened, he said. But he warned that such encroachment on central bank independence would create a dangerous precedent.

● The London gold market may soon reveal one of its most closely

guarded secrets — the volume of physical bullion trading.

This was revealed at the conference yesterday after the deputy governor of the Bank of England, Rupert Pennant-Rea, made an appeal for more information about the market.

He said "anecdotal evidence" suggested London's bullion turnover was "many times greater" than rival markets, including traded futures — where volume of turnover last year totalled over 36 500 tons in New York, Tokyo and elsewhere.

# Stronger gold <sup>79</sup> boosts JSE trade <sub>CT 11/6/94</sub>

JOHANNESBURG. — Shares made good gains on selective buying in most sectors as the stronger gold price boosted sentiment and as underlying bullishness on industrials broke through reluctance to move ahead of the June 22 Budget.

"It's been very firm for a Friday," a dealer said.

The JSE got off to a flat start ahead of the weekend, but shares ticked up steadily through the day as bullion firmed to hold around \$383 an ounce.

Dealers said that if the gold price broke through the \$384/385 level, gold shares would take industrials with them.

Despite a firm undertone in industrials on prospects for increased foreign interest, investors have been holding back on buying ahead of the national budget.

Dealers said there was a lot of speculation in the market on a possible wealth tax, capital gains tax and tax on dividends being introduced to help fund the ANC's Reconstruction and Development Programme.

The Overall Index ended 57 points or 1% higher at 5 643, the Industrial Index added 53 points to 6 645 and the Gold Index was 23 points up at 2 019.

De Beers made 75c to R115 while associate Anglos gained R6,50 to R239.

In gold shares, developing Oryx jumped 20c to R4,70, Freegold made R1,25 to R64 and Kloof added 50c to R52. Platinums made strong gains.

Mining houses were mostly up, with Gencor making 40c to R11,80 following news that its bid for the metal mining business of Billiton would be concluded within weeks.

Trans-Natal Coal made 75c to R20,50 on improved prospects, while PPC made up ground after a R4 sell-off on Thursday, adding R3 to R99.

Pepkor rose R1 to R24, while Clicks Stores added 10c to R3.

Top consumer stock SA Breweries gained R1,50 to R95 while Barlows was 25c higher at R39. Murray and Roberts fell R1,75 to R95,75.

● Rumours that Deng Xiaoping, China's veteran leader, had died swept through Hong Kong yesterday,

at one point driving the stock market's Hang Seng index down more than 250 points, and rocking the usually steady currency.

By lunch time, word had spread among the colony's brokers and dealers that Peking would make an important announcement later in the day.

In the event, a spokeswoman for the Chinese Foreign Ministry said that Deng, 90 in August, was in good health, and the stock market regained more than half its losses, closing 79 points down on the day.

● Industrial metals, among the stars in the recent explosion in commodity prices, soared to new highs yesterday and analysts said they showed little sign of slowing.

Copper, buoyed by fast-rising demand as Western economies pull out of recession, has been leading all the other metals.

It rose on the London Metal Exchange to its highest in just under two years at \$2 426 a tonne, up about \$200 this week.

Aluminium was at its highest for more than three years, up \$13 on the day, lead touched a 20-month peak with tin, zinc and nickel following in their wake.



17/6/94

The SA Futures Exchange plans to introduce a futures contract on Krugerrands. If its members agree, the contract will replace the illiquid US dollar gold price contract.

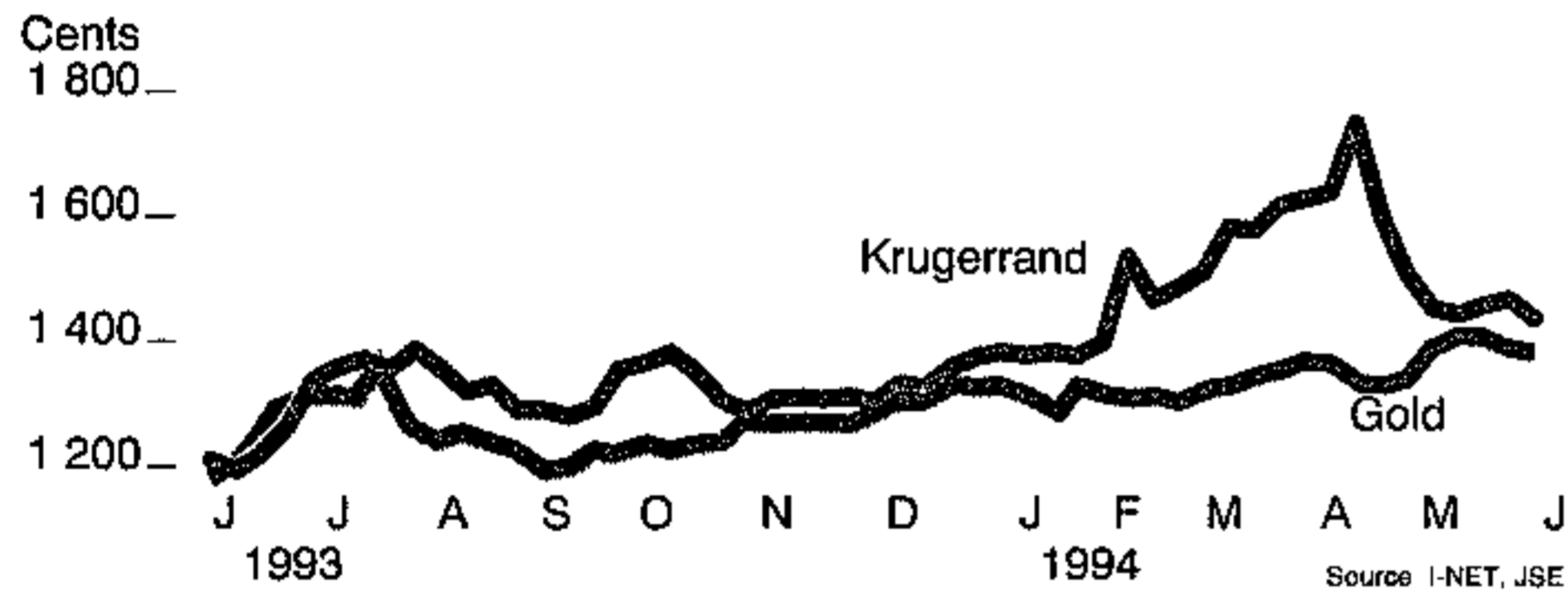
Safex CE Stuart Rees says the contract is designed to bring individual investors back into the derivatives market. "The minimum contract size is only one coin which makes private investors less vulnerable to daily price moves than they would be with equity index futures." (79)

It may also increase activity from institutions and trading banks since a liquid contract would allow them to hedge against volatility (see graph). Says a Krugerrand trader: "Institutions have lately been net sellers. Now they can hold their coins and go short with futures. This will bring in speculators."

Richard Shute, marketing manager at the SA Gold Coin Exchange and Gold Club International, says the proposed contract will add liquidity to the spot market.

Niall Smith, head of derivatives at stockbrokers Fergusson Bros, says Krugerrands are sensitive to political developments and the contract will give people a cheaper means

**Krugerrand volatility vs Gold**



of taking a position than the physical market.

Smith believes the contract will be reasonably successful, though not as well traded as

hinder the market's growth. Because of exchange controls, nonresidents will not be allowed to settle physically (by buying or selling at the contract price) but will

the index futures.

"The market will probably stay among a few niche players — the trading banks with Krugerrand desks, gold coin specialists and a few private investors. I doubt institutions will come in."

Limits on foreign participation could

have to settle at the cash equivalent of their profit or loss on any position. This will expose them to price fluctuations on close-out day and make them reluctant to participate. (79)

"The lack of foreign participation will be a big problem since most Krugerrands are offshore," says Smith.

Physical settlement for locals creates another problem: the potential for fraud. To guard against nonperformance or settlement with counterfeit coins, Krugerrands would need to be stored centrally to guarantee performance. "We are looking at a few possibilities for storing coins, either with Safex or the Chamber of Mines which is responsible for the weekly issues," says Rees. ■

17/6/94

JOHANNESBURG. — Shares ended mixed again yesterday as industrials fell amid world market uncertainty and ahead of today's national Budget.

They said a mid-session recovery in the sector had proved unsustainable in line with the failure of UK shares to hold their steady earlier levels and an early Wall Street decline.

Gold shares, meanwhile showed signs of life after buying had disappeared on Monday afternoon. The shares were seen tracking bullion and the metal's move back above \$390 an ounce had buoyed sentiment.

The Overall Index finished

# Golds beat trend on buoyant bullion

nine points better at 5 721, the Industrial Index was 26 points lower at 6 594 and the Gold Index added 18 points to 2 245.

Heavyweights De Beers and Anglo recovered early losses to reflect improved sentiment in mining-related stocks, De Beers adding R2,25 to R115 and Anglo climbing R4 to R238. Gencor was 15c lower at R11,95.

Remgro managed a R1 gain to R27,50. Barlows managed a 25c gain to R35,50 after a sharp fall on Mon-

day and SAB lost 50c to R92,50. Liberty reversed gains to post a R1 fall to R99.

M-Net fell 50c to R9 and Kersar lost R2 to R48 and Engen shed R1 to R35.

In golds, Vaal Reefs made R2 to R430 and Loraine added 50c to R18.

● Meanwhile, foreign selling of SA shares gathered steam on the JSE last week, the exchange said, but they remained net buyers of gilts. It said foreigners were net sell-

ers of R170m worth of shares after purchases of R345,5m and sales of R515,5m in the week to June 17. The previous week's outflow was R52,3m.

In gilts, a net inflow of R127,6m was up on the previous week's R54,8m inflow. Sales of R143,4m compared to purchases of R271m.

The overall outflow in gilts and equities was R42,4m from a R2,5m inflow previously, bringing to R810,5m the net investment made in the first 24 weeks of the year, compared to R3,10bn in the corre-

sponding 1993 period.

Foreigners have bought R1,14bn of equities and sold R326m of gilts so far in 1994.

● The slide in world bond and share markets this year has surprised and perplexed many world leaders and central bankers, but financial analysts are wondering why it did not happen sooner.

They believe the dive in world markets this year is simply a reaction to the liquidity-fuelled bull market which preceded it.

and say it could prove a blessing in disguise by helping to keep inflation low.

"The markets rose to unsustainably high levels last year and the downturn was inevitable," said Troy Bowler, senior international economist at Paine Webber in London.

The fall in US bond prices earlier this year had a knock-on effect on other world markets, transforming volatile investment flows as investors rushed to preserve capital.

Superficially, the fall in world securities is widely linked to fears of rising inflation world-wide.

## Closing gold prices

(In \$ an ounce)

NEW YORK:  
389,30/389,80

LONDON:  
390,70/391,20

Fixing am: 393,10

Fixing pm: 392,45

ZURICH:

391,00/394,00

— Reuter

## Gold's paper rally fizzles out

CT 23/6/94

NEW YORK. — Comex gold ended sharply lower, reversing course from Tuesday's rally to 10-month highs, as the dollar rebounded from yesterday's slump.

Traders added gold was pressured by the release at midday of yesterday's open interest figures, which rose sharply and suggested a large influx of weak longs.

A sharp drop in the CRB index was also seen as negative.

August gold ended \$4,90 lower at \$391,40 an ounce. Traders said the market will continue to take its cues from the currency markets in the near term.

● Nymex platinum ended lower in line with the other precious metals, as a recovery in the dollar from Tuesday's sharp losses spurred a reversal in the precious metals, which had rallied strongly on yesterday's weaker dollar.

July platinum closed \$3,70 lower at \$407,40 an ounce. — Reuter

# Reaping profits from South <sup>(79)</sup> Africa's new gold

South Africa's export success, deciduous fruit — is about to record a bumper crop, reports  
**Simon Segal**

**A**FTER a year's interruption due to poor weather, South Africa's deciduous fruit exporters are back on their fast-growing track.

This year's exports, estimates the industry's export marketing arm Unifruco, should see a record 44-million cartons earn R1,8-billion in foreign exchange. Last year 37,3-million cartons brought in R1,5-billion (of which farmers received R700-million), down from the previous record year in 1992 when 41-million cartons were sent abroad and earned R1,7-billion (R985-million went to growers).

The industry is one of South Africa's great export success stories. In 1988 export revenue was only R764-million from 30-million cartons.

Unifruco projects exporting 52-million cartons by 1997 and some 100-million by the end of the century that will earn nearly R5-billion in today's prices and exchange rate. This means fruit is challenging coal, platinum and ferro-alloys as South Africa's biggest export after gold. It will also replace maize as the largest contributor to total agricultural earnings.

Except for pears, all fruit will this year yield higher export volumes — apples just over 12-million cartons (11,5-million cartons), grapes 18-million cartons (13,5-million), plums 3,4-million cartons (2,3-million), stone fruit — peaches and nectarines — 1,3-million cartons (one million) and apricots 500 000 cartons (381 000).

Pear exports are only expected to reach 5,8-million cartons compared to 7,6-million last year. This dip, explains Unifruco spokesman Fred Meintjies, is usual after a heavy crop the previous season.

Deciduous fruit accounts for 15 percent of South Africa's commercial

farmers and employs around 250 000 people (40 percent of commercial agriculture's employees) at an average of three workers per hectare.

South Africa exports around 142 different fruit varieties of 1 200 specifications to 40 countries.

Only Chile, whose natural market is Western Europe, is a bigger fruit exporter than South Africa. It takes an average 14 days to ship to Europe compared to 28 days from Australia and 24 days from South America. South Africa supplies 40 percent of the southern hemisphere's fruit to the European Union. The southern hemisphere in turn supplies 80 percent of the EU's fruit during the northern hemisphere's off-season.

This year new markets have opened up in Canada, Scandinavia, The Middle East and Pacific Rim countries.

But 80 percent of South Africa's exports still go to Western Europe — of which 30 percent are bound for the United Kingdom.

Meintjies reckons that by the turn of the century Western Europe will take 70 percent of South Africa's deciduous fruit even though volumes are projected to reach 39-million cartons (30-million in 1992) by 1997.

Future growth will be accommodated by better yields, more dense planting, improved technology and by planting more acreage.

**C**ompared to grain, fruit is longer term, subject to longer cyclical factors and reliant on irrigation. It is thus less risky. The industry has always had an international profile and a demand-supply, price-signal culture. It has never been accorded the strategic status of maize where national self-sufficiency has been given overriding priority even though much of the land planted to maize is far from ideal.

Unifruco also faces criticism from those who argue it is an unhealthy monopoly that takes much potential income from growers.

Unifruco argues freight costs would be much higher without its strength and it provides consistency and standards.

# Gold sinks on global rates fears

LONDON. — Gold closed here yesterday at \$383,40/\$383,90 an ounce, up from the afternoon fixing at \$383,00 but down from Wednesday's \$385,60 close.

Base metals lost ground on concerns over the impact of possible higher interest rates on industrial recovery.

Silver and platinum dipped while palladium went the opposite way although paring gains after a brief rally.

"Nobody expects any drama unless the funds come back in. Nobody would want to be anything but square ahead of the G7 weekend," a dealer said.

By mid-afternoon gold had recovered to \$384,00/\$384,50 reflecting Comex's pick-up.

Silver was back to mid morning levels also at \$5,24/\$5,26.

Dealers said silver was supported all the way to

down to \$5,20 from around \$5,25 with industrial support evident in the mid \$5,20s. Silver briefly pierced its support but bounced as Comex came back up.

Platinum, however, was less resilient, after finding the going pretty sticky most of the day. It fixed at \$402,25, its lowest of the month and later found a recovery from \$400,50/\$401,50 difficult.

But palladium, after being slightly lower yesterday morning, moved ahead on some speculative interest and reflecting a defiantly firmer start on Nymex.

● Comex gold ended firmer last night, buoyed late in the session by light dealer and fund buying in thin volume, while dealers await today's US jobs data, floor traders said. Active August gold ended \$1,10 higher at \$385,70 an ounce, near the top of the day's \$385,80 to \$383,30 range. — Sapa-Reuter

# Confidence sinks on Budget jitters

By AUDREY D'ANGELO  
Business Editor

BUSINESS confidence edged fractionally down in June, due partly to fears that the Budget would curb consumption spending. And SA Chamber of Business (Sacob) economists said yesterday that "the initial negative response to the resignation of Finance Minister Derek Keys has also made the task of building confidence more difficult."

But confidence in the manufacturing sector is at its highest level since Sacob began its survey of manufacturers in mid-1988.

In the Western Cape, 75% of manufacturers expect to invest more in new capacity.

The Sacob business confidence index (BCI) for June, which has been rising since March, slipped back to 109,8 from 109,9 in May.

Sacob economists explain that although the underlying business mood remains positive the post-election euphoria is wearing off.

"There is some doubt in business circles as to whether an otherwise sound and user-friendly Budget may not have a negative impact on private consumption expenditure — and hence on growth prospects.

"Against this background the resignation of the Minister of Finance is a setback. It remains to be seen what impact this move — and the Government's response — will have on business sentiment in July."

The economists suggest that there are doubts about the government's ability to adhere to

sound fiscal policies.

Pointing out that retail sales volumes are currently 2% below this time last year they say: "It is not clear to what extent the 5% levy on the taxable income of individuals earning more than R50 000 a year will have a depressing effect on private consumption expenditure and hence on growth prospects for the economy as a whole.

"Certainly the combined effects of the failure to compensate for bracket creep and the levy will serve to reduce disposable incomes."

The extent to which this happens will depend on whether people believe this is a once-off levy not to be repeated in subsequent Budgets — in which case they may cut back temporarily on savings, or borrow, rather than reduce spending.

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(79) CT 8/7/94

CT 8/7/94



# Nervous SA investors turn to Krugerrands

KRUGERRAND sales had soared as nervous investors stocked up as a hedge against commercial rand devaluation, dealers said yesterday. *Biday*

"The coin provides the closest link for SA investors to the gold-rand price and increases in value as the rand depreciates against the dollar," FNB's vice-president of precious metals Richard Hollington said. *217194*

The premium price of the gold coin against the rand value could be seen as a proxy for investors' perceptions of future commercial rand weakness. A higher premium indicated negative sentiment. But Krugerrands were still susceptible to gold price fluctuations, Hollington said.

Bill Balsdon of Krugerrand Dealers said shortly before the elections, the premium peaked at about 28%.

"This was indicative of the public's perception of real trouble in the country. After IFP leader Mangosuthu Buthelezi announced his participation in the elections, the premium fell overnight as perceptions changed".

GEOFFREY WIDAN

Heightened violence in early February, budgetary concerns in June and the sudden resignation of Finance Minister Derek Keys early this month also increased the premium of the coin in line with public concern, he said. *(79)*

He said overseas buying of Krugerrands could be because it was the best known gold coin worldwide.

The premium on the coin was a few percentage points lower in overseas markets, where foreigners had access to a number of instruments to obtain dollar-gold exposure.

South Africans, who were limited to the Krugerrand and JSE-listed gold shares, bid up the premium on the coin as sentiment worsened.

The Krugerrand price yesterday of R1 520 was at a premium of 6,8% higher than the rand-gold value of R1 424. This was indicative of weaker investor sentiment, compared with July last year, but just off the month's high of almost 8%.

# Gold and reserves up

□ Pressure to raise interest rates relieved

(79) ARCT 8/9/94

**CLAIRE GEBHARDT**  
JOHANNESBURG. — Gold and foreign reserves continued to improve in August, reversing the drain of the past two years.

Economists said the better-than-expected R283 million increase in reserves would relieve some of the pressure on the Reserve Bank to raise interest rates.

According to the Reserve Bank's latest statement of assets and liabilities, reserves moved up from R7,57 billion in July to R7,85 billion in August.

This was a continuation of last month's trend, when reserves jumped R484 million.

Nedcor economist Dennis Dykes said the figure for "other liabilities", which includes foreign liabilities, was encouraging.

"This shows a fall of nearly R1 billion, from R11,1 billion to R10,2 billion in August, indicating that some of the Reserve Bank's short-term foreign liabilities were repaid in the course of the month.

"Last month we had a R1,5 billion increase in net reserves and this month should have been about the same."

Mr Dykes said the better-than-expected figure was attributable to improved agricultural exports, a reversal of capital outflows and some foreign inflows.

Edward Osborn, consultant to Edey Rogers, said the R283 million increase was supported slightly by the lower average gold price and by the lower exchange rate at the end of last month.

Mr Osborn said the increase was to be welcomed, given that August was the month in which a payment of debt inside the standstill net of R540 million fell due.

"But part of that may have been rolled over," he said.

Mr Osborn was surprised there had been an improvement in reserves, given that the balance of payments was most adversely affected by the expansion of imports.

"On a currency-adjusted basis, imports rose 12,9 percent in the

first seven months, compared with only 2,3 percent for exports.

"Any current account surplus has been negligible and would have been eclipsed by debt payments."

Commentators said the unusual liquidity in the money market last week, where the market shortage dropped to below R2 billion, gave an early indication of the improved position of the reserves.

The Reserve Bank had been forced to siphon off liquidity through the issue of R3 billion in special Treasury Bills to prevent short-term interest rates from falling.

This contrasts with the extraordinary situation over the past few days when long-term interest rates screamed upwards past a key 17 percent resistance levels.

The yield on the government's R150 rose 20 points to a high of 17,05 percent, while Eskom's E168 touched 17,12 percent, dramatically increasing the cost of government borrowings.

# Comex gold powers ahead on bullion's gains

GOLD futures surged ahead last night on New York's Commodity Exchange, holding most of the gains scored in an early rally.

Analysts and traders attributed gold's rise to a rally overnight, after North American gold mining shares made sizeable gains late on Monday, and to renewed inflation concerns and weakness in the stock and bond markets.

Traders also noted rumours that financier George Soros had bought

gold shares, although these could not be confirmed.

Active December gold finished \$3,60 higher at \$397.20 an ounce, traded between \$399.10, a three-month high hit early in the session, and \$395.50. Volume was heavy.

Bullion closed in New York at \$393.55.

On the JSE earlier, gold's sudden surge through key resistance levels on fund buying in the Far East took gold stocks and minings along for

the ride.

The Gold Index jumped more than 3% or 79 points to 2 435 by the close.

"It's been pretty active — they didn't even stop for the booking break at 3pm," a dealer said.

The improved sentiment was unlikely to spill over into the flat industrial market unless gold gained at least \$8, dealers said.

Traders expected gold to re-group at the new higher level

79 CT 21 9194

above \$392 or \$395 and said they did not expect it to advance on \$400 in the short term.

The Overall Index made 36 points to 5 801 and the industrial index shed 15 points to 6 438.

De Beers added R1,25 to R106,50, also aided by Wall Street gains, and Anglos added R4,50 to R242,50.

Golds made huge gains across the board, with marginal Loraine adding R2,25 to R25,50, developing Oryx rising 50c to R6,10 and quality

Kloof making R2,75 to R70.

Goldfields mining house was R5 higher at R130, SAB shed R3 to R83. Remgro added 50c to R25,50.

Sasol rose 40c to R35,15, part of the gains following improved annual results, while Engen added 25c to R37,25.

● Leading shares on Throgmorton Street ended sharply lower, hit by a further rise in bond yields and falls on Wall Street. The FTSE 100 closed down 41,8 points at 3 037,3.



From MICHAEL  
URQUHART  
in Johannesburg  
and JOHN CAVILL  
in London

TEN-million ounces of gold — equivalent to more than half SA's annual output — will be sold on world markets by the IMF if a proposal made by UK Chancellor of the Exchequer Kenneth Clarke is accepted.

Clarke's plan, which he will put to finance ministers of the 51-nation Commonwealth meeting in Malta today, will require the IMF to sell off a portion of its 103,4-million ounce gold reserve to raise \$4bn to be used to ease the Third World's debt burden.

But Clarke said the gold would be sold in such a way as not to upset the gold market and hurt SA, the Commonwealth's newest member.

The market remained unaffected by the plan, with gold trading above the \$395 level and closing in London at \$395,85 yesterday.

Analysts said there was no certainty that the plan would be accepted. If it was, the amount was not large compared to the total gold market, and the sale would be spread over two to three years.

They said the amount of extra supply would be small compared with the 48,4-million ounces of disposals by central banks since the beginning of 1989.

Philip Klapwijk of Gold Fields Minerals Services said such an amount would not be impossible for the market to absorb, but it would upset the supply-demand balance. He doubted whether 10-million ounces would determine the gold price.

Clarke suggested that repayment of Third World debt could be put back for 20 years, with the rate of interest on the debt held at 0,5%. The IMF has already written off \$3bn of debt owed by 22 countries to other governments under a 1990 British proposal. The latest plan goes further in that debts to institu-

# Clarke's radical <sup>(79)</sup> proposal on gold

CT 27/9/94

tions such as the IMF and World Bank would also be covered. Most of the debts of nations such as Uganda and Ghana are to the IMF.

Money from the gold sales would have to be invested in the IMF's reserves, said Clarke. The investments would produce a return and the return would pay for the concessions advocated.

He said the proposed concessions would be linked to debtor nations abiding by economic reforms laid down by the IMF.

## Credit standing

Analysts said the plan was similar to that put forward by Clarke's predecessor Norman Lamont in May last year. The plan had been vetoed by the IMF because it did not wish to reduce its gold reserves which it regarded as necessary to the fund's credit standing.

● Reuter reports that gold on the New York Commodity Exchange ended lower last night after a late slip as fund selling depressed the market when prices failed to break above \$400 in an early rally, traders and analysts said.

One floor source added that some players were attempting to reach sell stops thought waiting below \$397,50 an ounce.

Active December finished \$1,80 lower at \$397,80 an ounce, near the bottom of the day's \$400 to \$397,70 range.

Dealers quoted bullion at \$394,00/\$394,50.

## Krugerrand price falls

BIDAY 14/11/94

PETER GALLI

IMPROVED sentiment towards SA's political and economic future has resulted in a substantial fall in the price of the Krugerrand and its premium to the rand gold price over the past few weeks.

The coin fell R10 to R1 420 this week, bringing it closer to the annual low of R1 305 this time last year. At the current price it is R155 cheaper than it was at the start of October and R345 down on its annual high on April 18 — ahead of the election. (79)

On Friday the coin lost 500c to the R1 420 level as

coins worth R1.62m changed hands in 60 JSE deals. A bank dealer said there were several reasons for the recent price fall.

"The coin is regarded as a safe haven and investors are active buyers when threatened with political unrest. As such there was huge demand for the coin ahead of the election, pushing the price upwards.

"Now that this has passed, many investors are selling at least part of their holdings, while others are offloading the coin as the price moves lower to avoid incurring a loss," she said.

Many people were taking advantage of the lower price to buy. "So far this year every Friday tender of 6 000 coins has been fully subscribed, compared with last year."

GOLD

1995 - 1997



(79)  
GOLD SUPPLY & DEMAND  
FM 6/1/95  
**Private sell-off**

**Private investors** scrambled to sell gold over 1994, 218 t of it according to an estimate revealed this week by Gold Fields Mineral Services (GFMS), producer of the prestige annual analysis of world gold

production, supply and demand.

The move by private holders follows two years in which they accumulated holdings, 59 t in 1992 and a massive 321 t in 1993. More than anything else, says GFMS, this sell-off was caused by rising interest rates in the US and improved confidence in the Federal Reserve's determination to prevent the re-emergence of inflation.

And last year's private disinvestment neatly countered two other factors of some importance. The first was a dramatic decline in the supply of gold from official sector sales (shorthand for central banks). In 1993, government treasuries and agencies supplied 519 t to the market; last year this supply fell 91% to a mere 46 t. And if it hadn't been for around 70 t of sales by Canada, central banks would have been net purchasers of gold over the year.

The second factor was that supplies of gold from hedging activities by producers was at its lowest since the early Eighties. However, this is a market component of extreme complexity. In the first half, forward sales were zero, with modest option hedging. In the second half, this reversed as Australian and North American producers increased large positions which were offset by reductions from SA groups.

GFMS's estimate of new gold production over 1994 is a modest rise of only 1% to 2 304 t. This 24 t increase was the lowest in a decade. Total supply is estimated to have dropped 11% over 1994 to 3 156 t.

The demand picture is more difficult. Jewellery fabrication, gold's mainstay, fell by 1% to 2 469 t. That statistic masks, however, a substantial surge in demand (up 14% year-on-year) from this sector in the second half. Electronics demand also grew strongly, as did bar hoarding, in 1994.

Forecasting trends in the world bullion market is a hazardous occupation. The issues for 1995 revolve around two factors: first, there is the matter of how US funds and investors will react this year in the aftermath of 1994's substantial disinvestment. The chances of a repeat of 1994's sell-off must be fairly remote. Second is the question of whether the decline in official sector sales marks the end of disposals for now.

The report is silent on the future of the gold price. It may be worth noting, however, that the average price in 1991 was \$362/oz compared with last year's \$384 — not exactly going anywhere in a hurry.

*David Gleason*

# Disappointing quarterly gold mine results expected

DD 9/11/98 (79)  
**MICHAEL URQUHART**

THE lower gold price in the December quarter was likely to see disappointing results from mines for the quarter, analysts said at the weekend.

They said the gold price had been below the expectations of most players. The average price for last quarter was R1 361,79/oz, a 2,2% decline from the previous R1 392/oz.

This would especially affect mining houses like Randgold which had cut their hedging positions at a loss to take advantage of a higher gold price.

The average dollar price for gold had been marginally down at \$384,51 from \$385,81, but the main reason for the fall in the rand gold price had been the strengthening of the rand from an average of R3,61 in the September quarter to R3,58.

Even though things had quietened down on the industrial relations front, on the basis of the lower gold price revenues should be down.

The decreased labour disruptions

should see recovery in the milling rate from the June quarter, and grades were likely to be maintained.

This should see gold production marginally higher, which could be good news for unit working costs.

Total working costs should be higher, but economies of scale from the higher production should see a slight decrease in unit working costs. This follows a June quarter in which unit working costs were increased after extraordinarily low production, and a September quarter which took the full brunt of wage increases.

The effects of holidays around the Christmas period, which had traditionally not been granted by the mining industry, would be felt only in the March quarter this year.

Revenues were likely to be further decreased by higher capital expenditure, as mines increased their capex for their interim or final period.

Analysts were mixed about the possible performance of the Randgold mines under new management. Some believed there would be a good turnaround in results for the December quarter, while others felt it was too early for new strategies to have taken effect.

But they were in agreement that new management had improved prospects at the mine, with one analyst saying they had brought a "marginal mine mentality" to bear, which was what the four marginal Randgold mines needed.

An analyst said he thought results at Anglovaal-owned Loraine would not be good, as the mine, which had reported a loss for the September quarter, would be unlikely to make a profit with the lower gold price.

There was also likely to be an announcement about the details of the merger between JCI's Western Areas and South Deeps at the publication of the JCI quarterlies.

Gold division chief expects return to \$380

# Price fall just a hiccup, says Gold Fields of SA

■ BY DEREK TOMMEY

The dip in the gold price is a just a fluctuation, says Alan Munro, head of Gold Fields of South Africa's gold division.

The gold price averaged \$380 in 1994 and he expects it to return to above this level.

He was speaking at a presentation in Johannesburg yesterday of the group's December gold mining quarterly profits, which were affected by the lower gold price.

He said the drop in the price was just a fluctuation. The metal's fundamentals justified a higher price in 1995 than in 1994, he said.

Munro said Gold Fields did not need to start new projects to display its confidence in SA.

It had maintained capital expenditure through the past decade and was currently opening up 10 deeper areas by shaft works of one sort or another.

It was important for all to see that operations at group mines were maintained.

The four mines had a taxed profit of R391,8 million for the quarter, down from R448 mil-



Alan Munro . . . work on major projects continuing.

lion the previous quarter.

Production dropped slightly in the December quarter to 30,2 tons from 30,6 tons in the September quarter, but group production still exceeded 120 tons for the year. Munro did not expect it to fall below this level in the near future.

Mainly as a result of a drop in the average price from R44 831 to R43 971 a kg and lower production, gold revenue dropped from R1,37 billion to

R1,33 billion.

This, together with a R29,3 million increase in costs, caused working profit to drop by R73 million to R515,5 million.

Tax took R177,8 million (R174,6 million), while capital expenditure in the quarter rose to R190,2 million (R167,9 million).

Work on major capital projects was continuing as a matter of priority.

Production interruptions were experienced by most operations over Christmas.

As the group had closed its books for the quarter on December 24, results of these interruptions would be reflected in the March quarterlies.

At West Driefontein, interruptions were exacerbated by further intermittent disruptions after unlawful industrial action leading to the company declaring a dispute with the National Union of Mineworkers.

At Deelkraal, chronic unrest had culminated in totally unacceptable action at the end of the quarter.

Reviewing activities at the

individual mines, Munro said that Kloof's operations were good news.

The long walls were going well and the No 3 sub-vertical shaft, which was seriously damaged in an accident a year ago, had been re-equipped to within 30 metres of the 40 Level station and 80 metres of the shaft bottom.

This progress had made the management more confident about maintaining production.

The Leudoorn division was trying to improve its yield, while the Libanon division had converted a loss to profit. The Kloof mine's taxed profit was R158,4 million (R193,8 million).

Driefontein had a taxed profit of R226,1 million (R241,6 million), while Deelkraal earned R11 million (R14,5 million).

Deelkraal needed to earn more to be able to pay for necessary capital expenditure, said Munro.

Operations at Doornfontein had improved throughout the quarter and the mine would not repeat the December loss of R3,7 million in the March quarter.

79

5/20 10/11/95

# Inflation fear bolsters gold

CT 18/1/95

21 (79)

GOLD and precious metals edged up and international stock markets fell yesterday as US industrial production data for December revived fears of inflation by showing that the economy was still powering ahead.

And oil prices continued to rise — normally another inflationary factor.

Gold was fixed at \$379.80 an ounce in London in the afternoon, up from \$377.90 in the morning and \$377.55 on Monday.

The February contract on the New York commodity exchange rose \$2.1 to \$380.3 an ounce in early trading after data on the state of US industry showed that capacity utilisation rose to 85.4% — the highest level since October 1979. It was slightly ahead of the forecast 85.1%.

## Mixed signals

Industrial production rose by 1% compared with a forecast of 0.6%.

Mining production increased 1.2% after falling 0.5% in November. For the year, mining output was up 1.5%.

Utility production declined 0.8% in December after falling 1.3% a month earlier. For the year, utilities were down 0.6%.

Factory output was particularly strong for big-ticket durable goods. That category climbed 1.3% in December on top of a one percent in November.

Analysts said the data sent mixed signals to the precious metals markets, pointing to stronger industrial demand and the potential for inflation but also boosting the chances for a near-term hike in US interest rates.

Dealers in London said the data encouraged investment in precious metals, which had been "sniffing at the upside all day."

"There was buying being done already on Swiss accounts on Comex before the data came through. When it was released above forecast, it encouraged the funds to come in and do some more," one dealer said.

Both gold and silver were expected to encounter stiff resistance with gold seen to be channelled in a range between \$376 and \$382.

Dealers said trading could be a little circumspect given January option positions. Some also said the market would be mindful of business in \$380 March calls done on Monday.

Silver was banded between \$4.75 and \$4.90 having firmed around 8c from its midday fixing.

## Oil firms

The Federal Reserve raised interest rates six times last year, and many analysts expect a seventh boost when the central bank's key policy-making Federal Open Market Committee meets at the end of this month.

International oil prices firmed for the second consecutive day yesterday as US gasoline continued to set the pace for the rest of the energy complex, brokers said.

Atlantic Basin benchmark Brent crude for March delivery on the International Petroleum Exchange stood at \$16.55 a barrel, 12c up from Monday.

US brokers said influential commodity funds bought gasoline futures on the New York Mercantile Exchange this week. — Business Editor, Sapa-Reuter.



# Gold surges ahead on inflation fears

Business Editor

GOLD continued its upward movement yesterday closing at \$382.85 in London — up from Tuesday's \$379.85 close — on fears of rising inflation in a booming US economy. But the metal retreated slightly in New York finishing at \$382.15 an ounce.

SA analysts and portfolio managers had differing opinions on its short term outlook. Peter Major of Syfrets said he still thought gold shares a buying opportunity at this price.

CF 19/1/95

"Relative to gold, this is the cheapest I have seen our shares for 12 months." Major said he thought investors were hanging back because they feared gold would fall again. But if it stayed at present levels for a week, he expected them to rise by 5%.

But David Giese, gold analyst at Davis, Borkum Hare in Johannesburg, said he advised profit-taking on the rise this week. "There are so many factors that can influence the price of gold and it is rising on sentiment and not for any fundamental reason."

However, Giese said, he was "cautiously optimistic" about the gold price.

Trevor Pearton at Frankel, Max Polak, Vindervine said that if gold moved above \$385 an ounce the price would be supported by more short covering from the funds. But if it fell it would trigger selling that could bring it down to \$365.

Meanwhile Reuter reports from London that gold shares moved higher on the LSE in moderate volume, helped by rising gold prices and a weaker financial rand, dealers said.

"Interest is switching from indulgences to gold shares as investors return to the ultimate hedge — gold — amid disruptive markets," one dealer said.

● Comex gold ended with pared gains yesterday after slumping near the close on trade selling, traders said.

Most-active February gold ended \$2.00 higher at \$382.60 an ounce, traded between \$384.90 and \$382.50. Volume was heavy at an estimated 54 000 lots, up from Monday's official 37 297.

# Gold the 'ultimate hedge'

By AUDREY D'ANGELO

GOLD has retained its real value for the past 500 years "with deviations lasting a decade or so" and is the ultimate conservative hedge in the longterm, Jos Gerson, chief economist at Davis, Borkum, Hare, said yesterday.

Although it is volatile and difficult to predict in the short-term, he said: "I think gold shares are probably a buying opportunity at the moment. They are still cheap on fundamentals."

"But South Africans should have a lower gold exposure than foreigners

because we are already up to our eyeballs in it. If the gold price goes up our whole economy benefits."

Since gold is probably in a mild upswing around its long term mean it should reach \$500 an ounce in 10 years' time. "But for the next year or so Clem Sunter's prediction that the metal is likely to trade in a range of \$370 to \$410 is eminently plausible."

However, he said: "Gold is unlikely to outperform inflation in the longterm. Only the very risk-averse would hold it as a longterm investment."

# Gold up, but market wary

CT 23/1/95 (79)

By AUDREY D'ANGELO  
Business Editor

A QUESTION mark hangs over gold this morning after it closed higher on Friday on fears of rising inflation, as Wall Street and European stock markets fell and the dollar weakened.

Gold reached a three-week high on the New York Commodity Exchange, with the February contract closing at \$385.40 an ounce, after reaching \$383.95 in late London trading. It traded at \$385 in Hong Kong on Saturday.

## Gold index

On the JSE the gold index ended 5.2 points higher on Friday — a factor that helped the market to close above its lows.

But contradictory signals are being given out by world markets. The fears of inflation which make investors see gold as a safe haven also make it likely that the US Federal Reserve will raise interest rates.

It is this fear that has driven Wall Street and other world stock markets down.

## Safe haven

At the same time fears of inflation have weakened the dollar and driven some investors into the German mark,

which they see as a safe haven in preference to gold.

SA stockbrokers and analysts said on Friday that the market was impossible to predict and they would look for pockets of value.

Old Mutual chief economist Dave Mohr said yesterday: "We believe that, fundamentally, fears of inflation are overplayed and therefore there is no sustained support for gold. We are living in a non-inflationary environment."

Mohr said gold could, however, rise in the short term. This would provide an opportunity for profit taking.

Peter Major of Syfrets, who also thinks fears of inflation are overplayed, said that in real terms "gold has been this cheap only once in 15 years."

## Year of bonds

It was supported by "incredible base metal prices". And rising oil prices, which were inflationary, were also good for gold.

"Low inflation and high real interest rates hurt gold but high base metal prices help to pull it up."

Major said he thought the JSE as a whole would "take a knock in the next few months".

"All good things come to an end and I think this will be the year of bonds."

# Scrap gold market restrictions, says bank

BD 30/1/95 MUNGO SOGGOT (79)

THE abolition of restrictions on the SA gold market would benefit the country, and the rationale for a restricted gold market would vanish once exchange controls were scrapped, the Bank of Lisbon said in its latest Economic Focus.

"The removal of restrictions could generate higher levels of demand for gold for years to come." The World Gold Council was encouraging governments to remove regulatory and fiscal restrictions on gold, it said.

Despite this vested interest in the liberalisation trend, SA applied "stringent controls on gold trading in its own territory in the sense that export of gold is firmly under the control of the Reserve Bank, imports of gold are prohibited, and trading in gold bars in the domestic market is banned".

It said a liberalised gold market would allow the Reserve Bank to give up its role as the marketer of SA's gold. Gold mines could then sell gold themselves in SA and abroad.

The bank said complete freedom for SA citizens to buy and sell gold would spawn spot and futures gold markets, while the rand would become a gold convertible currency — a development which would hopefully attract more foreign capital into the country.

"Under such a dispensation the Reserve Bank would have an additional monetary policy instrument at its disposal." It could sell gold to the public when internal liquidity built up from a surplus on the balance of payments (BoP). Similarly, gold could be bought from the public when the Bank's reserves were low or when it wanted to pump liquidity into the banking system.

The Bank of Lisbon questioned the argument that gold restrictions should be kept for BoP reasons, the main one being that SA would still need to export all its gold except for the small amount used for jewellery and Krugerrand products.

It said the amount of gold that would be sold domestically in a liberalised regime would probably be small. It said the importance of gold as a generator of export revenue was declining in relative terms.

In 1980 gold exports had accounted for about 44.5% of total exports, compared with 24% in 1993. Gold's importance for the BoP would decline once the Reserve Bank's foreign exchange levels increased after the abolition of exchange controls.

R200-m smuggling case highlights 'economic sabotage'

# Huge gold thefts bleeding economy

SPAR 17/2/95 (7A)

BRENDAN SEERY

GOLD is being stolen from South African mines and refineries at the rate of between R500 million and R1 billion a year, as wealthy people, uncertain about the future under a black government, try to move their assets abroad in bullion form.

As much as 2 percent of the country's total gold production is being stolen and smelted into ingots, which are smuggled abroad and sold on the international bullion markets. The proceeds are being funnelled — in US dollars, British pounds and German and Swiss marks — into Swiss bank accounts.

Theft of gold is probably the biggest economic crime facing South Africa today. It is described as economic sabotage by detectives and prosecutors investigating it.

The losses affect not only the profits of the industry but also deprive the country of hundreds of millions of rands in tax revenue. This will hobble the Reconstruction and Development Programme and might force future tax increases on the man in the street.

The seriousness of the situation emerged from WeeekendStar inquiries in connection with the biggest gold-smuggling case in the country's history — and one of South Africa's biggest prosecutions in money terms — which was recently referred for trial in the Supreme Court in Johannesburg.

Six men, including three Johannesburg businessmen and three members of a prominent family in Durban's Indian community, are charged with falsifying export documentation in order to ship out 6,8 tons of gold worth R208 million between 1992 and 1993.

## Investigation

This represents just more than 1 percent of the total annual South African gold production of 620 tons.

Other similar operations have been identified and other people charged after a long and complex investigation by detectives of the police's gold and diamond branch and prosecutors of the Witwatersrand attorney-general's office.

In 1993, Anglo American gold division chief Lionel Hewitt was quoted as estimating that as much as 2 percent of Anglo's gold was lost every year to theft.

A loss on this scale would amount to 12,4 tons in terms of last year's production. At current gold prices, this is worth about R650 million.

Chamber of Mines gold

## ◆ Gold theft

marketing consultant Dr Dan Pollnow said: "The industry recognises that there is a problem, but it has been with us for as long as gold has been mined and processed in this country." He added that it was virtually impossible to quantify the extent of the losses.

He said the chamber was "co-operating fully" with police and prosecutors in the current investigation.

He noted that not all the gold smuggled overseas in such operations was stolen from mines and refineries. Some could have come from melted-down jewellery, which could have been bought legitimately, or from jewellery taken in burglaries or robberies.

"The industry itself is not the only source of gold," he said.

Those charged in the current case — which is set down for trial later this year — are Johannesburg businessmen Norman Durrandt (41), Dave William Friedman (41) and Paul Miller (45). Their co-accused are three well-known Durban businessmen and jewellers, Jamnadas Soni (31), Kireet Soni (38) and Arron Kumar Soni (45).

The scheme allegedly operated through a Johannesburg company called Chemfix, which had permits to export "scrap" gold and silver. Two of the men running Chemfix, brothers Keith and Wayne

Stephen, were sentenced last year to an effective two years' jail and fined R135 000 each for their part in the operation.

Gold bars were allegedly sprayed with silver paint and falsely declared on export documentation as scrap silver. The consignments, which were air-freighted overseas, were correctly declared at their destinations.

The Soni family are alleged to have received more than R70 million paid into two bank accounts in Geneva, Switzerland. Durrandt is alleged to have received R16,6 million in an account in Geneva, while Friedman and Miller are alleged to have been paid R6 million and R26,7 million respectively in Swiss accounts.

According to the Supreme Court indictment, the gold, as well as some platinum, was stolen. However, some shipments also included many Kruggerands smelted into gold bars.

All the accused have been refused bail.

In bail hearings, it was claimed that State witnesses had received death threats.

It was also said that two other accused, Mark Aubrey Mathias (42) and Nicholas Michaelides (55), had fled the country. It is understood that Mathias is living in the south of France and Michaelides is in Greece.

## GOLD SHARES

# Disastrous quarter will spur reform

**Evidence is accumulating** in the market that next month's gold mine quarterly results will be nothing short of a train smash.

Many analysts are openly telling clients the worst is far from over. "If you think gold shares are good value at these levels," says one, "believe me, you have not seen the half of it yet." These opinions, now widely held, are based on sharp declines in gold output for January.

In December, traditionally a poor production month, SA turned out 49 t of gold; in January this fell to 42 t. Gengold chairman Gary Maude confirms this: "If the present trend persists, production this year could be as much as 70 t less than in 1994." At the current price of R45 000/kg that represents a foreign exchange loss of around R300m over the year.

Last September, the JSE All Gold index peaked at 2 533; it is now 1 523, a fall of 40% in six months. This decline reflects the fall in industry net profits — R566m in the September quarter, R394m in December, with analysts predicting a range of between R240m-R320m this quarter.

Many mines are expected to report poor results. These include **Western Deep Levels**, said to have incurred losses after capital expenditure in January and February, and **Vaal Reefs**, where appreciably higher costs are expected to reduce margins. Earnings declines of as much as 30% across the board are expected at Gold Fields mines, now locked in an unremitting battle with the NUM which has long viewed the house with a distaste verging on paranoia.

Gengold's Free State producers will escape the general miasma. Maude says relations with the union and workforces at these mines are good. But analysts say the Evander mines (**Winkelhaak** and **Kinross**) started the new year badly and are unlikely to make up lost production quickly.

"To give some perspective," says Ed Henning, Rudolph's gold analyst Graham Parker, "when we recalculated dividend yields at R1 400/oz (the current price, and R100 more than the price used late last year), the best improvement we could come up with for the index a year out is growth of only 12%. This means the famous leverage has disappeared, countered by rapidly declining productivity."

In global terms, SA's declining production suggests the fundamentals of the supply/demand equation are changing abruptly. In 1981 SA's share of total new world production of 985 t was 67%. By 1994, new mine output advanced to 1 854 t, of which SA's share of 620 t was 33%. This year, new production is expected to total 1 900 t, of which SA may produce as little as 550 t, or only 29%.

Maude says all isn't gloomy. "The gold price has languished at current levels for a long time. It needs something startling to jolt it into action. Taking 70 t off the market could provide that." By implication, his view is that this will force a substantial increase on a market now ready to accept such a price rise. "That's probably true," retorts an analyst. "The trouble is it's SA which will have to pay the price."

There is general acceptance that much of the industry's difficulty centres on a recalcitrant labour force. A senior

mine manager says it is characterised by a prevailing attitude of "more pay and less work." Maude agrees there is widespread discontent but believes there are subtleties which shouldn't be overlooked.

Generally, mine labour is now complaining about many matters previously never, or rarely, mentioned: the demands for shorter hours, for starting shifts later, anger when cages arrive late are better expressions of discontent.

But these come at a time when the union has been denuded of many able officials, whisked away to become parliamentarians. So though many mining house officials say relations with the National Union of Mineworkers (NUM) at head office have never been better, they also point to a sharp deterioration at regional and mine level.

"The problem," says an analyst, "is that they want old imbalances redressed immediately. That involves housing, pensions, medical aid for families, education. The sums required will be astronomical."

Another feature is that costs were addressed seriously from the mid-Eighties onwards. "We trimmed a lot of fat from the system," says Maude. "But many of these exercises can only be done once. The fat isn't there to trim this time around."

The All Gold index fell in response to



Maude ... putting a brave face on it

declining profits caused by rising costs. Now, the labour situation will have to be factored into investor calculations. More declines in the index must be inevitable.

If nothing else, these latest production indications from an industry described as in decline are sure to provoke deep analysis within the mining houses. Restructuring of the industry, long forecast by the *FM*, is rapidly drawing closer.

David Gleason

## LIBERTY LIFE Gordon's roller

**Liberty Life**, engine room of the Liberty Group, continues to purr along with mechanical perfection. The 25% increase in EPS and 24% higher dividend payout, with the option of a 1,33-for-100 share capitalisation award, is comfortably ahead of the stated objective of at least 20% annual growth in earnings and dividends.

But the interest is on the deck, where chairman Donald Gordon is increasingly steering his group into international waters. He plays down the imminence of a substantial US insurance acquisition, saying it could take "a few more years." Yet conditions for another offshore acquisition are increasingly falling into place. It will probably happen sooner rather than later.

Financial 1994 was the year Liberty embarked on an ambitious international capital raising programme.

First, TransAtlantic Holdings, through which Liberty holds its UK property and assurance interests, raised R1,4bn in a convertible bonds issue. This was followed by the flotation of Capital Shopping Centres, with assets of about £1bn, including seven regional shopping centres, on the London Stock Exchange. That raised new capital of around R1,2bn.

The highlight was the Euroconvertible bond issue by Liberty Life, which, despite the surprise resignation of Derek Keys as Finance Minister in the middle of the international road show, raised R1,1bn.

That totals R3,7bn long-term capital,

Year to December 31	1993	1994
Pre-tax income (Rm)	10,35	11,47
Investment income (Rm)	30	48
Taxed surplus (Rm)	422	565
Earnings (¢)	36	40
Dividends (¢)	16	20

\* Excluding equity accounted earnings

# Unrest fear hits gold shares

ST (ee) 24/3/95 (79)

Potential loss of production on holidays contributes to foreign concerns over South African gold mine prospects

By DEREK TOMMEY

MINING EDITOR

Fears by American investors that South Africa's gold mining industry might face serious labour unrest is the major reason for the sharp fall in gold shares in the past few days, stock brokers said yesterday.

With the gold price showing little increase lately, and the mines suffering from unavoidable cost increases, many mines are extremely vulnerable to any further disruption of production.

In the past few weeks the gold share index has dropped 11 per cent, which means that some

R5 billion rand has been knocked off the market value of gold shares in this period.

This has been another blow for investors in the mines, which have lost some R30 billion since the gold share index peaked in mid-September at 2535.

The index closed at 1398 on Wednesday but recovered slightly yesterday to 1403.

The event which apparently triggered the latest wave of selling was the public holiday on Tuesday, which drew the attention of investors to the fact that this year the mining industry will have to observe 12 public holidays com-

pared with only four holidays last year.

In January the Chamber of Mines warned that if no work took place on these holidays the country could lose gold production worth some R900 million a year and the government could forfeit R155 million in tax.

The question of working on these holidays is the subject of discussion between the mining unions and employers.

The mining industry has not made any announcement about what happened on Tuesday, although the word is that the "progressive" mines came to an arrangement with their workers.

However, the question of working on public holidays is only a

small part of the problem.

Production at several large mines, particularly at Western Deep, West Driefontein, Randfontein, Vaal Reefs, Hartbeesfontein and Deelkraal has been badly affected by labour unrest and unofficial strikes in the past three months.

The March quarterly results from these mines, due to be published in the next three weeks, are expected to be poor.

But it is believed that most mines have been affected to some degree by labour militancy.

Gary Maude, head of Cengold, warned British investors in London in January that the company could face a difficult half year to June.

See Top Indicator



# 'Disastrous' gold results expected

BD 3/4/95 (79)

MICHAEL URQUHART

GOLD quarterly results due to be announced soon would be every bit as disastrous as the fall in the gold index indicated, analysts said at the weekend.

They predicted sharp falls in attributable profits as mines battled with labour problems and the effects of the Christmas and New Year holiday periods.

One analyst said the fall in profits could be about 40%, and possibly as high as 60%.

Another analyst said that the change in quarter-on-quarter earnings would be the worst seen for a "long time".

Expectations of poor results had seen the index plummet from 1 985 at the beginning of the year to its close on Friday of 1 469.

However, analysts were divided on what the release of the results would do to the market.

One said shares had already discounted the expected poor results and might strengthen, while another said the results were going to be worse than expected and the gold index could weaken further.

Gold mines would be taking the double blow this quarter of a lower gold price and falling production. The gold price for the March quarter averaged about R1 350/kg, compared with R1 360/kg during the previous quarter.

Analysts said the rand had shown unexpected strength, particularly in the light of the scrapping of the finrand, and this had had an effect on the rand gold price.

One analyst said that if gold production in March followed the same

trends as shown in January and February, production for the quarter would be down between 7% and 10% from the previous quarter's.

If total working costs remained stable, this would lead to an increase of 7% to 10% in working costs per kilogram of gold produced, he said.

While there were warnings during the last quarter that costs had been brought under control, mines had not necessarily succeeded in achieving this.

Costs could not just be switched on and off.

Analysts ascribed the largest portion of the fall in the quarter's production to labour problems.

There had been a distinct lack of motivation among mine workforces, which was difficult to quantify.

There had also been a number of occasions on which labour problems had erupted into industrial action and violence.

Most of the labour trouble had been in the Evander area and on the West Rand, with Gengold's Kinross and Winkelhaak hit hardest.

Gold Fields of SA's Deelkraal had also been hit particularly hard by strike action, as had Anglo American's Western Deep Levels.

One analyst said that Western Areas would probably also report worse results because of a problem with its grades.

Analysts said what was really worrying was that the outlook for the next quarter was no better, with a series of public holidays coming up, especially in April.

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# SA gold 'has good recovery potential'

79 CT. (PR) 4/7/95

By JOHN SPIRA

GAUTENG BUSINESS EDITOR

## South African quarterly output in Tons

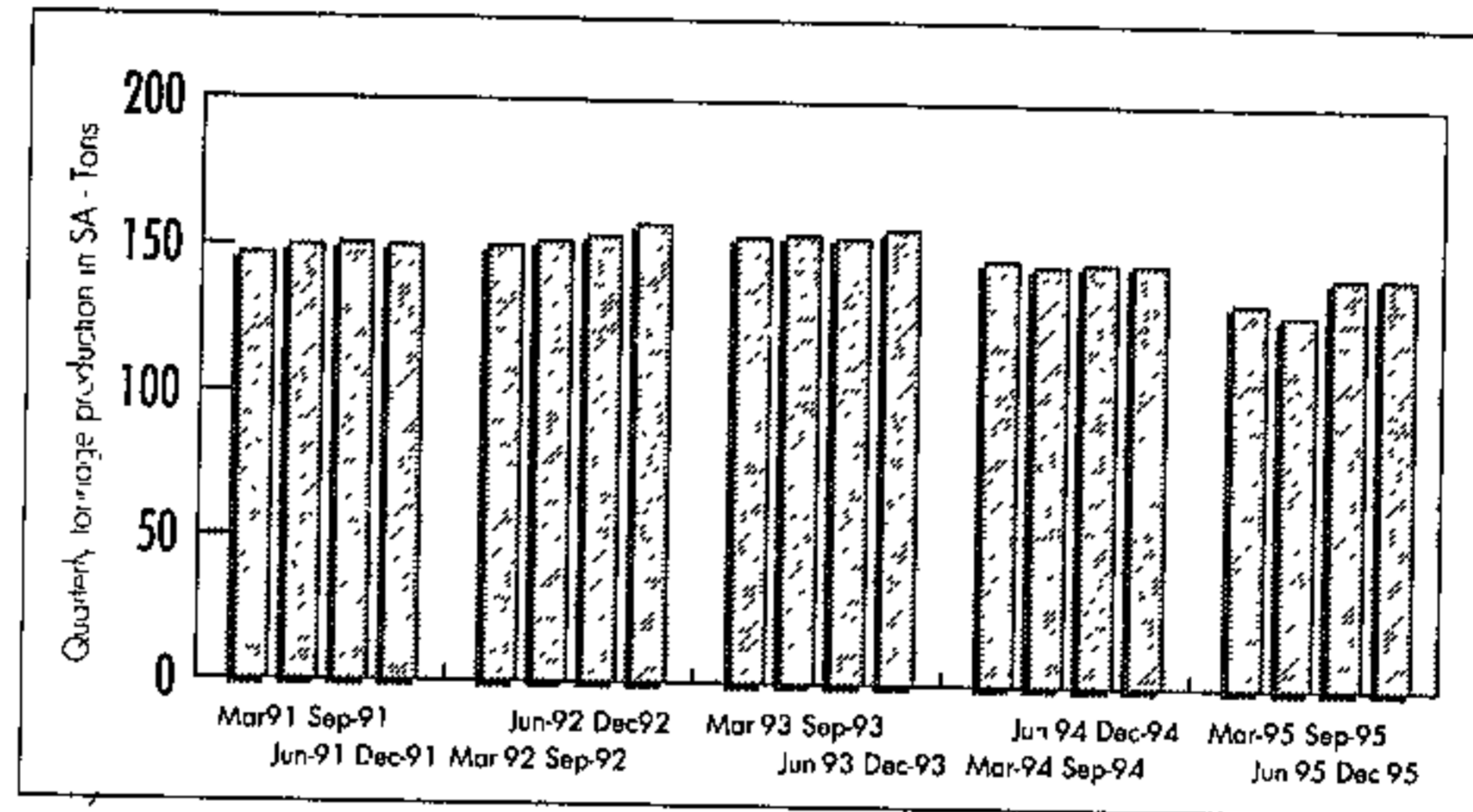
South African gold shares provide the best recovery potential relative to North American and Australasian gold counters.

An analysis of international gold shares by Hambros Equities UK revealed that since the beginning of 1995, the North American gold share index had, in dollar terms, outperformed the Australasian index by 21 percent and the African index by as much as 33 percent.

Based on relative values, Hambros Equities suggested a 33 percent weighting for African gold shares, with 12 percent for Australasia and 55 percent for North America.

Looking at the overall market, the firm noted that production problems continued throughout the gold mining industry, "tightening the market balance".

In addition to South Africa's "well documented" production problems, United States production had fallen for the first time in



15 years, while Australia had been affected by cyclones and tornadoes.

Hambros considered that South African gold shares had "fully discounted" operating problems.

"A proliferation of public holidays adversely affected the first six months' production with the first quarter reducing year-on-year production by 9 percent. Underground shifts were expected to return to the normal 71 days per quarter for the last two quarters of 1995.

"Assuming a conservative view

that the full year's production will fall 9 percent, the average forecast dividend yields of the South African mines over the next four quarters is historically high at 5.4 percent."

Hambros' ranking procedure placed Harties second, Vaal Reefs third, Western Deep fourth and Kloof fifth, based on a gold price of \$390.

At \$440, Harties is first, Western Deep second, Vaal Reefs third, Kloof fifth and Freegold eighth.

# Unsettled labour negotiations could prove disastrous for gold

BY PETER GALLI

FEATURES EDITOR

(79) (TFR) 7/17/95

Analysts hold little hope for any sparkle in the gold price in the short term, but say positive developments regarding negotiations on labour issues could result in a substantial rerating of local gold counters.

However, they cautioned that the failure of such negotiations, coupled with dismal second-quarter results, would be disastrous for the local industry.

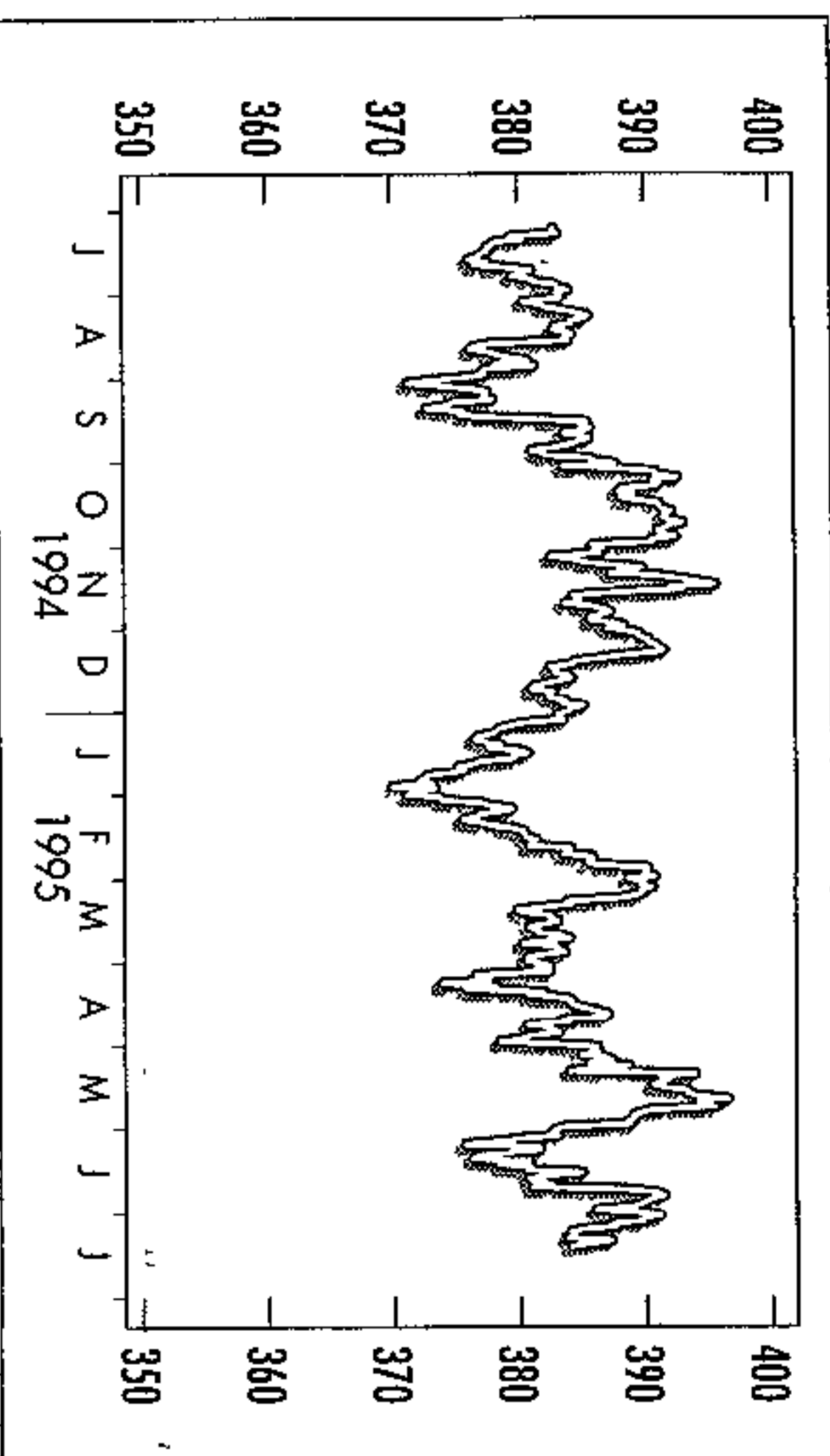
"Gold shares have been in an oversold position for some time now and are likely to remain so until the negotiations between the industry and the National Union of Mineworkers bear fruit," one analyst said.

"While the market has factored in second-quarter results worse than the first quarter's, attention is focused on labour issues."

Another said there was no doubt the industry would report another set of "disastrous" quarterly results given that while the gold price was up 4 percent on the first quarter, production was expected to have declined by at least 7.2 percent and costs would be higher.

"As such, if labour and management fail to reach agreement, which makes the scenario of lower produc-

Range-bound gold price: daily afternoon fix



tivity and production seem likely, the gold price would stand to benefit but local shares would undoubtedly fall further," he said.

While some of the lower-cost producers would weather the storm, there were likely to be casualties from among the higher-cost producers.

The volatility in the market earlier this week was unlikely to continue and had merely been in reaction to global developments. "When local investors realised gold shares were oversold they came back into the market in a big way looking to pick up bar-

gains — pushing prices and the index back up," a dealer said.

Regarding the physical gold market, analysts said they expected the metal to continue trading in its \$375 to \$400 range. This had narrowed to between \$380 and \$400 an ounce on good physical demand for the metal, largely from Southeast Asia and India. Many Japanese investors were moving into gold as a safe haven.

"But the market is rather lacklustre at the moment, lacking volatility, as the international fund managers — who love to play on market volatility — are

uncertain about what Alan Greenspan, the governor of the Federal Reserve, is going to do about the United States economy. As such, there are no great shakes coming from macro-economic fundamentals," he said.

"In addition, producer forward selling and a range of alternate safe haven investments are placing a damper on the market.

"In short, good physical demand, is supporting the price at the lower end, but this doesn't drive the price in the short term. Investment demand does that, and there are a range of better opportunities right now."

However, another dealer said silver stocks had continued to decline. If the gap between supply and demand continued to widen, this could lead to a gold price revival in the short term.

"But what the gold market really needs is to see the large international funds come back in as serious players. It appears that we need some sort of catastrophe to frighten them back in.

"However, while gold used to be a traditional safe haven when investors were bearish on the dollar, they now tend to move into the yen and mark," he said.

As such, even in the event of a currency or some other form of crisis, there was no guarantee that investors would move their money into gold.

# Public holidays, low morale hit JCI revenue from gold

**Business Editor**

REVENUE from gold slumped at JCI's mines in the June quarter as public holidays, the day of mourning after the Vaal Reefs tragedy and low morale cut production.

At Randfontein, gold production slipped 9,5 percent and profits from gold almost 59 percent to R25,1 million. But higher interest revenue and profits from uranium pushed after-tax profit up 12 percent from R32 million in the March quarter to R35,9 million.

Western Areas showed a 25 percent drop in after-tax profit to R23,9 million.

At Joel, gold production was static in spite of better throughput. Gold revenue was up six percent but higher working costs held the mine's loss to R5,3 million.

■ Consolidated Murchison is offering shareholders capitalisation shares instead of a cash dividend to save cash for the Beta shaft. Directors said the cost of

ARG 26/7/95 (79)  
this project, designed to extend the mine's life, would be higher than expected.

Mining revenue was stable in the June quarter, as revenue from gold rose 15 percent and revenue from antimony dropped. After-tax profit nearly trebled to R15,2 million because of a tax windfall, but capital spending on metallurgical projects drained off the profit.

■ The Johannesburg Stock Exchange had blocked the restructuring of Investec and Sehold, Investec said today, because it would have involved the creation of a second stage pyramid.

■ Columbus subsidiary Southern Cross Stainlessware, based in Middelburg, is to invest R4,4 million to expand its production of stainless steel hollow ware — pots and pans. The workforce will be increased from 24 to 86 people and the extra capacity will come on stream in October to meet festive season demand.

■ Malbak is offering 23,5 million global depository receipts (GDRs) at a 6,7 percent discount

to last Friday's R22,50 closing price, joint lead manager Flemings said in London. The issue price of \$5,75 is equivalent to R21 at an exchange rate of R3,652 to the dollar. There is an option to increase the issue by a further 2,75 million GDRs. Payment date is August 16.

■ Iscor and Bateman are to cooperate with the Al-Shamrany Industrial Group in the building of a cold rolling mill at the Jubail Industrial City in Saudi Arabia, with an annual capacity of 250 000 tons. The plant is to come on stream towards the end of 1997.

■ Variable rate loan stock company Richway Retail Properties is paying a maiden dividend of 43c a share, 4,5c higher than the pre-listing forecast. Turnover for the year was R23,3 million, with profit before debenture interest and taxation at R18,03 million.

■ Nearly 92 percent of Clicks shareholders opted for shares instead of the cash dividend of 3,6c, the retail chain said.

# Gold will 'soon test the \$400 level'

CT (BR) 1/8/75 (71)

By JOHN SPIRA

The CRB index, cited by Hambros Equities UK as a strong indicator of global inflationary expectations, appears set to move upwards.

Since the gold price had closely shadowed the CRB index over the past six years, bullion could advance in the near future.

That was the conclusion of Hambros Equities UK, which produced the accompanying chart to underscore its contention.

"Towards the end of June, gold once more bounced off the 200-day moving average, re-inforcing the lower resistance level of \$382 an ounce.

"Subsequently the price has moved up through the 90-day moving average at \$385 an

ounce," said the firm.

"The upward momentum is justifiable considering the global supply disruptions and the increasing demand from Japan."

Hambros interpreted the rise in the CRB Index as possibly stemming from an increase in oil prices related to supply fears within Nigeria or a continued surge in corn prices.

Both are important components of the index.

"With gold consolidating its base, the majority of associated news would appear to provide positive momentum.

"We remain of the view that it should soon re-test the critical level of \$400 an ounce."

The firm advised that any weakness in South African gold share prices should be used to accumulate those shares.

# Gold demand soars

Star 10/8/95

(79) 2'

■ BY NEIL BEHRMANN

Gold demand in the main developed and undeveloped markets soared to 1 331 tons in the first half of this year, 18% higher than the same period last year.

Gold, trading at about \$384.5 an ounce, however, failed to respond to the latest buoyant figures published by the World Gold Council, which tracks about 75% of the global gold market.

"Strong physical consumption is putting upward pressure on the price floor, but forward sales are keeping the price in a narrow band," said Helen Junz, the director of the council's

gold economic service. Developing country gold consumption expanded under the impetus of two-digit growth in 10 out of 14 markets, said Junz. Compared with the same period last year, first-half sales rose 16% to 879 tons.

## Far East

Asian demand including India, but excluding Japan, also jumped 16 percent to 675 tons and is far above developed nation consumption of 452 tons.

In the second quarter, demand in Southeast Asia was driven by exceptionally strong increases in Indonesia and Malay-

sia, but consumption decreased in Hong Kong and Singapore.

Japanese demand for gold continued to soar in the second quarter and was up 54% to 164 tons in the first half of the year.

Historically low interest rates, the strong yen which lowers the local gold price and uncertainty about the heavily indebted banking industry led to "explosive growth" of Japanese gold accumulation plans, bar and coin sales.

The rest of the Asian populace continued to be a keen buyer of gold because of rising incomes, fears of inflation and desire for jewellery, said the council.

As a nation, India has become the biggest buyer in the world, absorbing 235 tons in the first half of this year. Japan follows, purchasing 167 tons (108).

The next biggest markets are, in descending order:

- The United States, purchasing 139 tons (129)
- China 119 tons (105)
- Saudi Arabia 99 tons (87)
- Taiwan 81 tons (75).

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# Gold earnings set to grow

□ *But VAT and unemployment to rise*

ARG 31/10/95 (79)

## Business Editor

RAND gold earnings will grow by a glittering 22 percent next year after falling six percent this year compared with last year.

In its latest forecast of economic prospects in 1995 and 1996, the Bureau for Economic Research says export earnings from gold are dwindling, but still account for more than 20 percent of exports revenue.

Taking into account a "relatively mild" rand depreciation, the bureau expects the value of exports to rise by 11 percent next year, compared to 20 percent this year.

Imports, swelled by keen demand for capital goods, are likely to grow by nearly 30 percent, leaving the trade account with a surplus of R3,5 bn — including gold sales — this year and R3,7 bn next year. The trade account will show a deficit of R22,3 bn next year.

After a continuing deficit on the services account, the current account of the balance of payments could widen from an estimated R11,6 bn this year to R13,5 bn in 1996 — or 2,5 percent of projected gross domestic product (GDP).

This will be offset by continued net capital inflows, projected at R12,5 bn next year. Provided the political situation does not deteriorate, drying up

capital flows, the balance of payments is not expected to hamper economic growth.

The Bureau is forecasting GDP growth of 3,1 percent, with employment growing by 1,3 percent. Given an annual rate of growth of 2,8 percent in the labour force, this means that unemployment will again rise next year.

Accelerated growth in consumer spending is expected to outstrip the increase in real disposable income, suggesting that the use of credit will increase or that personal savings will come under pressure.

Growth in gross domestic fixed investment, on the other hand, is likely to slow in 1996 to 8,2 percent from an estimated 11 percent this year.

The Bureau expects a one percent hike in the VAT rate in next year's budget and reckons a further one percent increase in the bank rate is still on the cards in the third quarter of 1996.

A postponement of an increase in VAT to a date later than March 1996 was not politically feasible, the bureau said.

Inflation is forecast to move into double digits during the third quarter of next year after rising steadily during the year.

## Gold rockets above \$390 in fierce trade

Beatrix Payne

BO 29/11/95 (79)  
THE gold price shot through the key \$390 level yesterday, touching \$390.50 in aggressive international derivatives-related trade before easing back to close at \$388.65 in London.

The gains in the metal, which ended \$4.15 higher from Monday's finish, pushed the JSE's all gold index almost 4% higher to a close of 1350.

It spiked just before the expiry of over-the-counter options on the New York Commodities Exchange. Dealers said the price was pushed to meet the options' \$390 strike price.

Lehman Bros precious metals analyst George Milling-Stanley said from New York the gold price had also moved into a "backwardation" position yesterday following recent pressure on gold borrowings. Backwardation is rare and usually brief, and occurs where demand is strong and the spot gold price trades at a higher price than the forward price.

Milling-Stanley said it was unclear how long the backwardation would last, but he expected the market to correct itself within hours.

The physical market was tight as many gold producers had sold forward, speculators were short selling, fabricator demand had increased and some central banks were starting to withdraw from gold lending prior to year-end audits. He dismissed talk that speculator George Soros had been buying up the market. "That sounds like dealers are rounding up the usual suspects and should be treated with a large dose of scepticism."

But most JSE traders were wary of gold's ability to maintain its gains and expressed concern that the price had moved too far too fast. "The gold index should have gained 7%-8% with a move of this size," one said.



# Anglo shrugs off gold's troubled times

(79) CT 29/11/95 (BR)

By DEREK TOMMEY

Johannesburg — Anglo American, South Africa's biggest corporation, increased its attributable earnings in the six months ended September by 19 percent to R961 million and its total net earnings, which included the retained profit of its associates, by 25 percent to R1,95 billion.

The interim dividend was lifted by 18 percent to 130c a share. Chairman Julian Ogilvie Thompson said yesterday he was pleased with the results.

They reflected Anglo's core objective of achieving sustained long-term growth through a strategy

of business and geographic diversity. Strong performances, particularly by associate companies Minorco, Amic and Amcoal, more than offset the decline in the contribution from the gold mining industry.

He welcomed the investment-led recovery in the South African economy, but said the key problem of inadequate employment generation required urgent attention.

Removing the remaining obstacles to much higher levels of investment, both domestic and foreign, involved greater care with setting priorities.

Anglo and its associates were expanding existing and new busi-

nesses in South Africa and had a capital programme of about R20 billion in constant money terms.

He said that Hulett's Aluminium was in the final stages of an agreement with the government on appropriate tariffs for its new project, while paper producer Mondi was implementing a number of capital projects.

Amic is to invest R117 million in a safety syringe plant. Local manufacture of other medical consumables and equipment, as well as the international commercialisation of the safety syringe and other novel medical technologies were under consideration.

The Namakwa Sands operation on the west coast north of Cape Town was steadily overcoming the problems associated with the commissioning of new technology.

A decision on whether Palabora Copper will start underground mining is expected early next year.

While the Gamsberg Zinc and Slaithoek Nickel projects did not meet Anglo's required hurdle rate, they might do so in time as a result of advances in technology, changes in prices and costs, or if they received investment incentives.

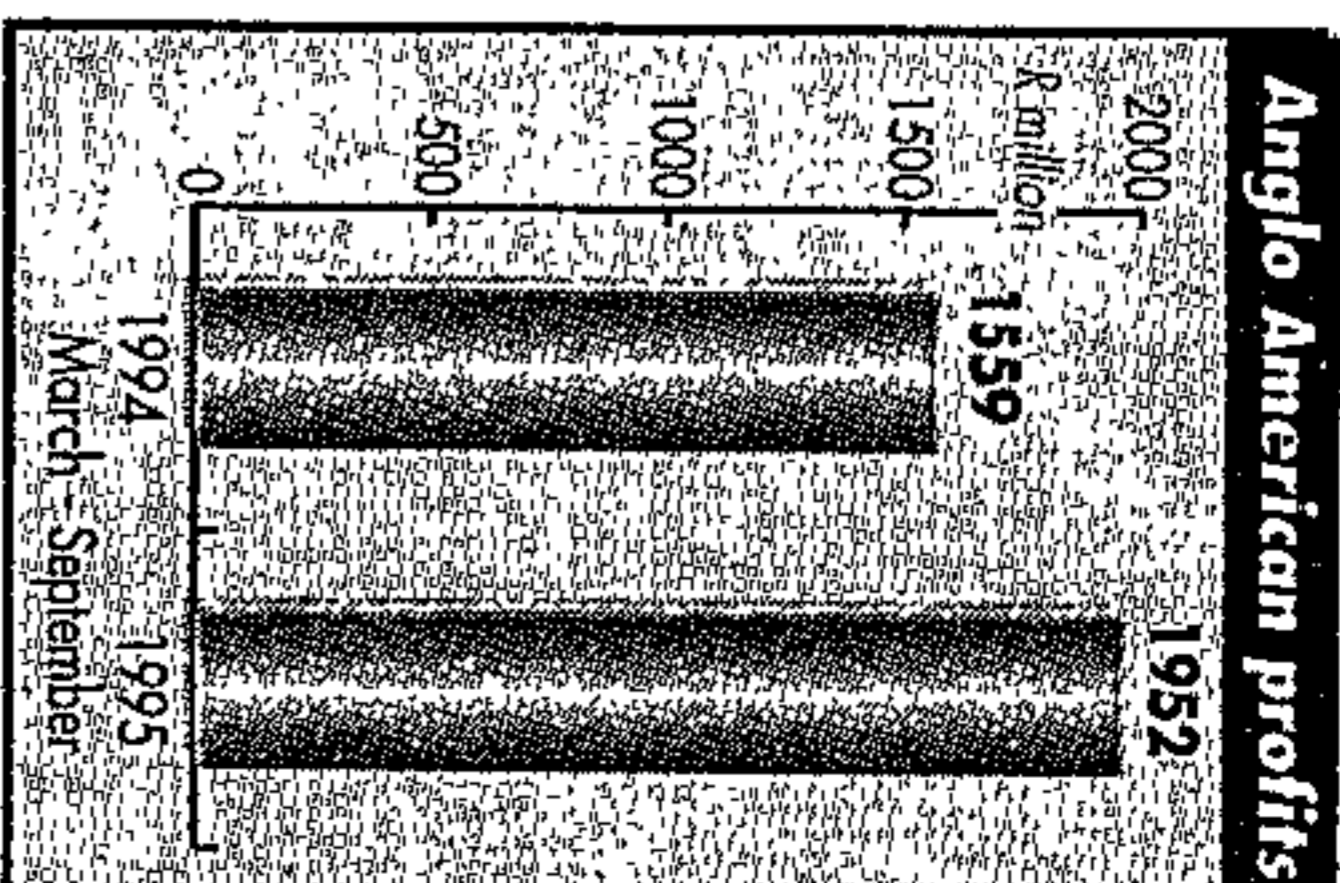
The South African gold mining industry was going through troubled times, Ogilvie Thompson said.

Although the recent quarterly results were pleasing, great effort would be required to restore the gold mining companies to more profitable levels.

He said that Anglo remained convinced of the validity of the mining finance house concept for the South African gold mining industry. Referring to the group's overseas activities, he said he could think of no group with a larger number of exciting investments.

Sadiola, the group's gold mine in West Africa, would reach full production in 1997.

He said Anglo was exploring extensively in West and East Africa.



# Higher silver price could influence gold

ET (PAR) 12/12/95 (79) #

By DEREK TOMMEY

Johannesburg — Aluminium prices will rise, copper prices will fall and higher prices for silver could push gold above \$400 an ounce, says metals analyst Stephen Briggs.

He makes these predictions in stockbroker EW Balderson's new publication Metal Matters.

The market's recent view is that aluminium's prospects look poor. But before long a combination of rising consumption, declining supply from the old East Bloc and slow growth of capacity will cause inventories to decline despite potline reactivations, says Briggs.

Stocks could fall below the critical six-week demand level by 1997 even with the industry operating flat out. This would create the conditions for a real bull market.

He predicts that aluminium,

which is trading at about \$0.82 a pound, could exceed \$1 a pound within the next 18 to 24 months even if further weakness occurs in the shorter term.

Copper faces a looming structural surplus as a result of an expected 25 percent increase in mine capacity, says Briggs. The expected decline in the flow of material from the old East Bloc will have only a small offsetting effect.

Producers of copper are reluctant to cut back production, so metal and concentrate inventories are expected to build up steadily between next year and 1998.

Briggs sees sustained pressure on prices as stocks move above the five, then six weeks' demand level.

But copper seems to be a lucky metal, he says.

"Something, perhaps a wholly new supply-side disruption, will

turn up to limit losses," he predicts.

Briggs says that looking at gold in isolation it is hard to identify positive influences that might cause a sustained price rise. One plausible candidate could be the silver price.

Silver's prospects for 1996/97 are bullish. In the past it has shown that it could influence gold and it should do so again, he says.

The silver market has shifted from chronic surplus to deficit. The implied deficit of 11 000 tons between 1990 and 1994 was met mainly by invisible inventories in Europe. A further big shortfall this year has, however, finally caused Comex stocks to drop 3 200 tons in January to October.

The deficit will persist through next year. He says with Comex less than 5 000 tons, this should trigger a price surge within 12 to 18 months, perhaps to \$7 an ounce.

# Hedging kept gold price range-bound

John Cavill

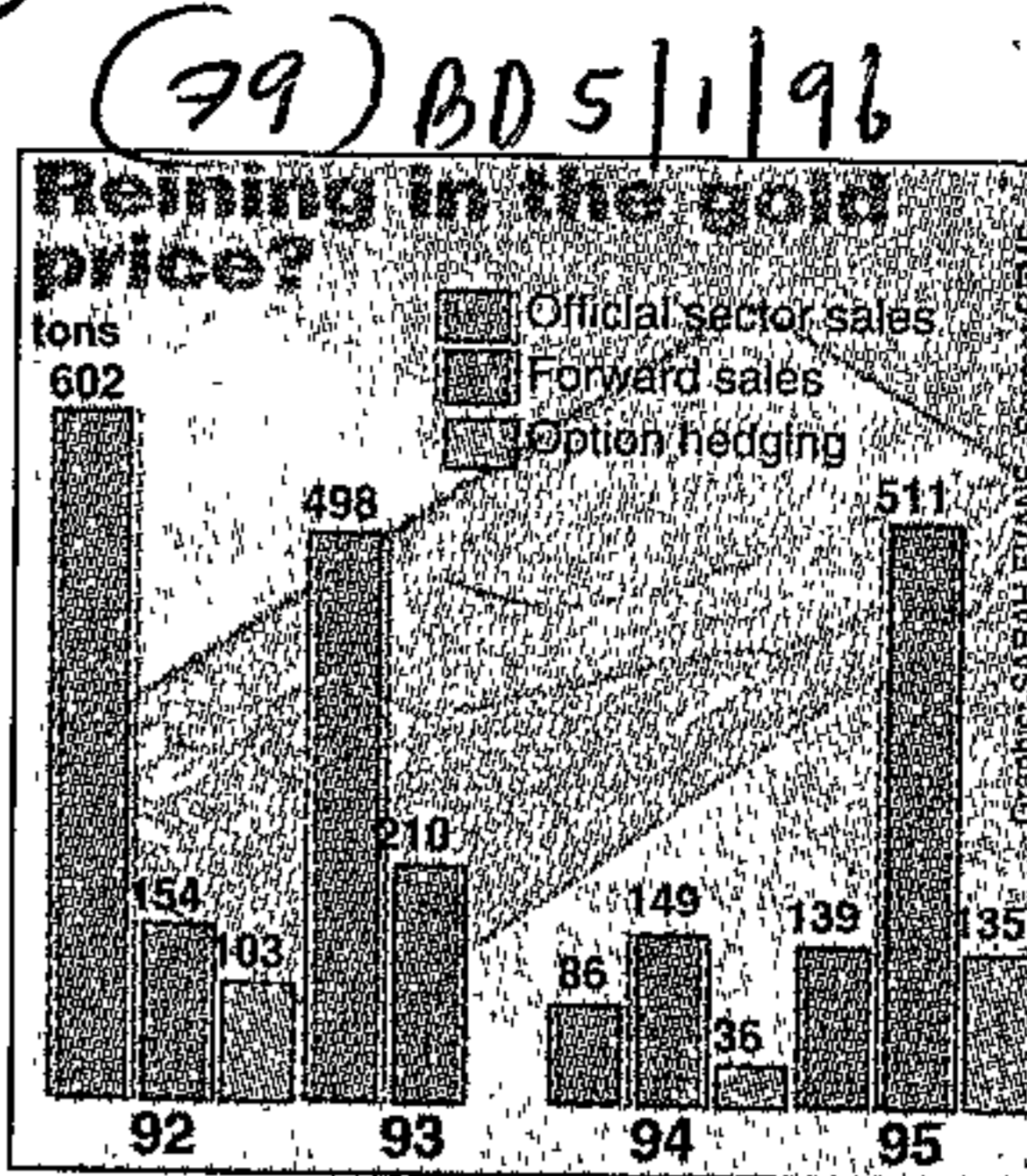
LONDON — A massive increase in forward sales and option hedging by SA mines kept the gold price range-bound last year, despite global demand reaching a record 3 642 tons.

In its latest assessment of the bullion market, Gold Fields Mineral Services (GFMS) said yesterday total forward sales had jumped 243% over the previous year to 511 tons, while option hedging jumped 275% to 135 tons.

Meanwhile, SA mines' output fell 10% to 523 tons — the lowest level in 40 years — cutting total world production 1% to 2 268 tons.

Central bank sales were 231 tons in the first six months, but in the second six banks were net buyers of 92 tons. This figure reflected purchases of local gold by banks in producer countries. Net official supply to the market was 139 tons, up 62% on 1994 figures.

"In spite of the record demand, the gold price remained within the narrowest trading range recorded since the gold market was freed in 1968," GFMS CE Stewart Murray said. "There is no doubt the lack of a price trend and record low levels of short-term volatility were not conducive to a return of



sustained investment interest, with investors sidelined for much of the year."

SA producers — which use hedging to safeguard marginal mines or secure income for new capital expenditure — dominated forward selling in the final three months. SA mines accounted for about 110-120 tons out of an estimated total of nearly 175 tons. Gengold hedged 90 tons of Beatrix mine's output, though unconfirmed reports be-

Continued on Page 2

## Gold

(79) BD 5/1/96  
Continued from Page 1

fore Christmas said JCI had put through a huge forward sale.

GFMS estimated that total fabrication (up 6% at 3 216 tons) and bar hoarding (up 43% at 334 tons) together topped the previous record, set in 1992. Net investment buying accounted for 68 tons compared with disinvestment of 168 tons in 1994.

Murray said the gold market was "fascinatingly poised". With 700 tons of official sector bullion (in sales and loans for hedging) needed to fill last year's supply-demand gap, the size of the gap this year and how it would be met was a key question. If the weakness continued in China — where fabrication and hoarding fell 12% to 212 tons — because of its austerity programme, and the main industrialised economies slowed down, the supply

shortfall could narrow. Even so, the physical gap was likely to remain substantial, Murray said. The market's trend was "likely to turn on the willingness of producers to extend forward sales ... and provide a continuing stream of accelerated supply".

Leasing rates for gold — which briefly shot up to nearly 6% for three-month bullion loans — remained relatively high around 3% compared with the 1% of the previous four years. At these levels it was "hard to imagine" producers selling forward "by anything like the amount seen in 1995", which meant net official sales from reserves would seem to be the only way to bridge the gap. However, these would have to be on a very large scale if the market was to remain balanced at the price levels of the past two years.

A sharp rise in the gold price could increase supplies of scrap and recycled jewellery in eastern markets but strength and volatility in bullion would also entice investors and speculators.

# Gold's best new year in decades

(79)

BY BRIAN SPOORS

CT(CR) 8/1/96  
London—Gold could shoot to its highest price since 1990 during the next few days, after one of its most bullish starts to a year in decades, bullion market analysts said on Friday.

The yellow metal was fixed at \$396.90 an ounce on Friday, up from \$394.25 on Thursday.

"It is feasible to see gold at between \$400 and \$420 on the basis of the amount of fund buying and the lack of selling," said Ted Arnold, a metals market analyst at Merrill Lynch.

He said that sell orders were being cancelled until it became clear that the rally was over-extended.

Bullion stumbled in a very narrow price range at an average of about \$384.05 last year, according to figures from analysts Gold Field Mineral Services (GFMS) issued on Friday.

It has not been priced above \$400 since March to August 1993.

"There is more to go on this. Everybody is so bullish. We may well see some profit-taking, then another push," said Arnold.

One issue which caused the market to ponder was the enormous rise in open interest on the Comex gold futures market last week. Open interest shows the number of outstanding contracts on the market which are not offset by an opposing transaction. A rise indicates increased liquidity in the market and most of this week's rise was in uncovered purchases, or "longs", analysts said.

"Rises (in open interest) like this tend to mean the price has got to the top of its range," said bullion analyst Andy Smith at Union Bank of Switzerland.

He said the investment fund-led move was bullish for gold if there was a genuine resource reallocation bringing gold back into funds' investment portfolios.

Physical demand for gold has been quiet during the past few days of surging prices, but it hit a record level last year according to the GFMS figures. — Reuter

(79)  
**Gold over \$400**

CT 11/1/96

THE gold price broke through the psychological \$400 barrier in London yesterday when it was fixed at \$400 after surging to a high bid price of \$402 in the US, but too late to affect prices on the JSE.

The metal has added \$15 since the beginning of the year.

Meanwhile, the Dow Jones industrial average ended with a big loss yesterday.

The index ended 97,19 points lower at 5032,94, after losing more than 113 points late in the session.

● See Page 13

## New trading range expected

# Gold shatters \$400 level in a 29-month high

Paul Richardson

GOLD smashed through the critical \$400 level in New York last night, hitting a 29-month high of \$402 on fund- and options-related buying, analysts said.

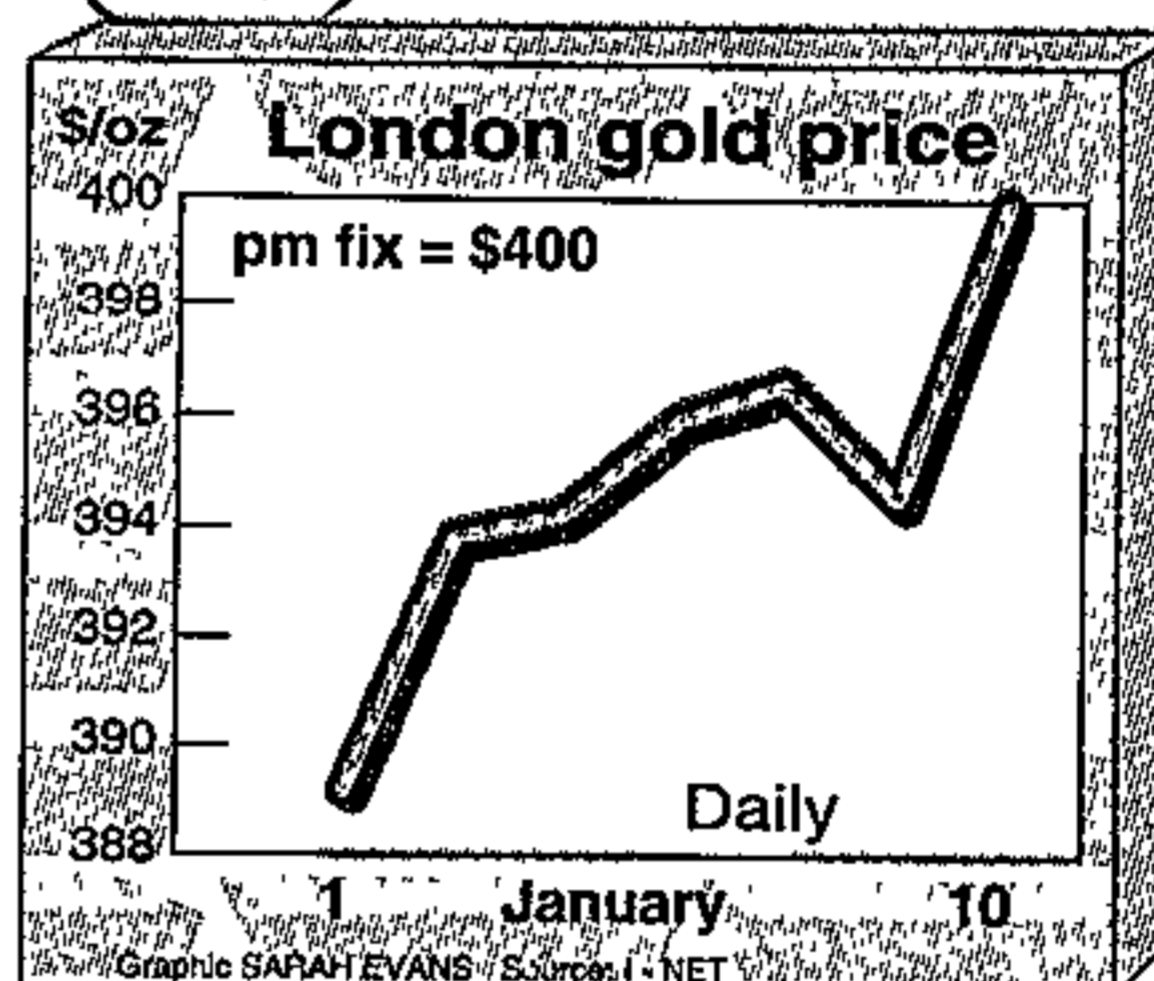
It fixed in London in the afternoon at \$400 — its highest since August 4 1993 when it fixed at \$402,65 — but dipped slightly to close at \$398,75.

The metal has surged nearly \$14 since the beginning of the year amid a flurry of speculation that it would crack the \$400 barrier.

New York precious metals analyst George Milling-Stanley said last night the burst appeared to have been based on an absence of producer selling.

"In the last half of 1995 gold was under exceptional pressure on a combination of producer selling from Australia and SA as well as speculative selling. It looks like producers have done what they wanted to because we have not seen any selling this year, which is the reason why gold has moved up."

A local analyst said bullion traders in the US and Europe had reported that there would be an options expiry at \$400 tomorrow and it appeared that a large fund was manipulating the spot



price. "I have spoken to bullion dealers in the US and Europe and they said the market was very thin, but that the move did not surprise them. It is the initial stages of a new trading range.

"They are looking at a new range of \$390-\$410," the analyst said. Gold traded in a \$375-\$390 band last year.

Milling-Stanley said the metal could race as high as \$430 this year, based in part on an increase in demand from the developing world which accounted for about 70% of world demand. "Demand was very strong last year and has continued to be strong

Continued on Page 2

Gold (79)  
BD 11/1/96  
Continued from Page 1

this year. In the developing world, we are in the middle of the Indian wedding season, Ramadan is approaching and the Chinese New Year is ahead of us — traditionally gift-giving seasons and therefore periods of strong demand.

"But I would not expect it to go through \$430 because producers would probably find it irresistible at that level and speculators will take profits."

Nicole Mordant reports that Fergusson Bros mining research director Dean Cunningham said the gold market was exceptionally tight at the moment. On the supply and demand equation, SA gold production was down about 60 tons last year against the previous year, resulting in jew-

ellery fabrication demand outstripping supply.

The hefty increase in global forward selling, which was up about 245% at 511 tons last year and which had the effect of capping the gold price, was not expected to occur this year, Cunningham said.

Frankel Pollak gold analyst Trevor Pearton said: "An interesting aspect of the market is that it has not had premeditated buying, rather computer-generated buying, which would provide funds which are not already in the market with a signal to get in."

Although volumes on the JSE gold board improved dramatically yesterday, gold shares have marked time over the past two days as investors waited on bullion to test the \$400 level.

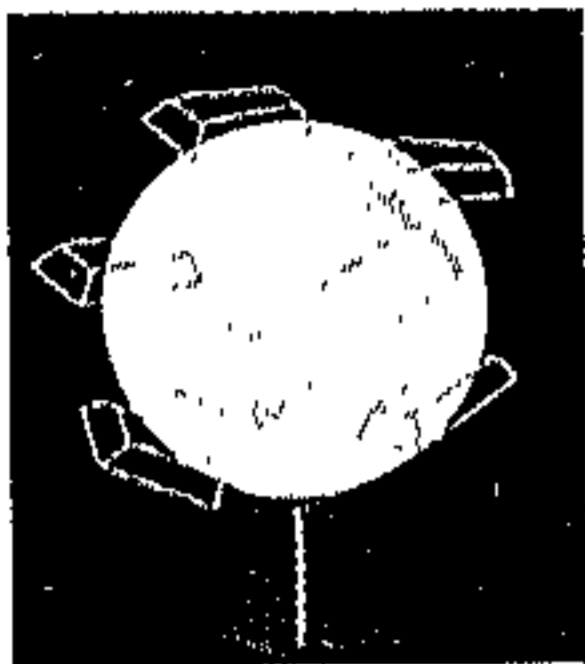
Analysts said that if the metal sustained its levels overnight, gold shares would rocket today.

GOLD

# Portents are favourable

But investors need sharp reflexes

(79) FM 19/1/96



**Has the** long-awaited move in the gold price been and gone? Or is it merely gathering up its skirts in preparation for a long, sustained upward rally? Gold bulls around the world are fervently

praying that the recent sharp — but small — move in the first trading sessions of the new year presages an end to two years of unremitting drudgery.

The enigma of gold is that it can change shape and presentation almost at will, transforming to suit the occasion on demand as it were. The trade in “paper” gold, through the derivatives markets, is many times greater than the comparatively small physical market. On that basis, you would expect futures to dominate the gold business.

But the truth is that both feed off each other, alternately leading and following. And bullion sometimes behaves much like a currency, especially when it is deriving returns better than those from real interest rates. At other times, though, it parades with all the temperamental uncertainty of a commodity — and that’s usually when the fund managers leave town.

A fortnight ago, the *FM* asked whether the gold price was on the edge of breaking up and out of a long-standing and narrow trading range (*Fox* January 5). Fortuitously, bullion compliantly started to move. Since then, it has penetrated the magical

US\$400/oz barrier — only to slide back. As the *FM* went to press, the price was hovering around \$397.70.

A characteristic of the gold market is that erudite reasons are always being sought — and found — for gold’s lethargy or vigour. This has been no exception and the entirely plausible justification given is that a major position in call options (probably as much as between 1m oz-2m oz) was awaiting close-out on the New York Commodities Exchange (Comex).

When gold failed to sustain itself above \$400, the price sagged in the face of some profit-taking, which took it down to around \$393 ahead of the American long weekend — so retracing at least 50% of its sudden break-out. This is the kind of pricing pattern beloved of traders; when they see it, they are comforted.

Subsequently, London and Hong Kong lifted it above its last New York price and there is now consensus that the price will again breach \$400 and head for \$410 at least. “There’s not much doubt,” says Anglo American Corp gold division market trader Nigel Sutherland, “that gold will soon test \$400 again.”

On the other side of this kind of play are market-makers watching delta hedges stacked against them. That means they move to cover their positions as price fluctuations demand.

In turn, this activity stimulates volatility, and more than one trader has remarked on how similar the market is now to the short period of the famous Soros/Goldsmith play

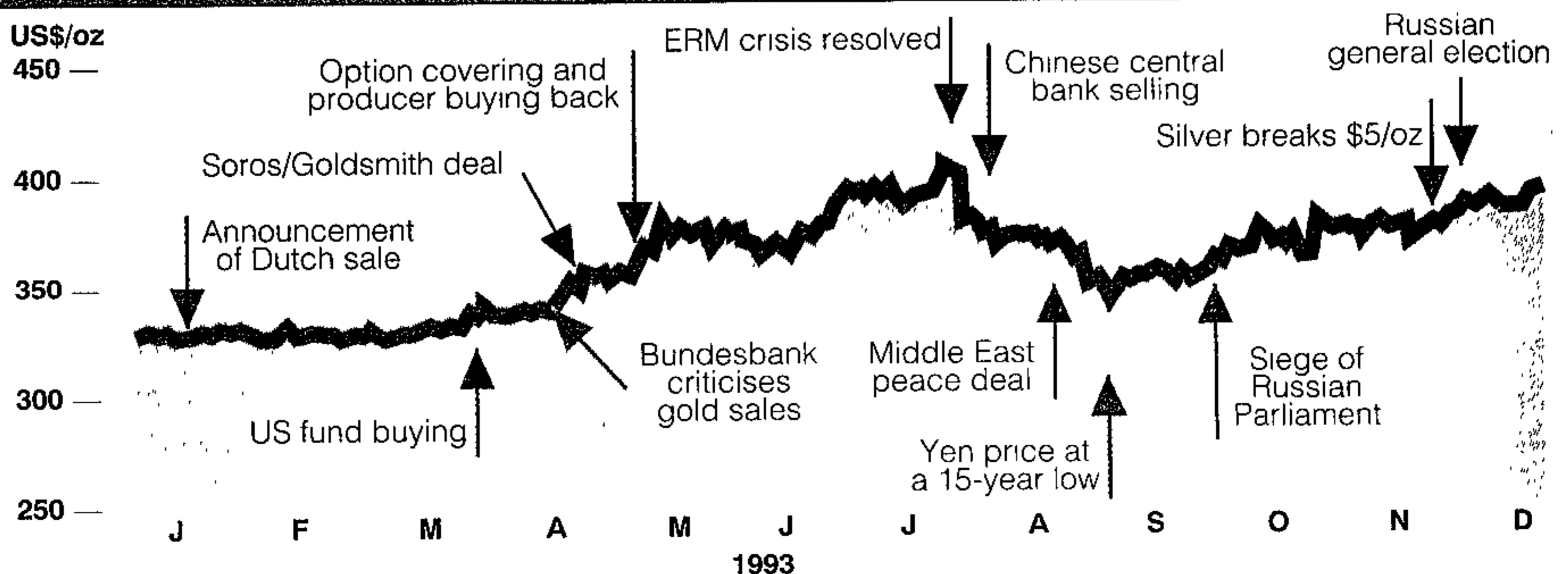
in April-May 1993. What happened then was that the billionaire pair bought call options (in large quantities) far out of the money, then bought progressively closer to spot rates. As the spread narrowed, they bought physical gold and bounced the price into the option levels (though it must have helped when they let it be known who was doing the buying)

Nevertheless, speculation aside, there is clear evidence of a notable change in the market’s structure. Interest rates have fallen in Europe, inflation isn’t threatening, real interest rates are low and the Dow Jones index is construed as dangerously heady.

However, the gold lease rate has risen substantially. This reflects the strange behaviour of the market as 1995 closed when, in the face of a clearly defined and classic squeeze, the price remained stubbornly mired in the \$380 range — where it had been stuck for the preceding six months. This was despite futures hedging by gold producers and major sales of call options by a South American central bank, rumoured to be as much as 1 000 t.

Barely a week after the *FM* reported this, the Brazilian central bank vehemently denied the rumours. The point at issue was that the call options allegedly sold were uncovered, natural for a seller of gold with access to the physical metal in case he is called to deliver. The Brazilian bank confirms a holding of 150 t and a senior official concedes that it might be persuaded to sell calls of another 40% — meaning a total of 210 t in all. Whether these are hedged hard-

## STRAINING TO BREAK OUT OF A SIDEWAYS DRIFT



## PROVINCIAL BUDGETS

# Deficit crisis looms

## But Exchequer takes hard line



FM 19/1/96

The nature of the provincial deficits and how they are to be met is at the heart of the changing financial relationship between central government and the provinces.

This month, the provinces will hand in their claims for additional budgetary allocations from government — which has vowed to take a hard line on provincial overspending.

Fiscal discipline is crucial to SA's economic recovery and its ability to reduce the fiscal deficit to 5,8% of GDP for 1995-1996 and 5% in 1996-1997 will be seriously undermined by profligacy at provincial level.

While government is trying to draw in the reins on provincial overspending, a new budgetary dispensation is in the making which aims to give the provinces more power over their own expenditure.

The question is whether the provinces have the high levels of financial accountability and managerial efficiency required to exercise control over their budgets or whether they will collapse under the weight of additional powers.

How well the nine new provinces are managing their budgets in the current financial year is therefore of great importance.

The provinces expect their combined deficit to top R1,4bn by March. Though only four provinces expect to be in the red, it would be a mistake to assume that all is well with the rest.

Gauteng and KwaZulu-Natal have managed to stay within their budgets only by cutting back on much needed capital expenditure. And if the Eastern Cape, the Free State and Northern Province balance their books it will be partly because projects have been so slow off the ground that budgeted funds have not yet been touched.

Of those that expect to run up deficits, the Western Cape and Mpumalanga claim that government underestimated their basic requirements and that they will be unable to pay pensions and salaries next month.

Worst off is the Western Cape. With an estimated R800m deficit for the year, SA's oldest and most established province is effectively bankrupt.

The province's finance MEC Kobus Meiring says he will not be able to pay teachers and health personnel for the last two months of the financial year due to overexpenditure — possibly as high as R1,16bn — in these sectors. The only way to balance the books is to lay off 10 000 people in these sectors for a year.

Meiring claims that, when the functions of the four regional education departments

were combined and devolved to the province, it was underfunded by R500m. Almost R520m from an anticipated education deficit of R522m relates to salaries.

Progress has been made in accommodating the province's R423m overexpenditure in health. The national Department of Health and the RDP fund may provide R201m and a further R23m could be saved through financial management planning. But the remainder "cannot be sized down without serious political and service implications," says Meiring.

Mpumalanga faces a pensions crisis. Finance head Leon Botha says central government has grossly underestimated the number of pensioners in the province. Unless it receives R95m, it will not be able to pay pensions at the end of this month.

Botha puts the total deficit at R250m — with R105m inherited from KaNgwane, KwaNdebele, Bophuthatswana and the Transvaal Provincial Administration.

Botha says: "Unless national government gives us R105m, I will have to close down services in all departments and projects will come to a standstill in the last three financial months of the year."

North-West has a budget shortfall of R504m, of which R270m is in respect of education. The national Education Department is being consulted on ways to accommodate the deficit. The province says the remaining R234m will be managed down through reorganising priorities and strict financial controls.

The Northern Cape expects a R73,2m deficit by March, mostly as a result of having filled new approved posts for which it has not yet received funding. Overexpenditure in education and health is R13,8m and R14m respectively.

Gauteng, however, has managed to reduce a projected overspend of R1,2bn to R400m and finance and economic affairs head Roland Hunter hopes central government will grant the province the additional amount before March.

But Hunter adds that the financial squeeze has forced Gauteng to halt many necessary projects, such as building schools and filling approved posts.

KwaZulu-Natal has managed to stay within its budget only by limiting expenditure to "the bare necessities," says a senior provincial finance department official.

The Free State does not expect to exceed its R4,7bn budget only because health, housing and educational programmes have been slow in taking off, says the province's

fiscal policy and financial planning head Eugene Mokeyane.

The Eastern Cape expects to stay within its budget partly for the same reason. Provincial DG Thozzi Botha does not expect a deficit but is unable to give figures. He says most of the R11bn debt from the Transkei and Ciskei will be shouldered by central government, though discussions between the province and government are continuing.

Northern Province, the poorest province, may even post a surplus. Halfway into the year, it had spent only a third of its education allocation. A finance department spokesman blames the delay in implementing projects on the slow process of amalgamating four administrations into one.

State Expenditure DG Hannes Smit does not expect hefty demands from the provinces in their January reports, where they will outline their budget projections for the remainder of the financial year. The Exchequer Act places strict limits on additional allocations, which may be granted only for unforeseen and unavoidable expenditure.

Though Smit will know the true state of provincial finances only when they report, he has no reason to suspect a problem. According to SA's cash flow position, everything is going according to plan.

Smit scoffs at the suggestion that provinces could not afford to pay employees' salaries. "That means they have spent the money on something else," he says. "There's no way we would assist them. It's not the first time that I have heard that story and it won't be the last.

"It's a strategy to get money out of the Exchequer and they will put it on as thickly as possible to get as much as they can. I'm sure they have real problems. But I'm also sure there's scope to meet some of these."

Provincial allocations are determined at national level, with the provinces taking a junior role in what is essentially a hand-holding exercise.

But in future the provinces will not have the automatic benefit of central government expertise in determining their budgets.

It will be done according to a strict formula designed to give effect to the constitutional requirement that all provinces receive an equitable share of nationally collected revenue.

The Financial and Fiscal Commission wants the provinces to have greater scope to determine departmental budgets within a formula which sets aggregate annual allocations and national norms.

Gauteng's Hunter says the provincial



# Gold price ready to soar - Sunter

(79) ARG 23/1/96

## Business Staff

THE gold price could be set for a major rise, an optimistic Clem Sunter, chairman of mining house Anglo American's gold and uranium divisions, said today.

Gold was slightly down on earlier trading prices at \$402,65 in London today after breaking through the key \$400 barrier for the second time this month yesterday, while gold shares opened stronger on the Johannesburg Stock Exchange.

There were strong signs of a gold price surge fuelled by strong demand and a deficit in supply which had made him "radically" change his view on the metal's price, Mr Sunter said in an interview.

"The principal driving force behind this rally is different to the one which sent the price through the \$400 mark in 1993. Then it was really driven by two people, celebrity investors George Soros and James Goldsmith."

Other dealers climbed on the bandwagon but the market soon lost interest.

A growth in demand for gold, particularly from jewellery manufacturers in the Far East, was driving this week's rally, Mr Sunter said.

And the next few years could see this demand increasing significantly, leading to a deficit in gold supply.

About 3 500 tons of gold was produced each year, but demand could reach 4 000 tons in the years leading to the end of the decade.

About 80 percent of the demand for gold was used in jewellery. The remaining 20



Clem Sunter

percent was used in dentistry, electronics, gold leaf and industrial applications.

"There could easily be a scenario where 500 tons has to be found," he said. This gold would have to be bought from central banks and hoarders, leading to a sellers' market. "That's what is going to drive the price up."

Mr Sunter said he had changed his view on the gold price recently. "I was neutral on gold. Now my opinion has changed radically. We could see a major rise in the gold price."

Struggling South African marginal mines which still had ore reserves would benefit once the metal sold for \$420 or more.

The gold price rise would benefit the economy, but Mr Sunter warned that the emphasis should still be on diversifying from gold production.

A smooth climb in the bullion price would give the country more time to do this, he said.

# BUSINESS REPORT

SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

UNIVERSITY OF CAPE TOWN  
SALDRU LIBRARY

TUESDAY JANUARY 23 1996

## Soaring gold price set to stay above \$400

By NEIL BEHRMANN AND LEWELYN JONES

American hedge and commodity funds, as well as Middle Eastern investment syndicates, powered the price of gold through \$400 an ounce in speculative trading yesterday.

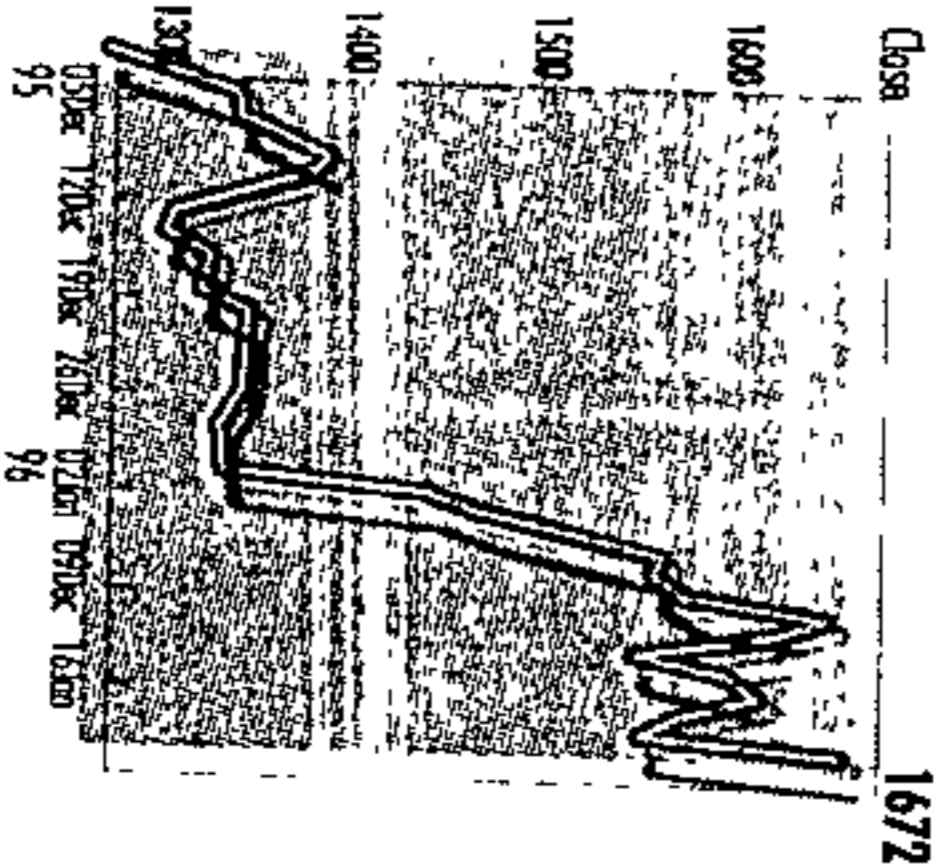
Trading at \$402 in New York, the bullion price rose to its highest level since August 1993.

In Johannesburg, the JSE gold index rose sharply, by 6,95 percent, to finish the day at 1672.

Dealers said they expected the gold price to stay above \$400, and that the metal had been trading at a premium to the spot price early in the day for the first time in weeks.

"This is a relatively good indication that the market expects bullion to hold the \$400 level," said one dealer.

Vaal Reefs rose R38 to close at R345. Western Deep put on R15 to



finish at R163. In mining financials, Arngold rose R23 to R369 and Gold Fields rose 300c to R123.

Since the beginning of the year, the price of gold has risen by just under 4 percent. In the past 10 days it has touched \$400 an ounce sever-

al times before falling again.

Swiss, British and American dealers agreed with South African analysts yesterday that gold now seemed assured of a prolonged stay above the \$400 level.

"We are forecasting average prices of \$415 this year," said Ed Mount, head of precious metals at Swiss Bank Corporation in Zurich.

"After initially resisting, jewellers and other traditional buyers will eventually accept the higher prices," he said.

London — Not many South African gold mines would fully benefit from the sharp rise in the gold price, according to estimates in London.

British analysts said the gold mining industry hedged the equivalent of 50 percent of its annual gold production when gold was trading well under \$400 in the second half of last year.

The main hedge deals were JCI, which sold 227 tons, and Gencor, with a negotiated hedge of 90 tons. Meanwhile, Anglo raised its hedging programme by 70 tons, according to estimates by Andy Smith, a London-based precious metals analyst at the Union Bank of Switzerland.

Hedge sales cover production that will come on stream in future years. Yet, calculating the effect of sales in the options and forward market, Smith estimated that gold hedging on the part of the mining houses amounted to almost 300 tons in the final six months of the year.

The trading range for gold then was between \$375 and \$395 an ounce. — Neil Behrmann

(79) ET (CR) 23/1/96

The market is very active and if bullion break significant resistance levels of \$403 and then \$410, the price could surge to \$420," said Ted Arnold, London-based metals analyst at Merrill Lynch.

Illustrating the speculative move into gold, the open interest on Comex, the American futures market, soared to 219 000 contracts at the end of last week, from 148 000 contracts at the beginning of the year.

The American Commodity Futures Trading Commission's report shows that following widespread purchases, fund long positions, and other speculative gold positions, surged by 154 percent to 56 000 contracts in the same period.

At the end of November, the funds held 10 000 short positions, thereby speculating that the price would fall.

Although the market believes that the funds have the power to drive the price higher, there is concern about the large holdings they have built up.

"At some point the market is going to stall and they will bail out. The quality of the buying is not good," said one Swiss bullion manager.

Andy Smith, London-based analyst at Union Bank of Switzerland, said that physical demand for gold in Asia had fallen sharply since the price increase.

Middle Eastern and Far Eastern jewellers and fabricators were resisting higher prices, he said.

"So far the speculators are winning, but in the end rising producer supplies and falling physical demand will count against them," warned the head of precious metals trading at a large Zurich bank.

# Shares ride high in SA as gold (79) price soars

ARG 2/2/96

ALIDE DASNOIS  
Business Editor

GOLD shares were riding high on the Johannesburg Stock Exchange today as the gold price steadied on international markets.

At noon, gold shares had gained eight percent.

The gold index, which put on 50 points yesterday to a 12-month high of 1748 at the close of trade last night, rose to 1888.

In London today the gold price was set at \$416,25, down slightly from earlier levels of R417 in Hong Kong, but sharply higher than yesterday's closing price of \$409,10 in London.

Analysts said the price was buoyed up by investment demand, particularly from the United States.

An analyst at a Cape Town financial institution said there had been considerable activity from US investment funds in the last week.

Gold was in short supply relative to demand. But there was no certainty that the gold price would stabilise at the higher levels, he warned.

Some economists have suggested that the present price surge could take gold as high as \$500 an ounce.

But the analyst said holders of gold, particularly in the Middle East and Far East, might prefer to dis-hoard gold at current price levels.

This would increase supplies of the metal and remove upward pressure on the price.

# Gold's surge gives hope to struggling mines

By SVEN LUNSCHKE

THE country's beleaguered gold mining industry has been thrown a slender lifeline by the sharp rise in the gold price.

Nine of the 15 gold mines classified by the Chamber of Mines as marginal have been reprieved by bullion's recovery, to more than \$415 an ounce on Friday from \$380 at the beginning of the year.

However, Anglo American said on Friday that the higher price had not bailed out its troubled Freegold mine, and five shafts — employing 10 000 miners — still faced closure next month.

The marketing director of Anglo's gold division, Kelvin Williams, said the five shafts "could not be saved by the price

rally alone under current price, costs and productivity trends".

Anglo would nevertheless reassess the position if gold rose steadily for the rest of the month.

Although other marginal mines were reaping benefits, Chamber of Mines economist Roger Baxter said a long-term improvement could be achieved only through increased productivity, and not "windfalls related to the gold price".

South Africa's gold mines are the world's most expensive. Last year they produced 522 tons, the most in the world, but 10 percent below the previous year and the lowest tonnage since 1957.

Gold was fixed in London on Friday afternoon at \$416.25 an ounce, its highest

level since February 1990, when the price was boosted by the Gulf War. It tested \$420 in New York before settling at \$415.

The rally has been triggered by US commodity funds, which have been buying the metal out of fears that recent worldwide increases in interest rates will push up inflation, against which gold is a traditional hedge.

Underlying the rise in the metal's price is a more stable demand-supply equation, which analysts say bodes well for a rise to about \$440 over the next few months.

Last year total gold production fell by one percent to 2 268 tons while demand, particularly from the jewellery and industrial sectors, rose by six percent to 3 216 tons, says the Gold Fields Mineral

Services Research group. The gap between demand and supply is expected to widen again this year.

Another boost for the gold price is mines' decision to scale back on forward sales, which tend to limit price rises.

The immediate beneficiaries of the surge have been investors in gold shares on the Johannesburg stock exchange. The all-gold index rose nine percent to close at 1 903 on Friday, its highest level in 13 months. The all-share index was up by 95 points to a record high of 6 994.

Gold share prices have risen by 41 percent on average this year, with some marginal mines more than doubling their value.

● See Business Times

ST 4/2/96

274 79

# COMPANIES

## Gold's surge brings instant gratification

(79) ST 4/2/96

By JULIE WALKER

GOLD's \$10/oz jump to above \$417/oz — its highest level in five years — came on continued interest from US fund managers seeking to hedge their investment portfolios. Seasonally high physical demand also contributed to gold's buoyancy.

Global equity markets are at new highs and many fund managers are concerned about a possible correction. They seek to diversify beyond shares in order to protect their clients' money from a downturn.

Most often, fund managers put money into the currency markets but at the moment there is no obvious play: no single currency looks to have the potential to outdo the rest. The bond markets have had their run as the interest-rate cycle is perceived to have passed its low.

So their thoughts, for the time

SUPPLY		Tons	DEMAND		Tons
Mine production		2 268	Fabrication		3 216
Official sector sales		139	Bar hoarding		334
Old gold scrap		590	Gold loans		25
Forward sales		511	Forward sales		
Option hedging		135	Option hedging		
Disinvestment			Investment		68
<b>TOTAL</b>		<b>3 642</b>	<b>TOTAL</b>		<b>3 642</b>

Graphic: FIONA KRISCH

Source: GOLD FIELDS MINERAL SERVICES

being, have turned to gold, which has rewarded them almost instantly. To have been in equities has been even better: the JSE's all-gold index has climbed by 41% to 1 903 this year alone even though gold at \$414.50 is up by only 7%.

South Africa's mines, whose average gold production costs are the most expensive in the world, have accelerated their hedging in selling production forward to insure future income streams. The country now has the biggest hedge book in the world after Western

Areas sold forward 7.3-million ounces over eight years and Beatrice also undertook a large deal. *Gold 1995 — Update II*, prepared by Gold Fields Mineral Services and issued during the first week of January 1996, shows that the demand for physical gold, arising from fabrication demand and bar hoarding at 3 550 tons in 1995, easily outstripped the 2 268 tons arising from newly mined sources.

The shortfall in supply during 1995 was met by official sector disposals or central-bank sales

amounting to 139 tons, gold scrap 590 tons, and a total of 646 tons from forward sales and option hedging. There are still 900-million oz of gold in central-bank inventories — 10 years of production.

Goldman Sachs estimates that forward sales and gold loans will provide less than 3-million oz of gold in 1996, compared with 20-million last year. Annual investment demand has averaged 10-million oz for the past five years.

A fortnight ago, commentators were expecting the gold rush to last perhaps another month, because physical demand could weaken after the Chinese New Year and Ramadan seasons close in mid- to late February. At the half-way, prospects are looking good.

The best advice on shares remains to ride the boom while it lasts, and not to be afraid to take a profit: gold shares are for trading, not for keeping.

# Gold is once again 'the buy of a generation'

(79) et(BR) 16/2/96

By JOHN SPIRA

Johannesburg — Gold is "the buy of a generation" right now, says Ian Notley, the president of Yelton Fiscal in Connecticut.

Notley's views on gold were published in Southern African Analysis & Advice, a New York-based investment letter.

It said Notley predicted in March last year that gold would bottom out towards the end of 1995,

but would continue to gain ground into the late 1990s.

Based on his analysis of cyclical-ity, Notley concluded: "Gold bul- lion and the precious metal complex are positioned at the origination of a ... (long) uptrend advance, possibly persisting for 10 or more years."

He said the previous such transi- tional period had occurred in 1968 to 1970.

Similar "generation buys", Not- ley said, had occurred in bonds in

October 1981 and in August 1982 for equities. Now, "sells of a genera- tion are likely to occur for bonds in late 1996 and for US equities from 1997 onwards".

The long-term bull phase for gold bullion was now entering its fifth month. Notley saw a possible lifespan of 30 months, representing the first bull phase in an advance "likely to persist for four or so cycles, lasting about 12 years".

His projected trading range for

gold bullion last year (published in 1994) was a high of \$415 and a low of \$366. For this year, Notley project- ed a high of \$525 and a low of \$405.

Notley's analysis is based on a long-term cyclical approach which tracks the interaction between gold and other commodities, equities, bonds, exchange rates, business trends and consumption.

His clients are institutions in North America, Europe and the Middle East.

# Gold sinks below key \$400 after selling

Paul Richardson

(79) 30 21/2/96

GOLD sank below the key \$400 level in New York last night as selling on Comex dented the metal.

After hovering in a \$405-\$406 range in London, it slipped to an intraday low of \$398.70 after finishing in London at \$402.25.

Dealers said stop-loss selling on Comex, which knocked bullion for April delivery \$5.50 lower shortly after the New York opening, had sparked the downturn.

The late slide triggered a flurry of selling on the JSE gold board, wiping

out an initial six-point gain to leave the all gold index 31.4 points or 1.8% lower at 1785.8, dealers said.

Reuters reports chartists had begun to believe gold was losing momentum and could be vulnerable. An analyst said that a break below \$400 would see gold sink to at least \$397.15.

Analysts have said a steady correction in US shares would help gold, although a wholesale selloff would drag the metal lower. At the Wall Street opening last night the Dow Jones index ditched more than 60 points in its first half-hour of trade on the back of a steep selloff on the US bond market.

# Golden times in a world of chaos

The message is this:

Buy gold, but beware

of 'corpse from the grave'

—inflation, writes

Dan Atkinson

**T**HE conventional view has it that bad news is good news. For the gold price, and the badder the better: True to form, as 1996 has turned

ugly, the price has taken off, surging from \$340 a Troy ounce before Christmas to, at one point, \$414.5.

But, although the wars and rumours of wars played their part, more mundane fears — related to inflation and currency stability — loomed larger in the minds of most buyers.

Worldwide, monetary policy is relaxing as once-sceptical central bankers appear to be coming round to the "inflation is dead" viewpoint. In London, Governor of the Bank of England Eddie George shed his ice-man image and beamed avuncularity on the prospect of further base-rate cuts.

Merrill Lynch, with admirable bluntness, advised clients on February 7: "Central banks are reflatting. Buy gold."

This message has particular resonance in Germany, the World Gold Council noted. Investors, fearful that the mighty mark could be submerged into a Toytown single currency, have been putting their money where their Euro-sceptical mouths are.

That means either into gold itself — and bullion-coin sales rocketed 104% to 31 tons in 1995 — or into the next best thing, the gold-backed Swiss franc.

Ironically, the possibility of currency union covering at least part of the European Union may also be helping the gold price upwards. A European Central Bank will be a little

restricted in its choice of reserve assets — as both the dollar and the yen represent the habits of Europe's chief trading partners — and gold may be awarded a prominent role.

If war and inflation provide two stimuli for gold's upward march, technical factors furnish a third. Gold "offtake" — demand for investment, manufacturing and industrial purposes — set new records in 1992

and 1995. But you wouldn't think so from the price, which, while above mid-1980 lows, has dawdled for most of this decade in the middle \$300 to \$400 an ounce range.

Clearly, this could not continue indefinitely and in January Gold Fields Mineral Services identified a 700 ton shortfall in supply versus demand.

Some sort of price take-off was a racing certainty. Very broadly speaking, in the developed world — which accounts for about 40% of gold demand

— jewellery-related sales do well when times are good and investment-related demand is buoyant when times are bad.

But in the great gold markets of the developing world — in particular, the Middle East, India, China and the Far East — there is neither the same distinction between jewellery and investment, nor between good times and bad.

Gold, in all forms, is bought as it can be afforded, whatever the weather, as the backbone of an individual's portfolio of wealth.

(79) MtG (Bm) 23-29/2/96

As the Pacific Rim has boomed, so have sales. In 1995, demand in southeast Asia and Korea hit record levels. So, for anyone hoping that the bullion price will rise, the best possible combination of circumstances would include inflation fears in the West, greater spending on jewellery, very strong growth in the East, a wobbly United States monetary policy (a presidential election would help as well) and a general rise in the level of brutishness (wars, invasions, sabre-rattling) around the world.

**B**y happy chance — if that is a suitable term — most of these factors have clicked into place in the first few weeks of this year.

And in the finest traditions of the bullion market, the instability within is mirrored by chronic rumour-mongering of instability within.

Yet the mood in the market is cautious, bordering on the downright conservative. And for good reason.

Between 1987 and the end of 1994, the price, denominated in US dollars and adjusted for inflation, crumbled by about 33%. During that downswing there were upward movements, notably during the 1990 to 1991 Gulf

crisis. False dawns, every one.

Today, excellent reasons abound in professional circles to explain why talk of \$500 or more an ounce is moonshine. There is the price sensitivity of consumers in the all-important Eastern bazaars, with special regard for the entry ports of Dubai and Hong Kong. As the gold price rises, purchases fall and smart investors sell gold into the rally.

There is the much greater sophistication of the market's big players, who, using hedging techniques, help smooth out price movements.

And there is that "corpse from the grave" — inflation. Suppose it really is dead, and its supposed resurrection is merely a phantom? Then anyone sitting on a gold hoard is going to look pretty foolish.

These and other factors make a strong case for caution, even among those confident of gold's continuing monetary role in the 21st century.

Thus Roger Murphy, of Deutsche Morgan Grenfell, keeps his enthusiasm for gold as an investment medium strictly apart from his sober \$412.4 to \$415 an ounce forecast for the 1996 average price, with a possible short-lived "spike" up to \$450.



# Gold price rise sets off predictions

## □ Concern over hoarding by central banks

NEW YORK - This year's mini-gold rush has opened a split of Klondike proportions between the precious metal's bulls and bears.

To the bulls, it suggests that the market is finally awakening to a fundamental imbalance between rising world demand and falling production that points to a further sustained rise in price. And that belief was supported by a sharp rally in gold that took it from \$388.10 at the end of last year to \$417.70 on the Commodity Exchange in New York earlier this month, its highest price in more than five years.

But the bears worry that, one way or another, the vast hoard of gold that central banks sit on - about 35 000 tons, or roughly one-third of all that mankind has ever found - is going to spoil the party, particularly as these supplies pass into the hands of a new generation of central bankers, trained in portfolio management and less sensitive to gold's mystique.

And they may be feeling better now, as the price of gold slipped below \$400 in New York on Friday and closed on Monday just above that, at \$400.60 an ounce.

"This is temporary," said Bette Raptopoulos, a gold analyst at Prudential Securities. "We could still see gold reach \$450 to \$460 this year."

"It's just a blip," added Sam EK Jonah, chief executive of Ashanti Goldfields Co Ltd, the world's seventh largest producer, based in Accra, Ghana, which this month listed its shares on the New York Stock Exchange.

"The fundamentals are good," Mr Jonah said. "There is tremendous demand potential in Asia linked to the new middle class."

"Gold is more likely to end the year at \$365," countered Andy Smith, precious-metals analyst for the Union Bank of Switzerland, who said that declining mine output would have the market impact of "a small cream bun on the Empire State Building".

Explanations abound why gold finally

smashed its \$400-an-ounce ceiling of recent years after shrugging off the Persian Gulf war, the collapse of the Soviet Union and the Mexican peso crash.

Technically, the scene for a rally was set late last year, when South Africa moved to sell about 300 tons, which it had not yet mined, for future delivery so as to lock in the then-current price.

The South African forward sales coincided with a shortage of lendable gold to cover the sale, which helped push the current price of gold higher and caused a spike in the cost of leasing the gold to cover a forward sale.

Then, late in January, Barrick Gold Corp of Toronto announced that it was cutting its forward gold-selling by one-third in a move that some analysts expect other miners to follow. "We've become inactive as a forward seller too," Mr Jonah said "because we don't want to take the steam out of the rally."

Any suggestion that miners will stop selling gold they have not yet dug lifts market prices. And as prices rise, miners have even less incentive to sell forward because they might get more for their gold by waiting.

Many other factors contributed to the price rise. Although inflation is low, the weakened state of the German, French and Japanese economies suggests to some that a renewal of inflation rather than austerity lies ahead.

"If Europe gives up on its single currency, there will be more inflation," said Ian McDonald of Credit Suisse.

In the meantime, generally high stock prices and relatively low bond yields encourage investors to look at other markets, and the continuing budget standoff between the White House and Congress unnerves many.

"If US leaders cannot come to any kind of agreement over something as important as the budget deficit, confidence is bound to take a knock," said Rhona O'Connell, gold analyst with T. Hoare & Co of

London, who expects gold to trade between \$385 and \$440 this year.

Then there is the underlying gap between production and demand. Mine output has been falling since 1993, reaching 2 268 tons last year, according to Gold Fields Mineral Services, a London analyst, with 590 more tons entering the market as scrap.

But demand from the jewelry and electronics industries, as well as that for coins and ingots, is rising, reaching 3 550 tons last year, or more than 700 tons above supply.

Central banks have been filling this gap and holding the price steady by both selling gold directly and leasing bullion to cover forward mine sales.

What will determine the future price of gold, analysts agree, is how much metal the central banks will make available to the market and whether mining companies continue to sell unmined gold for future delivery.

The imbalance between mine and scrap supply, and the demand, should have forced the price up over the last two years, but it held remarkably steady because of the central bankers' involvement.

Some major central banks, including the US Federal Reserve and the banks of France, Switzerland, Germany and Japan, have already made clear that they will neither sell nor lease their gold.

But in a 1993 study of the gold-leasing market, Ian Cox, a British expert, reckoned that 45 to 50 central banks were lending some of their gold, seeing this as a profitable way to earn a return on what would otherwise be a sterile asset.

Certainly, all the signs are that central banks are now managing their gold reserves more actively. The cost of leasing has slipped back from November's high.

And since 1983, gold held by the Federal Reserve Bank of New York for foreign central banks has fallen sharply - to 6 360 tons from 10 619, probably in part because of transfers to London, where most leasing takes place. - New York Times.

(79)

ARCT 28/2/96

## SA's gold outlook fading fast — report

(79) ARG 14/3/96  
VANCOUVER. — South Africa is in an inexorable state of decline as a major gold-producing country, according to the Vancouver Sun newspaper.

A report says South Africa's share of gold production in the Western world plunged from 75 percent in 1970 to 31 percent in 1994 and continues to fall.

Chile, Indonesia, Ghana and Papua New Guinea are expected to surpass South Africa's gold production.

# The West's hunger for gold has grown

John Cavill

LONDON — The Western world's supply-demand balance for gold last year had been achieved only by record levels of forward sales — to which SA had contributed heavily — and a massive increase in net central bank sales, according to Gold Fields Mineral Services' annual market survey, which was published yesterday.

The services' Gold 1996 report showed that with jewellery off-take increasing 6,7% to hit a new peak of 2 537 tons — beating the 1992 record — and bar hoarding, chiefly in Japan and India, climbing 38% to 281 tons, overall Western world demand had broken new ground.

Also, net disinvestment, which boosted 1994 supply 181 tons, had been replaced by net investment buying of 44 tons — a swing of 225 tons.

At 3 355 tons, up 9,6% on 1994, demand was 78 tons higher than the previous best, set when investment buying surged in early 1993.

On the supply side new mine production, chiefly due to SA's 10% decline, slipped marginally to 1 890 tons for the third successive year. And former communist bloc sales were also slightly down.

Both were only partly offset by old gold scrap supplies gaining 11 tons to 583 tons but all three sources accounted for less than 77% of final demand.

The 682-ton gap was partly filled by producer forward sales, leaping by 183% to 461 tons (against 1990's high of 222 tons).

SA mines were heavily in-

BD 10/5/96 (79)  
volved after being largely absent from the forward market since 1993. The services estimated net accelerated supplies from SA totalled 225 tons. Combined with actual output of 522 tons (down 61,5 tons) it meant overall SA supply "actually increased by 160 tons", the report stated.

The other big increase followed resurgence of offloading from official reserves, after a lull in 1994.

Looking at the market's start to this year, services CE Stewart Murray said the retreat from the rally which took bullion to \$415/oz — breaking what was seen as a tough barrier — was no surprise.

The post-Christmas jewellery market was seasonally weak in north America and Europe. Also, eastern markets were subdued after high demand before Ramadan in Muslim countries and in the run-up to the Chinese New Year.

To that had been added Belgium's disposal, announced in March. The service said that at least some of the 203 tons disclosed had to be absorbed by the market.

On the outlook, Murray said: "Mine production and scrap is still insufficient to meet the demands for fabrication and bar hoarding.

"The question this year is firstly whether a similar level (to last year) of producer hedging will be seen again and, secondly, if there will be any further official sector sales, perhaps in the run up to European monetary union."

If this did not happen, he questioned where the market would find additional supplies needed to fill the supply-demand gap.

# Gold swims with the undercurrents

(79)

ST(BT) 12/5/96

By JULIE WALKER

GOLD Fields Mineral Services, a London-based commodity research company focusing on the gold and silver markets, published its annual review, Gold 96, this week.

Paul Walker, a contributor to the report, says gold's behaviour last year was like a swan swimming upstream: on the surface it did not appear to go anywhere, but there were many undercurrents at play.

Gold's trading range of \$23 was only 6% of the average 1995 gold price, the lowest since 1968.

Mr Walker notes that in the Western media, gold has to do something dramatic before it gets a mention whereas in the East — his area of analysis — gold is everywhere: "In the Far East, the level of interest in gold is unparalleled."

The GFMS team visited 62 countries and conducted 900 interviews in compiling the survey. It says this is the only way to get reliable data as official statistics do not always reflect true bullion flows.

On the supply side, total mine production and scrap were virtually unchanged from last year, although contribution by country changed. South Africa's production declined by 10% to 522 tons, still a long way ahead of its closest rivals, America with 329 tons and Australia 253 tons.

Russian production dropped 16 tons to 142 tons, but Indonesia showed the largest rise, of 19 tons to 74 tons. China and Mongolia also climbed.

South Africa had the highest cash cost of \$323/oz and total cost of \$364/oz, against the averages of \$257 and \$315. It also had the biggest percentage increase in working costs (15%).

The biggest increases in supply came from producer hedging and central bank sales.

GFMS identified 113 companies which sold 461 tons forward last year, 183% more than in 1994. On

a cumulative basis, these companies have sold 1 700 tons forward. South African mines Beatrix and Western Areas were the heaviest components of the rise.

The Belgian central bank sold 175 tons of gold, the largest component of the net 201 tons sold last year.

GFMS says it was arguably not the outright sales, but rather lending by the official sector to the counterparties of producer hedgers that was the main story in the gold market last year.

Whether in the form of deposits or swaps, the ultimate fate of this gold was to be sold to finance the growing volume of forward sales. Mr Walker says that the official sector sales of gold of 1 700 tons over the past six years was only 8% of the market.

Total world gold supply reached 3 622 tons last year, 8% more than in 1994. Demand for gold increased in every category, but jewellery and bar hoarding did particularly well.

Jewellery fabrication rose 6% to 2 749 tons, higher than in 1992.

Mr Walker says India has been the star performer, demand having surged to 410 tons as a good harvest helped India's economy. Although only 16%, the real significance of the rise was that it occurred in spite of the doubling of bar-gold purchases to 80 tons.

Bar hoarding in Japan reached the highest level since 1988 on the back of the Kobe earthquake, gas attacks in Tokyo's subway and the difficulties of Japanese financial institutions.

Demand in China eased slightly. Mr Walker says it cannot be pinned down to a single reason, but notes that the introduction of a five-day working week in China means more leisure time and therefore alternatives for consumers.

Other investment avenues are also now available in China, such as index-linked accounts and owning a home, while clamps on credit expansion were applied on top of 1993's austerity measures.

Mr Walker says it is almost impossible to divide Hong Kong manufacturers from mainland China's.

Gold demand recovered in the Middle East after 1994's drop.

Gold demand for electronics gained 8% to 209 tons and coin-minting demand grew by a third to 92 tons. But low price volatility meant that investor and speculator interest were sidelined.

The rally of early 1996 proved that \$400/oz is not an impenetrable barrier for gold, but it was unsustainable because demand softened after Ramadan and the Chinese New Year, and Belgium announced the sale of another 203 tons of gold.

The survey refrains from forecasting on gold, noting only that current mine production and scrap supply fall short of fabrication demand and bar hoarding.

## WORLD GOLD SUPPLY AND DEMAND

Supply	1990	1991	1992	1993	1994	1995
Mine production	2135	2160	2233	2290	2280	2272
Net official sales	191	117	607	493	86	201
Old gold scrap	533	470	473	558	594	602
Gold loans						
Forward sales	222	96	156	217	163	461
Option hedging		15	103		57	87
Disinvestment		290			181	
<b>Total supply</b>	<b>3093</b>	<b>3148</b>	<b>3571</b>	<b>3558</b>	<b>3361</b>	<b>3622</b>
<b>Demand</b>						
<b>Fabrication</b>						
Jewellery	2181	2340	2739	2541	2604	2749
Electronics	216	206	176	182	194	209
Other	279	305	271	306	274	299
<b>Total fabrication</b>	<b>2676</b>	<b>2850</b>	<b>3186</b>	<b>3029</b>	<b>3072</b>	<b>3257</b>
Bar hoarding	224	252	282	162	238	299
Gold loans		45	85	65	52	23
Option hedging				31		
Investment	193		19	271		44
<b>Total demand</b>	<b>3093</b>	<b>3148</b>	<b>3571</b>	<b>3558</b>	<b>3361</b>	<b>3622</b>

Graphic: FIONA KRISCH

Source: GOLD 96, GFMS

# Gaps in the theory that gold must rise

(79) ST(BT) 4/8/96

By KENNETH GOODING

THE concept that there is a growing "gap" between conventional gold supply and demand — frequently used by gold bulls to explain why the price must inevitably go up sharply and soon — is "economic rubbish", according to Ted Arnold, metals specialist at the Merrill Lynch investment group.

Some analysts speak of the gap or deficit between conventional supply (newly mined metal and scrap) and demand as having risen from only 150 tons a few years ago to about 700 tons last year. Arnold, in a Precious Metals Special, insists the "gold must go up because of the growing gap" argument is flawed. First, it assumes there is little or no supply response to higher prices.

He points out that stocks of gold — excluding the 36 000 tons held by central banks and other official institutions — total about 85 000 tons and this gold is increasingly being held by consumers in the form of bracelets, rings and necklaces.

These holders are extremely price sensitive. When gold prices rise rapidly they quickly become sellers.

"The supply response is amazingly swift if the price is right. In 1993 over 500 tons of gold scrap (melted down jewellery) came out of the Middle East and into European refineries in a matter of weeks."

Arnold stresses that the structure of the physical gold markets has evolved in a way that massively reinforces price sensitivity. This is because of the fact that jewellery's share of total gold fabrication has risen substantially.

In addition, last year developing markets, which are more price sensitive, accounted for two thirds of jewellery offtake against only one third in 1979/80.

Arnold says organisations that analyse the global gold market should not attempt to make their supply and demand statistics balance. "It is an impossible task to

try to count the last ton. Too much gold vanishes into the paper market to make supply-demand balances meaningful. This gold is held against options, positions, warrants and so on and is never counted or caught in any statistical analysis we have seen.

"Then there is the stealing of gold in mining areas. Gencor recently revealed that between 5% and 10% of SA gold output goes missing. We would think that similar figures apply in the rest of Africa and South America. (That indicates) there are a few hundred tons unaccounted for but in the system."

Arnold says there is also a great deal of physical gold tied up inside the international bullion market itself.

This gold is held by banks and dealers and large institutional or private investors and excludes all the gold being lent to the market by central banks.

As for the gold price, he suggests it is likely to trade between \$370 and \$400 an ounce for the next 30 months.

Below \$370, Asian, Middle Eastern and Indian buyers see gold as "good value" and buy physical metal.

Arnold says any price move above \$400 would be "brief and unsustainable" because of the massive supply response this would generate.

He points out that there has not been much disinvestment selling in the present "bull" market.

This is partly because, "to judge from the comments of some of our clients in the Middle East and Hong Kong, the magic London fixing price number they are waiting for is \$420 and above. This view is good enough for us and is why we keep \$420 as the very top of our gold trading range." — *Financial Times*

# 'Declining future for SA gold'

(79)

By Andi Spicer

MINING AND RESOURCES EDITOR

CT(BR) 5/19/96

Johannesburg — The gold price would have to reach \$500 an ounce to make it worthwhile to mine the bulk of South Africa's remaining gold because of the rising expense of deep mining and increased labour costs, a report by the London-based Economist Intelligence Unit says.

"South Africa has been the world's leading gold producer for nearly nine decades and will certainly remain so into the next century," the report said.

It said the rising costs of exploiting a diminishing resource and the need to compete for investment funds with newer producers elsewhere, were contributing to the country's "loss of ascendancy".

"The supremacy of the country's mining houses within the small South African economy and in the world gold market is not what it was.... The question now is the nature and the rate of decline."

The report, sketching one scenario, says the gold price could rise gradually to \$560 an ounce by 2010 because of a shortfall in mine supply and the failure of central bank sales and investor sales to fill the gap.

The metal would reach \$440 an ounce by the end of the century and \$490 by 2005, and then increase at 3 percent a year over the forecast period.

A second but less likely scenario would see gold rising faster, to \$558 an ounce by 2000, and to \$860 by 2010. Gold is now trading at \$385,75 an ounce.

The unit argued that decoupling gold from the dollar and opening the gold market in the 1970s meant that mining houses now operated in a commercial market like everyone else.

The role of gold as a hedge against currency depreciation or inflation was declining and the influence of the dollar on the gold price would diminish further.

# Demand for gold down (79) but production is rising

By Andi Spicer

MINING AND RESOURCES EDITOR

CT (OR) 19/9/96

(79)

Johannesburg — Demand for gold was significantly lower during the first half of this year, but global production is up, said a report by Gold Fields Minerals Services, the London-based analysts.

It argued that the reduction in demand was due to "falls in jewellery fabrication and coin demand and to a relatively sharper decline in bar hoarding, particularly in Japan".

Jewellery-making was strong in the Middle East and the Indian sub-continent, but demand in the Far East, "most notably in China", had

fallen back.

Spending on jewellery in Europe had declined as a result of the "deteriorating economic, employment and social climate", the report said.

Australian and Canadian production had risen in the first half, as had production in Latin America and Asia. "This was sufficient to outweigh a continued decline in South Africa," it said.

Supply was further increased by a record recycling of old gold scrap.

Forward sales by producers resulted in almost 200 tons of gold reaching the market in the first half of this year.

# Gold rallies as demand increases<sup>(79)</sup>

CT(BR) 24/10/96  
ANDI SPICER

MINING AND RESOURCES EDITOR

Johannesburg — International gold prices rallied yesterday as speculators started buying again on figures that showed physical demand had picked up, analysts said yesterday.

Gold fixed in London yesterday afternoon at \$383,50 an ounce, barely changed from the morning fix of \$383,95. Silver edged back towards the end of the day, but was still strong at \$4,95/4,97c a troy ounce. Platinum also followed gold, and was \$0,90c firmer at \$386,75/\$387,75 an ounce in late trade.

"I don't think we are looking at the start of a large rally, although we have seen some reasonable physical market offtake from the Middle East," said Tony Warwick-Ching, a gold analyst at the London-based Commodities Research Unit.

Gold has hovered around the \$380 an ounce level for some time. It has been dipping slightly recently, prompting traders to fear that it could drop further to about \$370 an ounce and lower.

Gold fell to a year low of \$377,10 at the beginning of this month and silver also hit a year low of \$4,82 on September 20.

Analysts said the relatively strong dollar and good prospects in the US economy boosted equities on Wall Street and European bourses. Gold usually rises on economic uncertainty and higher inflation, and falls on competition from higher-yielding financial instruments such as bonds and equities.

Crude oil prices have been much stronger recently and this worried the market because interest rates in the US and Europe could rise to dampen inflationary pressures from higher energy prices. Brent crude was trading at \$24,40 a barrel yesterday from \$24,35 on Tuesday.



## Gold falls through long-term support level of \$372<sup>(79)</sup>

Josey Ballenger

DD 2/12/96

GOLD continued its downward spiral on Friday, breaking through the perceived long-term support level of \$372/oz to fix in London in the afternoon at \$371,30, close to a 31-month low. It closed at \$371,35, down \$1,35 from Thursday's close.

New York was closed on Friday but in Hong Kong on Saturday, gold closed at \$371,55, down from Friday's close of \$371,85, Sapa-AP reports.

The metal lost nearly \$6 over the course of last week, pulling the Johannesburg Stock Exchange's all gold index down with it. Friday's \$371,90 morning fix and \$371,30 afternoon fix compare with the previous Friday's \$377 afternoon fix. The all gold index eased only three points on Friday to end at 1 524, but shed 137 points over the week. The all share index was virtually unchanged on Friday at 6 714, but was 13 points off on the week.

Free State Consolidated Gold (Freegold) dipped 55c or 1,6% to R34 on Friday, while Eastvaal Gold Holdings shed 18c or 2,9% to 610c.

Analysts said investor interest remained weak and physical demand from east Asian countries had waned. Central bankers and gold producers were "squaring their books" before the year-end, and derivatives players had entered the market in the build-up to the December futures contract expiry this week. Rumours that European central banks seeking membership of the European monetary union would sell off portions of their gold reserves had persisted for weeks, they said.

"I wouldn't be too bothered about (the price drop)," one gold analyst said. "If it goes below \$370, then I'll be concerned." He noted that the gold price had shot up from about \$397/oz to \$415 in January and early February before dropping back to \$397, and predicted similar volatility in the new year.

Others said apart from a possible short-term rally, the metal was heading for even lower levels, potentially as poor as \$330/oz. "That may be an extreme view, but markets often move to extreme levels," one said. "The technical evidence right now is just not good."

Metal tests \$370 level as European banks talk of selling stocks

# Heavy trade drives gold down

ANDI SPICER

MINING AND RESOURCES EDITOR

Johannesburg — Gold was flirting with the \$370 an ounce level yesterday, with analysts predicted the metal could move rapidly lower as negative sentiment in the market dragged it below this key resistance level.

The metal was fixed in London yesterday afternoon at \$370.75, down from Friday's fix of \$371.30, as waves of selling undermined gold. At the New York opening gold futures fell to fresh lows, calling the spot market lower.

"South African and Australian producers are selling forward at the moment to protect their income as they expect prices to fall badly before the

Christmas holidays," a Zurich-based trader said yesterday.

"With producers selling forward aggressively, this makes more doom and gloom, and any small rallies are snuffed out quickly," Robin Bhar, a metals analyst with Brandeis in London, said yesterday.

Speculation that European central banks were considering selling gold from their holdings to fund the establishment of the new European Union currency, the euro, added further weakness to gold.

Switzerland, although not part of the European monetary integration, recently said it was "reorganising" its gold reserves to make them more "efficient". This was taken as a signal that it

too was considering selling gold. Switzerland and Germany are among the most ardent supporters of holding gold in reserves to underpin their national currencies.

"This was coded language, but the Swiss are close to bedrock belief in gold as a reserve.

"I believe Switzerland is a very long way from selling large amounts of gold," said Tony Warwick-Ching, a gold analyst at the Commodity Research Unit (CRU) in London.

However, the trader in Zurich said that "although Switzerland is not part of the European Union, if its bankers believe other European central banks are on the point of selling gold in large amounts, it would want to

be on the front of the selling so that it would not be left holding gold reserves that are worth much less.

"They would sell at the beginning of the fall and buy at the bottom when they perceive that gold would be undervalued."

On the technical side, some analysts are expecting support at present levels. "We have reached our downside target of \$370 for spot gold," said Elli Gifford, a technical analyst at British-based Investment Research.

The Brandeis analyst was more bearish and expected gold to drift lower to \$360 and perhaps \$350 to long-term support levels. "It doesn't look good. It's been all one way in the market, and that's down," stressed Bhar.

CT(BR) 3/12/96

(79)

*'The dip in all golds was clearly overdone'*

# Battered gold shares rise again (79)

CT (BR) 5/12/96

**ANDI SPICER**

MINING AND RESOURCES EDITOR

Johannesburg — The gold price confounded expectations yesterday when it rose over \$3 an ounce, pushing the JSE's all gold index higher as investors piled in to snap up South African gold shares.

The weak rand also added to the attraction of gold equities for bruised gold bulls.

On Tuesday, the all gold index fell through the psychologically important 1500 level, prompting fears that it could fall sharply if the bullion price collapsed.

"The dip in the all gold index was overdone, and there is a perception now that shares are undervalued," a Johannesburg trader said.

Trevor Pearton, a mining analyst with Frankel Pollak, concurred, saying: "We are likely to see the market go flat for a month or so before picking up. . . . We're into a change of sentiment mood."

Anglo American, Gencor, JCI's HJ Joel gold mine and De Beers were among the largest gainers on the JSE yesterday.

The all gold index moved 24,1 points higher to 1516,5 and the JSE overall index closed 14,1 points up at 6713,6. Gold moved up from three-year lows to trade yesterday afternoon at \$370,60 an ounce, up from yesterday's afternoon fix in London of \$367,40.

"In this game of 'hunt the reason to buy', when you can't find a

reason to buy, it's usually the time to buy," Andy Smith, a gold analyst with London-based UBS, said yesterday.

He said the ease with which gold fell through \$370 an ounce, "a (level of) support for almost three years, suggests a new options game may have begun. Throw away the \$370 to \$395 strangle board".

Despite the rise in the gold and overall indices, the JSE industrial sector fell back on the lower rand, which was R4,675 against the dollar, down from R4,6515 earlier in the day.

Bond activity was limited, with the benchmark R150 bond hardly changed at 15,82 percent from its 15,795 percent overnight.

"It had its moments earlier on in the day, but the market hasn't broken out of its range, and we might have expected bonds to close weaker than they did," Marilyn Visser, a director of Simpson McKie James Capel, said yesterday.

The JSE said yesterday that turnover excluding arbitrage deals had surged 87,3 percent in the 11 months to November 30 from the same period last year.

The exchange said trade worth R106,57 billion had been done between January and November, up from R56,90 billion in the first 11 months of last year, and beating last year's full turnover of R63,25 billion.

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# EU action sparks interest in gold

Josey Ballenger

THE gold price, on news that European Union (EU) authorities decided to ban the use of central bank gold sales proceeds to offset budget deficits, recovered more than \$2/oz at the morning fix in London yesterday, but fell back to close unchanged at \$346,30.

European central bank sales over the past year — particularly in the past four months — have been cited as a major reason for the depression in the gold market. Analysts and dealers

have speculated that the banks would use receipts from gold sales to meet European economic and monetary union (EMU) requirements, which stipulated that qualifying nations could have deficits of no more than 3% of gross domestic product (GDP) and public debts of up to 60% of GDP.

On Monday EU statistics office Eurostat said it would not allow European countries to use gold sales to reduce deficits, although they could use rev-

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## Gold

(79)  
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enue to meet their debt requirements. Following New York's lead on Monday night, gold picked up more than \$2/oz in European trade yesterday and the Johannesburg Stock Exchange's (JSE's) all share index climbed 3,7% or 49 points to close at 1 388.

The metal traded in a range between \$345,25 and \$347,15, fixing at \$346,30 in the London morning session against \$343,75 the previous day, and at \$345,70 (\$344,30) in the afternoon. It closed unchanged at \$346,30.

"Gold has come off a lot; it has been oversold if you look at the fundamen-

tals. There are huge short positions in the market, and any positive news is going to cause a reaction of some sort," an SA gold analyst said. The relationship between the metal's price and the JSE's gold index was "nowhere near a straight correlation. The emphasis must be on the trend... the small dollar change (in the gold price) causes a bigger reaction in the shares. The (all gold) index is probably getting to levels where people see intrinsic value — about the 1 300 level." The index slumped to 1 337 in intraday trading on Friday, its lowest level this year.

An equities dealer said: "I think the gold price has been overdone (downwards) and the shares have been overdone, so there was a lot of bargain-hunting."

# Gold rebounds as central bank sales are blocked

MAT GETZ

Johannesburg — Gold touched a intraday high of \$347.05 yesterday as market sentiment was buoyed by reports that Europe's central banks had been forbidden from using gold sale proceeds to reduce government deficits.

Gold slipped marginally to \$345.70 at the London afternoon fix, compared with a 40-month low of \$344.30 on Monday.

The metal's latest slide began last month after the Dutch central bank said it had sold 300 tons

of gold from its reserves last year. The sale spurred fears that other European banks could also start selling their gold reserves.

European countries have been trying to cut their public sector budgets to conform with 1993 Maastricht treaty criteria for joining European monetary union (Emu). Countries are only eligible for membership if their deficit is below 3 percent of gross domestic product.

Governments have explored numerous ways to meet the criteria, including gold sales and pri-

vatization. A number of European states asked Eurostat, the European Union's statistics office, if certain types of receipts could be used to reduce the deficit. The office ruled on Monday that proceeds from gold sales could not be used to lower the deficit because it considered them financial operations.

"Markets, especially the gold market, are driven by investor perceptions," Roger Baxter, a senior economist at South Africa's Chamber of Mines, said yesterday. Eurostat's announce-

ment had had an effect on the market, he said, though it only confirmed what had been clear for some time. "The likelihood they will sell further gold to bring their debt and deficits down is very low."

Baxter said most of the countries' shortfalls were too big to cover with gold sales. What was more, Hans Tietmeyer, the president of the Bundesbank, said last year that the G10 countries, which include France and Italy, would not sell gold in the foreseeable future. "Most sales are behind us," Baxter said.

But Duncan Ingram, a gold analyst at EW Balderson in Johannesburg, disagreed. Central bank sales were "not a problem that's going to go away", he said.

Ingram said sales to cover Emu criteria might have become a non-issue, but the Dutch and Belgians could still sell more gold, as could the Swiss, because "bankers are becoming more and more reluctant to sit on an asset that's not performing."

□ Quantum leap, Page 16

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Picture: BRETT ELOF

LEARNING FROM THE WORLD... Andy Clay of RMB Resources

11. ounces of gold in the ground are equal, provided that the pay limits have been taken into account. Yet South Africa's ounces are valued at far less than gold found in other parts of the world. The question is: how should our mining companies get their message across and earn a re-rating in international markets?

Andy Clay, a director of RMB Resources, was one of only four South Africans at the Randoi Conference in Vancouver last year. Randoi was widely attended by mining companies and investors from around the world.

Clay canvassed their opinion about South Africa and reports his findings: "They think South African mining companies are dull and boring. They do not understand the Wit's Basin's gold deposits and South Africans do not do enough to explain."

Clay describes how a gold project is valued internationally. "They calculate the cash flow, apply some discount rate and come up with a figure. Hide the figure, take the project to the market and ask for its verdict. If the market rating is significantly less than your rating, advertise your project more." Clay says the international

# New approach needed to add glow to SA's gold

New mining projects attract investors through market perception, writes JULIE WALKER

ST (Be) 9/2/97

\$1.2-billion, Macleod has attained gurn status.

"They all talk geology and marketing," says Clay. "Everyone in any company is able to answer any question. They package their prospects and present them brilliantly."

Stands at Randoi had actual borehole cores in magnetic boxes, great maps, photographs and satellite imaging. If it suited their purpose, some of them quoted their value in terms of market capitalisation per acre of ground, not on the mineral content. "There is a 'can do' approach."

Clay summarises the flavour of the month in terms of commodity ranking. At the top is

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to lighten up on the requirements, or relinquish any prospect of attracting new junior mining listings.

Canada used to be laughed at, but is now a serious player as the place to raise venture capital for resources as it is not too difficult.

Globally, Africa is firmly the last place in which to mine, its ancient geology is not widely understood. But the African ranking nevertheless puts West Africa (Mali, Ghana, Burkina Faso and Mauritania) far ahead of South Africa. "They cannot conceive the massive blocks of the Wit's Basin. Also, the big mining companies are 'junior junkies'—they see the small ones as pathfinders and South Africa is short of that level of participant in the exploration business."

Clay says many South African geologists left the industry during the 1980s because

exploration was stagnant. However, many who stayed are doing a fine job, although their findings are not always published. "If you are to appeal internationally, you have to tell a good story, talk the geology and the ore reserves and learn the market instead of eternally debating what discount rate to apply to the cash flow. Few projects trade on their net present value, they trade on market perception."

Clay says it is time for change in South Africa.

"The few local junior companies are having to seek their financing offshore because they cannot do so domestically, but most international investors believe it is dangerous here. The people I spoke to would prefer living in Caracas than in SA. They also see foreign exchange control as a serious limitation and the government needs to take heed."

"We have to compete, but the perception is that the mining industry here is too arrogant to market itself internationally. RMB Resources is assisting in the process of change by advising resource companies to restate their asset base in an international format as well as helping SA's entrepreneurial geologists."

Picture: JULIAN VAN DER WESTHUIZEN

# Gold tumbles on rumoured Swiss sales

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BD 6/3/97

Josey Ballenger

GOLD shares tumbled another 4% on the Johannesburg Stock Exchange (JSE) yesterday, bringing the sector's losses to 8,3% in two days after the bullion price dropped more than \$5 an ounce yesterday.

Analysts said prospects of an interest rate hike in the US and around the world had also "spooked" the markets.

Bullion softened to \$353,45 in Europe yesterday, from a close of \$359,80 in London on Tuesday, or a total \$8,80 drop from Monday's close. Analysts attributed the metal's weakness to news that the Swiss central bank would sell gold worth an estimated \$7bn to compensate Holocaust victims.

Neil Behrmann reports from London that the Swiss National Bank announced plans to finance a Swiss Foundation for Solidarity fund to help Holocaust and other genocide victims.

A Swiss banker estimated about 500 tons of gold would be sold by the central bank over a 10-year period from August after the Swiss parliament had passed an act.

The JSE's all gold index dropped 60 points to close at 1 433, while industrial shares lost 35 points to 8 249, leaving the all share index 62 points poorer at 7 070.

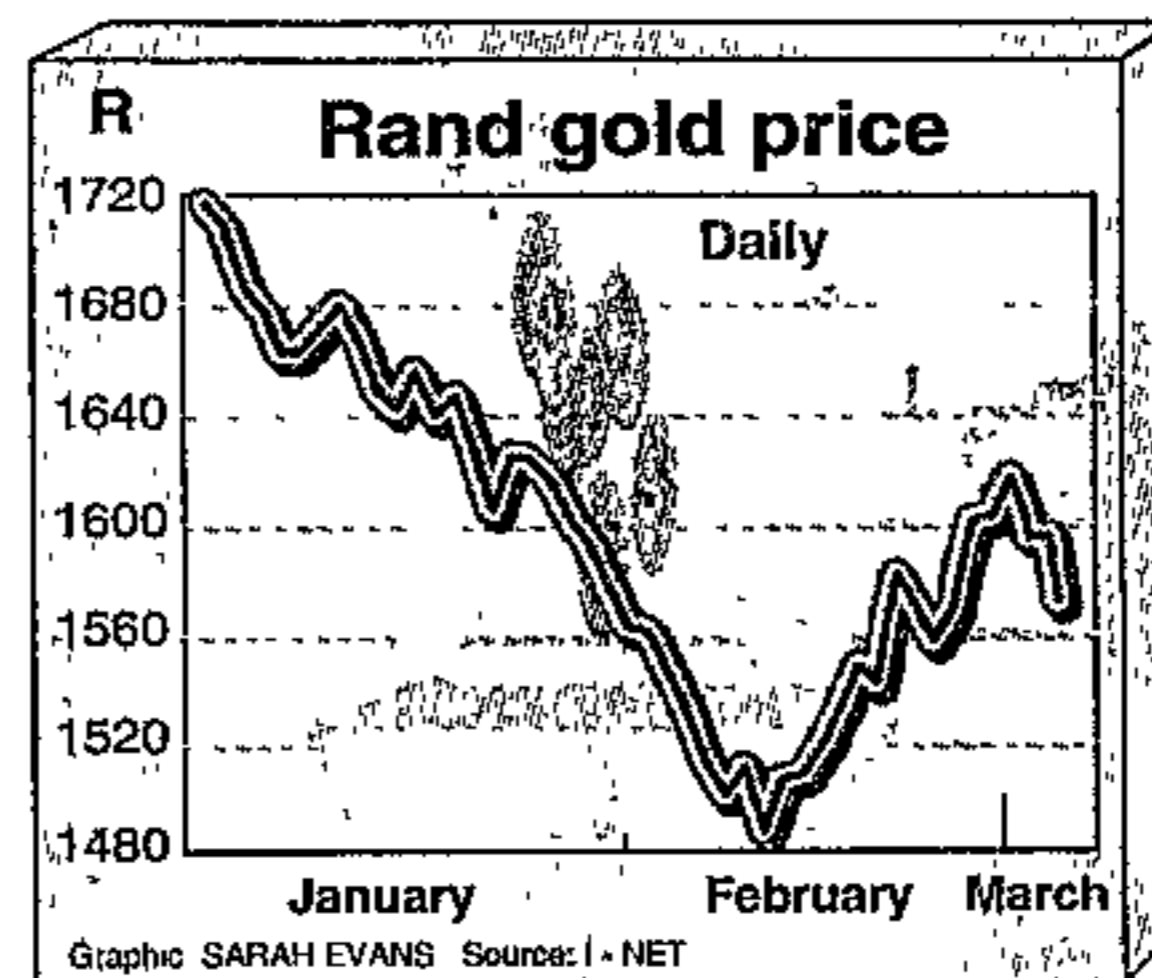
The head of Absa treasury's financial, economics and strategy unit, Charles Jonker, said: "The market had anticipated a sustained strengthening of the bullion price, so investors increased their exposure to gold equities but when gold did not break the \$365 level, they went short again on the JSE's gold index.

"The important thing about gold is that there is not an underlying fundamental view on the gold price."

Traders said disappointing SA Reserve Bank gold and foreign exchange figures for February — released prematurely on Tuesday night — and Federal Reserve chairman Alan Greenspan's hint of an interest rate hike in the US — had knocked local industrial shares.

"If you look at the Reserve Bank figures without the R2,1bn loan, reserves were down R1,4bn. We look at that net figure. Some economists would like to use more foreign credit loans, but our market reacts negatively to them," one equities dealer said.

"All this chat about Greenspan is preparing everyone for when rates rise, and we think SA is in for a rough ride. It is no longer a question of when rates are going to come down, but if they should rise. Based on the latest economic data (money supply and credit extension), we cannot justify rates coming off," he said.



*Godsell tells Singaporean conference that prompt remodelling is necessary*

# Gold industry's brisk reform

FROM REUTER

Singapore — The fall in gold prices over the past few weeks to near 12-year lows had prompted the South African gold industry to undertake reforms, Bobby Godsell, the chief executive officer of AngloGold, a division of Anglo American Corporation, said yesterday.

"There is some advantage in low prices because you look at the way you do things," Godsell said at a gold conference in Singapore.

"South African gold mines, for all sorts of reasons, are



reinventing themselves; thinking of the way they use capital; the way they particularly use labour," he said.

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Gold prices sank in July to 12-year lows at about \$314 to \$315 an ounce and have hovered at about \$320 to \$330, levels which some gold industry officials say are too low for profitable operations.

Godsell said the South African gold industry had been forced to use innovative technological techniques and to raise labour productivity to remain competitive.

He said Sunday work was prohibited in the country by law, labour agreements meant every other Saturday was worked and 12 public holidays

made it impossible to operate mines profitably.

But a two-year productivity-linked labour deal, signed in June, mandated that higher wages be balanced with additional profitable gold production in such a way that unit costs remained at least neutral, Godsell said in his speech to the conference in Singapore.

"Similar such deals across the industry are expected to give fresh impetus to a broad range of productivity improvement strategies already in place," Godsell said.



# Buildings sector urges govt to back training

Lukanyo Mnyanda

RD 12/9/97

that the figures overstated the drop in employment figures.

Artisans often leave their posts to become specialist contractors and they are then regarded as employers instead of workers".

Bifsa repeated its call for government — which is considering introducing a turnover levy to fund training in the industry — to support its training programme.

"The government will have to accept that it has joint responsibility in this regard. Bifsa spends more than R25m a year on manpower training, but it is estimated that more than R100m is required to provide a sufficient

skilled labour resource," Robinson said.

Labour bottlenecks on sites were becoming a major constraint and highlighted the need to invest more money on training programmes.

"By supporting Bifsa in its training commitments, the state will be contributing directly to the reconstruction and development programme. Productivity improvements are urgently required if the industry, and the country as a whole, are to compete efficiently with other developing countries."

Bifsa president Waldo Deacon said the parties involved in unification talks since 1995 had "grown somewhat closer". The process

was spearheaded two years ago, calling for the unification of the construction federations and associations. It is not clear how far the role players are from reaching an agreement as they have consistently declined to provide deadlines or targets for unification.

Deacon said that a "considerable" amount of effort was still required to consolidate and confirm the process.

"A positive outcome is essential if the industry is to speak in one voice on critical issues affecting it, such as housing delivery, the proposed housing bill, the imposition of training levies and the influx of migrant labour."

THE number of liquidations in the building industry increased for the third consecutive year last year, jumping to 247 (1995: 232) while employment declined 7,3%, despite the industry recording a 3% growth rate, says the Building Industries' Federation of SA (Bifsa).

Central Statistical Service figures showed that employment in the formal building industry declined to 178 000 last year compared with 191 000 in 1995.

However, Bifsa executive director Ian Robinson said there was some evidence to show

# Little profit in mining at current gold price

## *But record demand in Mid East*

BUSINESS EDITOR

Nearly half of the world's gold mines will be unable to make a profit if the gold price stays around current levels, says Stewart Murray, chief executive of London-based commodity research company Gold Fields Mineral Services.

Commenting on the outlook for gold in a report released in London yesterday, he said the metal's price weakness this year had been caused by a combination of central bank sales and a higher supply of borrowed gold in the form of short-selling by speculators and producer hedgers.

"But looking at production costs, it is clear that nearly half of the world's gold mines would be unable to make an accounting profit if the price stays around current levels," Dr Stewart said.

He said the next major move could be upwards.

"I find it hard to imagine that hedging by producers will continue to impact on the market for very much longer at the kind of tonnages seen recently unless there is a meaningful recovery in the price.

At the same time, he said, speculators no longer seemed so keen to push the price down to \$300.

On the demand side, physical demand

**'Total fabrication  
of gold rose  
to a new record  
of 1 857 tons'**

would normally be strong at this time of the year, though the turmoil in some Asian financial markets could weaken demand in those countries, Dr Stewart said.

"But interest will continue to be concentrated for some time to come on the activities of the central banks.

"Further disposals may still be seen, although in the context of Europe, where most of the concern is focused, the opportunity for such sales is gradually reducing with the approach of European Monetary Union."

In the first half of the year in spite of record levels of demand, especially from the Middle East and India, the report said, the gold price had been under constant pressure as a result of dramatic increase in supply.

Jewellery fabrication in the Middle East and India had surged as buyers stepped up demand in response to lower prices of gold.

ARLT 13/14/97 (79)

The Gold Fields Mineral Services report said the largest rises in jewellery offtake were seen in Saudi Arabia, Turkey and Egypt, but other countries in the region also showed significantly higher demand.

As a result, the Middle East's jewellery offtake increased year-on-year by 36%, to a total of 360 tons, beating demand from East Asia (excluding China) for the first time in 10 years.

The Indian subcontinent was not far behind, with a corresponding rise of 29%.

In East Asia, demand for gold in manufacturing rose 6% boosted by stronger demand from the electronics industry in Japan, Taiwan and Korea. The growth of demand for gold in jewellery was limited by the fact that gold prices in several Asian countries did not fall as fast as in other regions because of the depreciation of some Asian currencies.

In China, on the other hand, a sharp increase in the use of gold in jewellery boosted demand by 19%.

Total fabrication demand in North America increased by 9% while in Europe the increase was a much more modest rise of 3%.

Total fabrication of gold rose to a new record of 1 857 tons, with jewellery taking 1 592 tons, the report said.

**A**RE the days of gold as a great powerhouse of wealth gone for good? The shiny metal was sitting prettily at \$485 an ounce in 1983, but today is priced at a gloomy \$324.

Gold has been held in high regard by mankind since the earliest times and the use of gold as a medium of exchange dates back thousands of years.

It has proved to be especially valuable during hard times. In the two world wars, when currencies were worthless, families escaped starvation because they had gold with which to secure food. Still today some investors keep a part of their wealth in gold, either through shares, unit trust funds or Krugerrands.

But does the present low gold price represent a buying opportunity, or should investors steer clear of this asset — the fate of which rests largely with the buy and sell policies of the world's central banks and, to a lesser degree, on the shopping whims of jewellery lovers in the Far East?

Mark Madeyski, gold analyst for stockbroking company O'Flaherty, Sundelson & Company, is negative about gold shares. The gold industry is facing hard times — caused by low grades of gold, high production costs and high wage demands. The scenario is made worse by the weak gold price. Madeyski's opinion is that gold shares are only good as a trading opportunity, but

# Has the glitter gone out of gold forever?

Does the current low bullion price present a buying opportunity, or should you sell your shares and Krugerrands, asks LUCIENNE FILD

ST (DT) 14/99/97

not as a long-term hold.

On whether investors who already own gold shares should sell, Madeyski's advice is: "If you have held out this long, you might as well hold longer. I would wait for the next upswing."

Avgold financial director David Kovarsky advises investors to do their homework before investing in gold shares. Investors must be clear on whether they are looking for share growth or for dividend income, because the drop in the gold price has caused the dividend to come on gold shares to decrease.

He advises investors to look carefully at a mine's ability to lower its operational costs and to provide production growth.

There are only two gold unit trust funds, one run by Standard Bank and the other by Old Mutual.

Herman van Velze, portfolio manager of the Standard Bank gold fund, concedes that gold has not been a good investment in the past 10 years. He blames this on "the inability of the industry to reinvest surplus cash and grow the business, like an industrial company."

Van Velze says now is the time to buy because the gold price is at a 12-year low. "In the past 10 years gold experienced a drastic drop three times and every time the recovery was fast and furious."

Georges Leguime, portfolio manager of the Old Mutual gold fund, says for a

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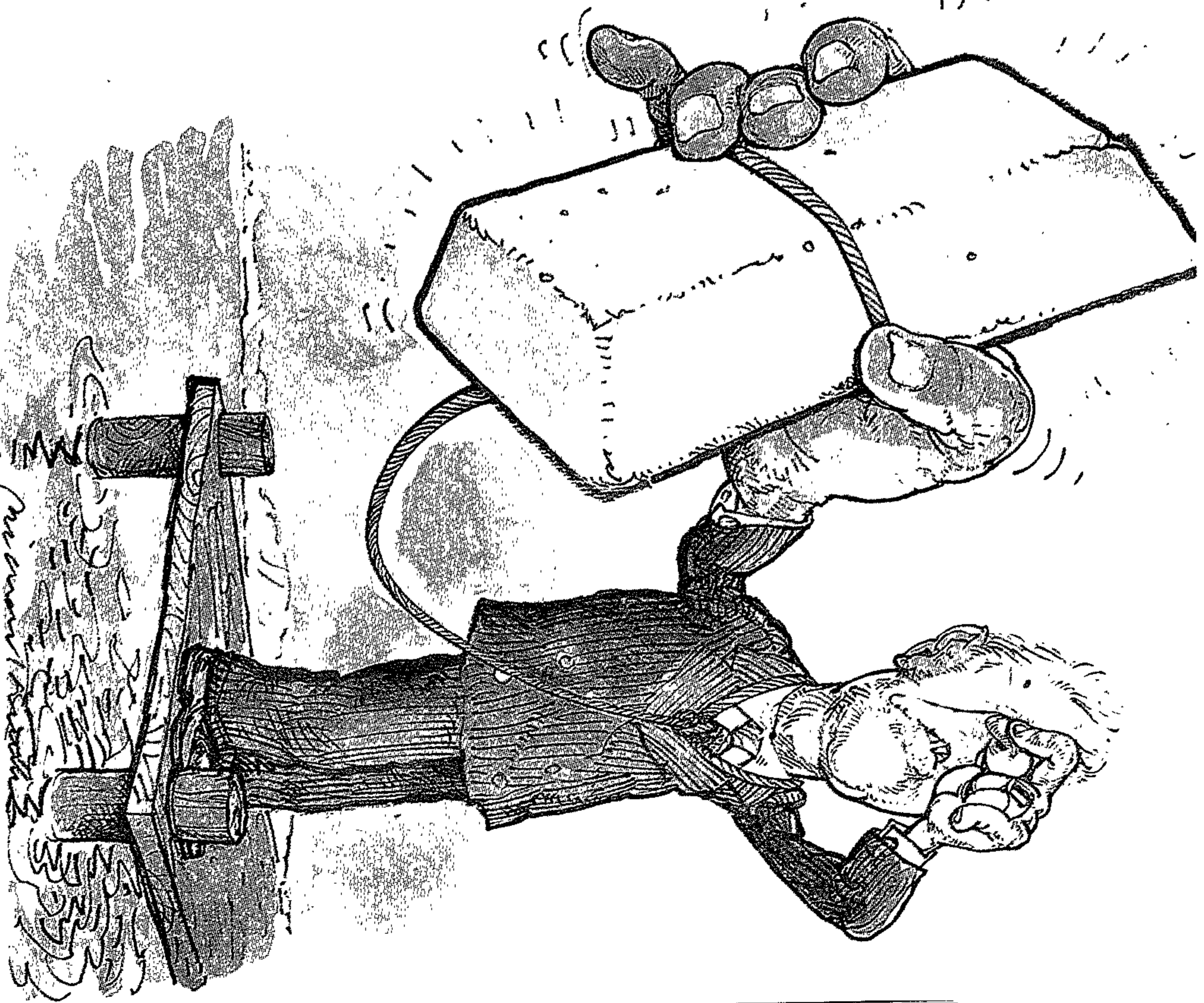
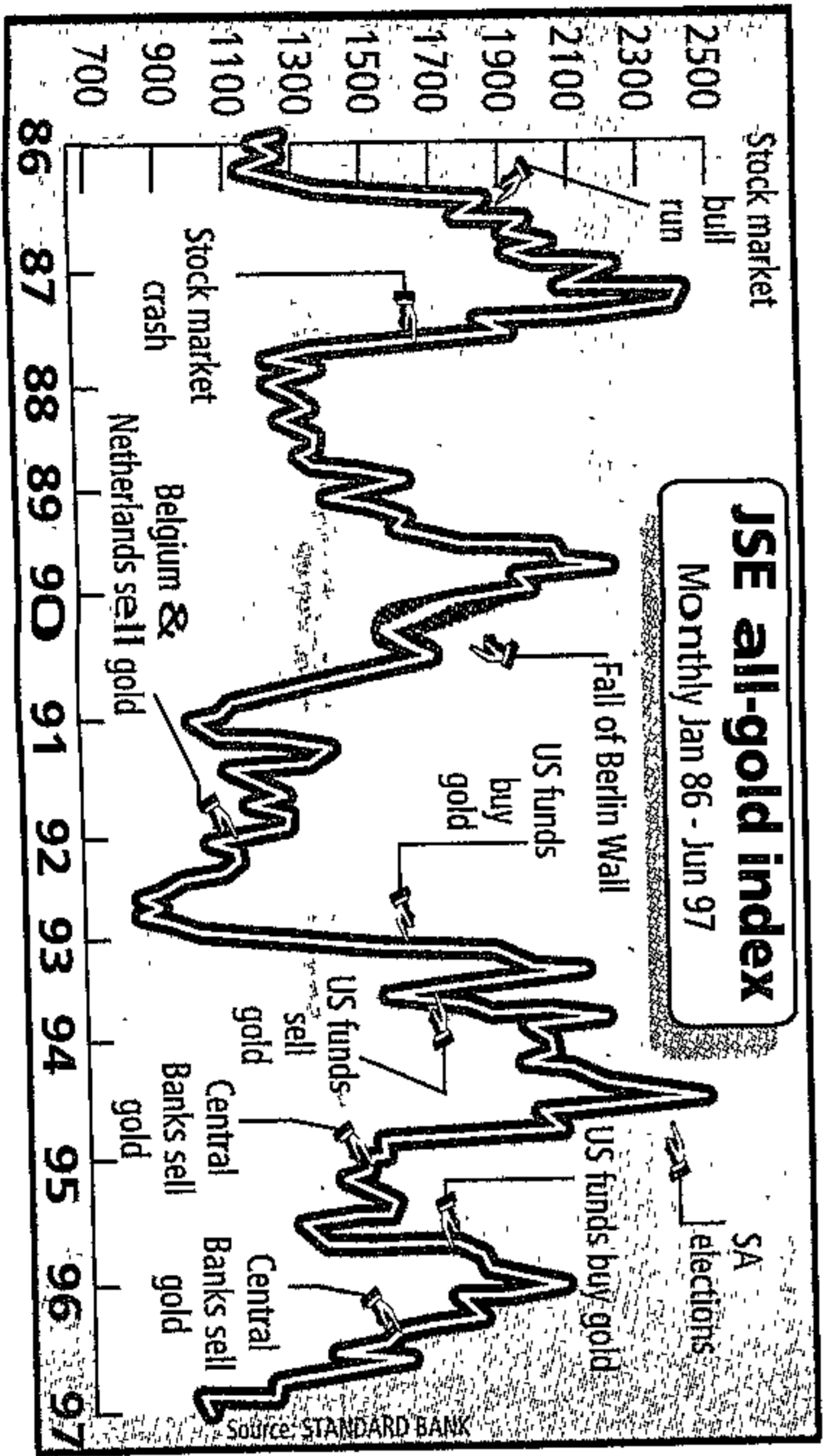
speculator gold shares make for a good trading opportunity over the short term, but warns investors to stay away from gold as a long-term investment.

JM Fölscher, stockbrokers director Izan de Bruin says he is not very excited about gold prospects over the short to medium term. He believes gold will remain under pressure for quite a while.

Buying Krugerrands is the other option if you are keen to invest in gold. Krugerrands are not affected by problems in the gold mining industry — their value depends solely on the bullion price. The value of a Krugerrand also does not depend on the world economy — if the stock market crashes the price of the Krugerrand probably will not.

However, Madeyski says there are major disadvantages in investing in Krugerrands. You get no income return on the capital you invest. It costs money to store the Krugerrands, and the profit you make when selling Krugerrands will be more than likely be taxed. "Krugerrands are an insurance, but not a great investment," says Madeyski.

Investec Trading head Eric Wood says in the past Krugerrands were seen as a hedge against a devaluing rand and also against the possibility of anarchy breaking out, which could render the currency worthless. Wood points out that



demand for Krugerrands has declined following SA's move to a democracy. He says SA residents also used Krugerrands as a way to diversify their investments before exchange control regulations were relaxed on July 1.

Wood says under the present circumstances it makes no sense to invest in Krugerrands because they renders "terrible returns". If you already own them, Wood's advice is to sell and deposit the money in a bank account or invest in equities.

South African Gold Coin Exchange chairman Alan Demby, on the other hand, says while there has been a setback in the bullion price in dollar terms, gold and Krugerrands have shown their mettle in rand terms. Demby's view is that gold

is still your best insurance policy against urgent cash calls. "It is better to be a seller of gold than to be a distressed seller of your property or shares, or to have to surrender your insurance market-related price."

# Gold no longer the basis of Western wealth, says Anglogold

ANDI SPICER

MINING AND RESOURCES EDITOR

Johannesburg — Anglogold, the world's largest gold producer has reversed its traditionally upbeat outlook for gold, saying yesterday that the metal had lost its role as a store of value in the developed world.

Kelvin Williams, Anglogold's marketing director, said gold had

largely shed its role as the basis for money creation in Western and developed economies but had retained this role in developing countries in the East.

"This has exposed the metal to negative sentiment in developed economies, where speculators and investors view gold simply as a commodity with a significant supply-side imbalance in the official holdings of the metal," he said.

Anglogold is normally positive about the prospects for gold, but stressed that "overall sentiment continues to be strongly and negatively influenced by stocks and flows of the metal".

Williams argued that the link between central bank gold sales and the sentiment of investors and speculators in developed countries was "a real one, and needs to be addressed". He added

that any rally in the metal in the last four years had displayed "a follow-through buying interest".

Bobby Godsell, Anglogold's chairman, said yesterday: "Since the first quarter we have been concerned about the gold price and continue to be frustrated by sentiment in the market."

"Yes, there is 35 000 tons sitting in bank vaults. But there is no indication of panic sales and the

sales that have taken place have been absorbed by the market. However, we are worried about the currency turbulence in Asia and the economic downturn in these important markets for gold jewellery," Godsell said.

But he stressed that markets in Asia that were growing continued to perform well.

□ Business Watch, Page 16

*BULLION Slump mirrors stock market tumult as wave of selling follows Holocaust fund announcement*

# Gold dives on Swiss reform

CT (PR) 27/10/97 (79)

**ANDI SPICER**

MINING AND RESOURCES EDITOR

Johannesburg — Gold mirrored the world's financial markets and smashed down to below \$308 an ounce — a 4 percent drop — in late trade on Friday after advisers to the Swiss government said the country could sell 1 400 tons of the metal.

This is more than two-and-a-half times South Africa's yearly production and represents about half the European country's bullion reserves.

The sale could happen after a referendum in two years' time to reform Switzerland's constitution and reduce the 40 percent backing by law of the Swiss franc by gold to 20 percent.

The immediate effect of the announcement was for bullion in London to be dashed against the rocks, fixing in the afternoon at \$316.65, a 15-week low and just above the 12-year low in July of \$316.75.

In late spot trade this resistance was spectacularly breached, and in New York the precious metal hit \$307.30 from London's morning fix of \$321.90.

The Swiss talk of a sale is significant in that the country

is one of the most conservative and ardent supporters of holding bullion to underpin its currency.

"This is almost as bad as the Swiss saying that they will not make watches and cuckoo clocks any more," said the trader.

Recently, Canada, Belgium, the Netherlands and Australia have sold gold from central bank reserves and bought securities such as government bonds to spread their risk and mobilise their reserves.

Switzerland said it was setting up a Holocaust victims' fund and would bankroll it by revaluing its gold reserves and selling the excess gold.

More lack of confidence came from AngloGold, the world's largest gold producer, on Thursday when Kelvin Williams, its marketing director, said bullion had lost its role in the Western world as a store of wealth and was now viewed simply as a commodity.

Embattled Asian economies could also buy less gold and possibly consider selling gold to protect their plummeting currencies.

□ 47 Sauer Street, Page 22



**SELL-OFF SCARE** Traders on the floor of the New York Stock Exchange struggle to keep pace with the wave of selling on Friday sparked by the record Hong Kong collapse

PHOTO: REUTERS

# Gold left on shaky ground after Swiss

Neil Behrmann

LONDON—Proposals for the sale of gold by the Swiss National Bank dislodged the floor under the bullion price on Friday.

Following revaluation of its reserves, 1 400 tons will be available for sale or lending to the market provided the proposals are accepted by a nationwide referendum due in 1999. Voters are likely to sanction the move since about half the gold will be allocated to a Holocaust fund to repay victims who were not repaid deposits at Swiss banks.

Although the move has been widely expected by the market, the announcement

was sufficient to encourage US trading houses to dump gold and the price tumbled by \$6 to just more than \$316/oz, close to the July lows.

Even before this latest development, gold's performance was poor because it failed to respond to the crisis in Hong Kong and turmoil on world stock markets. After rising briefly to \$325/oz on Thursday the price slipped.

"On the face of it, investors should have bought gold as a safe investment," some dealers said. "But for some speculative purchases on Thursday, there were minimal retail orders."

A Hong Kong bullion dealer said that

he had not detected any unusual buying on the island. The net effect of the Hong Kong crisis was a negative factor for gold because rising and high real interest rates deterred investors, dealers in Hong Kong, Dubai and Europe said. Moreover, much depended on stock market margin calls. If investors needed to raise liquidity, they may be forced to sell gold, the dealers said. But they did not expect Hong Kong holders to dump bullion.

"As long as there are worries that the Hong Kong dollar will eventually devalue, local investors will hold on to their gold," the Hong Kong dealer said. "Why sell if the price may jump in terms of the

local currency?"

But if the Hong Kong dollar eventually falls, investors may follow their Thai, Indonesian and Malaysian counterparts and unload at much higher local quotes.

Orders in Hong Kong would not have a marked effect on the global gold market, because demand there was 40 tons in 1996 and 25 tons in the first half of this year, according to the World Gold Council. This is only a fraction of worldwide demand of about 3 300 tons. Yet physical orders have tailed off in Southeast Asia, including Hong Kong, China and Taiwan in recent months following consumption of 474 tons in the first half of the year,

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compared with 829 tons for the whole of last year. Total demand from all the above countries, account for a quarter of global world demand, according to Gold Fields Minerals Services. So a downturn in the region will hurt the market.

In contrast, Middle Eastern and Indian orders are booming and, according to Jeffrey Rhodes, GM of Standard Bank London's representative office in Dubai, gold imports in Dubai soared by 86% in the nine months to September to a record 473 tons. Most of this gold went to India which had been buying extensively ahead of the Festival of Lights at the end of October.



# Gold takes a huge blow and dives below \$300

SPAR 15/11/97 (79)  
By ANDI SPICER

The price of gold crashed yesterday, confirming the nightmares of South Africa's gold industry, which is facing an uncertain future. For many mines, the price of bullion now lies below the cost of getting the precious metal out of the ground.

Gold slipped badly to \$301,75 an ounce in London yesterday afternoon and then fell below \$300 in turbulent trading in New York.

"From here the sentiment is down below \$300 to \$280 an ounce, and the trend has been like this for the past 10 days, because, when Asia closed and Europe's morning ended, the US market sold gold down," Barry Sergeant, mining analyst with BoE NatWest, said yesterday. The JSE slumped on the news as the all gold index closed down nearly 4,5% and the all share index ended just more than 2% down.

"This is starting to look like a crisis for the industry," said another analyst.

Big losers on the JSE were the large mining houses such as Anglo, American and its gold division AngloGold, Gold Fields

and Gencor. Mining houses such as Randgold, JCI and Avgold, which tend to have high-cost gold mining operations, now look very shaky if the bullion price slump continues, analysts believe.

Sergeant said gold shares could be oversold and that the dip in values could be overblown, particularly in those gold companies that had interests in non-gold industries, such as Gold Fields.

The reason for gold's poor performance in the past few weeks is that the Swiss government, one of the largest holders of bullion in central-bank reserves, has been advised it can sell half its 1 400 tons of reserves after a referendum in 1999.

The Swiss announcement hit the value of bullion because the European country has been one of the most ardent supporters of the policy of holding gold in central banks to underpin national currencies.

Under Swiss law, the franc must be backed 40% by gold in reserves, but this could be downgraded to 25% if a referendum to change the law succeeds.

TO PAGE 2

## ◆ Gold

SPAR 15/11/97 (79)  
The 1 400 tons represents half of Switzerland's gold reserves and about two-and-a-half years of South Africa's production.

But the latest slide was caused by the German Bundesbank confirming that it had started to lend significant amounts of its bullion reserves into the market. Germany is the second-largest holder of gold in reserves in the world after the US.

This sent shivers through the gold market and showed that gold has lost some of its position as a basic unit of value in the world.

In the past few years, Belgium, the Netherlands and Canada have sold large amounts of gold from their central-bank reserves. Australia, despite being a large producer of gold, recently sold more than half its reserves and bought foreign bonds and shares instead.

The fall in the precious metal fed through into the currency and bond markets. The rand plummeted to its all-time low against the dollar at R4,874 before rising slightly, and the government R150 bond also lost ground.

The rand was also knocked by a crisis in the Zimbabwean dollar, which also plunged to record lows against the US dollar, forcing Zimbabwe's central bank to intervene to prop up the currency.

Zimbabwe is a major exporter of gold, which accounts for 40% of its export earnings.

The Zimbabwean dollar fell at one point to a low of Z\$25 to the dollar compared to its Z\$14,25 close on Thursday, but bank intervention softened the depreciation and the currency ended just 2,5% down at the close.



# Gold crashes, plunging key SA industry into uncertain future

ANDI SPICER

ARG 15/11/97

Johannesburg - Gold crashed yesterday, confirming the nightmares of South Africa's gold industry which faces an uncertain future as the price of bullion for many mines is now below the cost of mining the metal.

Gold slipped badly to US\$301,75 an ounce in London yesterday afternoon and then fell below \$300 in turbulent trading in New York. "From here the sentiment is down below \$300 to \$280 an ounce, and the trend has been like this for the past 10 days because when Asia closed and Europe's morning ended, the US market sold gold down," said Barry Sergeant, an analyst with BoE NatWest.

The Johannesburg Stock Exchange slumped on the news as the all-gold index closed down nearly 4,5% and the all-share index ended just over 2% down.

Big losers on the JSE were the large mining houses, such as Anglo American and its gold division Anglogold, and Gold Fields and Gencor. Mining houses like Randgold, JCI and Avgold, which tend to have high-cost gold mining operations, will now appear shaky if the bullion price

slump continues, believe analysts. Mr Sergeant said gold shares could be oversold and that the dip in values could be overblown, particularly in those gold companies that had interests in non-gold industries, such as Gold Fields.

Gold has been weaker in the past few weeks because the Swiss government has been advised that it could sell almost half of its 1 400 tons of reserves after a referendum in 1999.

The Swiss announcement hit the value of bullion because Switzerland has been one of the most ardent supporters of holding gold in central banks to underpin national currencies. Under Swiss law, the franc must be backed 40 percent by gold in reserves, but this could be downgraded to 25 percent in 1999 if an attempt to change the law is successful.

The 1 400 tons represents half of the European country's gold reserves and about two-and-a-half years of South Africa's production.

But the latest bump was caused by the German Bundesbank confirming it had started to lend significant amounts of its bullion reserves into the market. This sent shivers through the gold market.

See Personal Finance Inside

# Gold loses its shine until 1999

MAG 21-27/11/97 (79)

**Madeleine Wackernagel**

**T**he world's central banks hold 28 years' worth of gold supply, and signs are they are not going to step out of the market in a hurry. First Australia, then Russia and the Swiss, and now the Germans have sold down their reserves in the past few months.

Other European central banks could follow suit as they battle to meet the budget deficit criteria to qualify for monetary union in 1999. Once European Monetary Union is in place, a European Central Bank will be established, backed by substantial gold reserves. Thus the threat of further sales looms large in the next 12 months.

The worry for South Africa is the potential blow to jobs, in an industry already undergoing massive restructuring.

Says Tony Twine, economist at Econometrix: "At the \$310-\$320 level, between 70 000 and 80 000 jobs are at risk."

But the last time gold traded at those prices, the exchange rate was R4,66 against the dollar; this time

it's more like R4,85. So the rand price of gold is little changed, giving us some breathing space.

"But the industry has been facing the same problems for the past 20 years. Resources are limited, and often not economical to mine."

Since the halcyon days of the early 1980s when bullion was trading at \$800/oz, the mineability of reserves has been extended beyond the 2020 time-frame envisaged in the 1970s.

The worry now is that if the price falls much below the critical \$300/oz level that horizon will once again be in the picture.

South Africa's mining houses have been actively looking for ways to cut costs, of which labour is only a small part.

Much more significant is the cost of running a mine; the introduction of seven-day mining, for instance, saw a 16,67% drop in the capital cost per unit produced.

And as the industry players go north and west in search of new reserves, the quest for new ways to cut production costs will become even more important.

"Adding to the world's supply at the same cost structure but lower selling price would be suicidal," says Twine. "Only those companies that can produce at reduced costs will make money."

And diversification into other areas of minerals exploration may not always be possible or viable. Some mines will inevitably close unless the price recovers.

Gold may yet regain its traditional role as a store of value against currency crises or inflationary pressures, although the likelihood of either seems rather remote at present. Even the South-East Asian currency turmoil did little to move the price; nor is inflation of major concern in the western economies.

Some analysts see the potential for a currency crunch in post-monetary-union Europe; another possible source of support for the bullion price could be a banking crisis in China.

More likely, though, is little change to the present trend, with slow increases to about \$325 by the end of next year.



# Gold Star

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- PAGE  
27



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## Gold loses its glitter as it plunges below \$300 mark

all gold index to a morning gold in use the equivalent ounce, to open (about R1 425) with yesterday's loss of US\$296,25

(about R1 420).

The drop has been attributed to several factors, including speculation that European central banks are likely to sharply reduce their gold reserves because the metal is no longer seen as a good asset.

The Swiss government has already been advised that it can dispose of half its bullion reserves if a referendum approves this in 1999. The German Bundesbank recently confirmed that it was lending large amounts of gold from

its reserves.

The Asian currency crisis has also sharply reduced the demand for gold in jewellery from what had been one of the fastest-growing regions of the world and has forced investors to sell their holdings to pay for

stock losses, Smith Barney precious metals analyst David Rinehimer said.

The falling gold price could have serious implications for the economies of several countries, most particularly South Africa, the world's biggest gold

STW 27/11/97

(79)

producer. Several shaky mines have already been shut down, and analysts predicted many more would follow.

But consumers shouldn't rush out to the jewellery stores hoping to find bargains.

"The markup on jewellery is quite steep, so the price meltdown won't necessarily be reflected in tremendous savings," an analyst said.

By EDWIN MAIDU  
AND EDDIE JAYIVA

The dwindling gold price has sent shivers through the mining industry, prompting fears of widespread job losses early next year.

Already 60 000 jobs have been scrapped in the past five years and the latest decline in the price of gold could force mines to lay off at least 100 000

# 100 000 jobs on line if

# gold price fails to rally

~~79~~ (79) Show 4/12/97

And beyond the miners who lose their jobs are the wives, children, many relatives and other dependants

**The mining houses are extremely concerned**

miners next year.

Analysts painted a grim picture this week as gold prices hovered around \$290 an ounce yesterday in the wake of widespread fund-selling after the precious metal slumped below \$300 last week.

The last time gold traded at these levels was in 1985, when the price dropped to \$285.

Gold currently makes up at least 20% of South African exports and 5% of the gross domestic product (GDP).

Economist Steve Brown said the current decline in the price would impact heavily on the GDP, affect growth, exports and the country's current account, as well as the interest rate.

Significantly, he said the labour market would be seriously hit because retrenchments would have a "multi-

plier" effect on the economy.

However he could not see the price of gold dropping below \$285 because "buyers would surely come back".

Nedcor senior economist Maganlal Mistry warned that there would be 100 000 jobs lost if the price of gold continued to slide. "The social implications are greater if there are retrenchments. Mining houses are extremely concerned."

Gold analyst Nick Goodwin, from Fedsure Asset Management, said 21 out of 35 gold mines which employed just

over 300 000 people were already operating at a loss and at least 100 000 workers were employed in loss-making mines.

He said if they were retrenched, the effects on the economy would be difficult to ascertain since employees often had 10 dependants.

Chamber of Mines spokesman Peter Bunkell said the price of gold had reached a "depressing level. We are the pricetakers not the pricemakers and have no control over price. "There are a lot of varying

**We are the**

**pricetakers,**

**not the**

**pricemakers**

members losing jobs. The new year looks bleak for some of us. This very grave situation has gone beyond the control of the stakeholders. "If the situation worsens and our members are laid off, we will have to negotiate the best packages we can."

factors which most people do not understand. The world determines the price and we have to sell our metal at that price. We are hoping the situation will change and we will keep our employees," he said. National Union of Mineworkers media officer Ben Molapo said the declining gold price had sent "worrying signals" to the union's members. "We are worried about our

# Gold falls below \$290 mark

CT(BR) 4/12/97 (79)

**ANDI SPICER**

MINING AND RESOURCES EDITOR

Johannesburg — Gold briefly dropped below the crucial \$290 an ounce level yesterday as fears of renewed selling by central banks and the announcement that Argentina had sold 4 million ounces of gold during the first six months of this year rocked the market.

The metal slumped from \$292,50 to \$289,80 in early morning trade before rising again to fix in the morning in London at \$291,10. The afternoon fix saw bullion at \$293,00.

"It was a knee jerk reaction to the Argentina news, but there are still rumours of another central bank selling gold," said a London trader yesterday.

Michael Wagner, the chief bullion trader with Brandeis brokers in Frankfurt, said: "The \$290 level of support is not as strong as the \$300 level and the next news about selling will take gold below \$290."

Martin Squires, a metals analyst with London brokers Rudolf Wolff, said: "The downward trend remains intact with the technical indicators trending lower, as we look for further tests of underlying support."

An analyst with First National Bank in Johannesburg was more upbeat: "The market expects a move up to \$295 and a major player can do this if he is serious enough."

Matt Getz reports that gold's weakness contributed to another dismal day for gold shares, which

fell to a new 14-year low. The all gold index lost 13,3 points, or 1,86 percent, to 701,7, helping to pull the all share index down by 44,8 points, or 0,71 percent, to 6296,8.

Amgold was the day's biggest loser, shedding 900c, or 4,76 percent, to R180. Gold Fields lost 440c, or 6,34 percent, to R65. Amic and Amcoal also took big losses. The rest of the market was also hurt by a statement from the finance ministry cutting its GDP growth estimates, but Sasol, SAB and Bidvest bucked the trend to rise strongly on good volumes.

Trade, boosted by block trades in Johnnic, Richemont, PQ Holdings and SAB, was R1,1 billion.

□ **Business Watch, Page 17**

## Stocks slump as gold price hits record low

(79)  
Lukanyo Mnyanda

BD 5/12/97  
CENTRAL bank selling continued to play havoc with the bullion price yesterday and left the gold index at the Johannesburg Stock Exchange languishing at its lowest level in 16 years.

Gold closed at a 12-and-a-half year low of \$288,35 in London yesterday, down \$4,50, as world markets absorbed news that Argentina's central bank had sold about 124 tons of gold — which a London-based analyst said accounted for virtually its entire reserves — in the first seven months of the year.

Analysts said reduced physical demand from Asia and speculation were likely to prolong bullion's woes but it could find support at about \$285/oz.

Dealers said gold was shaken further by forward sales from Australian producers trying to use their currency's four-year low against the US dollar to lock in future price protection.

A local analyst said there was nothing to support bullion, which he said could go as low as \$270/oz before finding some buying interest.

The renewed weakness played havoc with gold stocks at the JSE and pushed the index down 11 points to 691. Equities staged a minor rally late in the day, though the industrial index ended 68 points weaker at 7 629.

The rand also came under pressure, though losses were minimal. It ended at R4,8635 to the dollar, compared with the previous day's R4,8580 close.

GOLD

JAN. '98 - SEPT. 99



# Korean gold plan hammers SA stocks

Lukanyo Mnyanda

SA GOLD stocks dived almost 5% yesterday as news of South Korean gold sales renewed pressure on bullion, knocking it to an 18-year low.

A strong dollar capped a gloomy day for SA's markets, pushing the rand to its weakest levels to date. The bond market ended slightly weaker despite receiving a boost from US bond yields hitting record low levels.

Bullion at one stage seemed set to test the \$280/oz level yesterday as news of a South Korean campaign to donate or sell personal gold holdings to shore up reserves hurt sentiment. South Korea plans to melt the gold into bars and export them.

The campaign sowed fear among investors — some of whom believed bullion had bottomed out at the \$281 level reached early last month.

US Federal Reserve Bank governor Alan Greenspan's comments that deflation was emerging as a danger combined with a strong dollar to dent gold's prospects further, analysts said.

In London, gold lost more than \$5 to fix in the morning at \$281,80 — the lowest fix since July 1979. It recovered to an afternoon fix of \$282,80 and the metal closed \$1 weaker at \$282,25.

Investors in SA gold shares reacted almost immediately and took 5% off the Johannesburg Stock Exchange's (JSE's) gold index before the mild rally in the bullion helped to contain losses. The index lost 36 points or 4,5% to close at 749 points.

The financial index built on last year's gains to provide the only sign of strength on the JSE. The index ended 22 points firmer at 10 125, while industrial stocks gave up 43 points to 7 362 and the all share index finished 36 points weaker at 6 155.

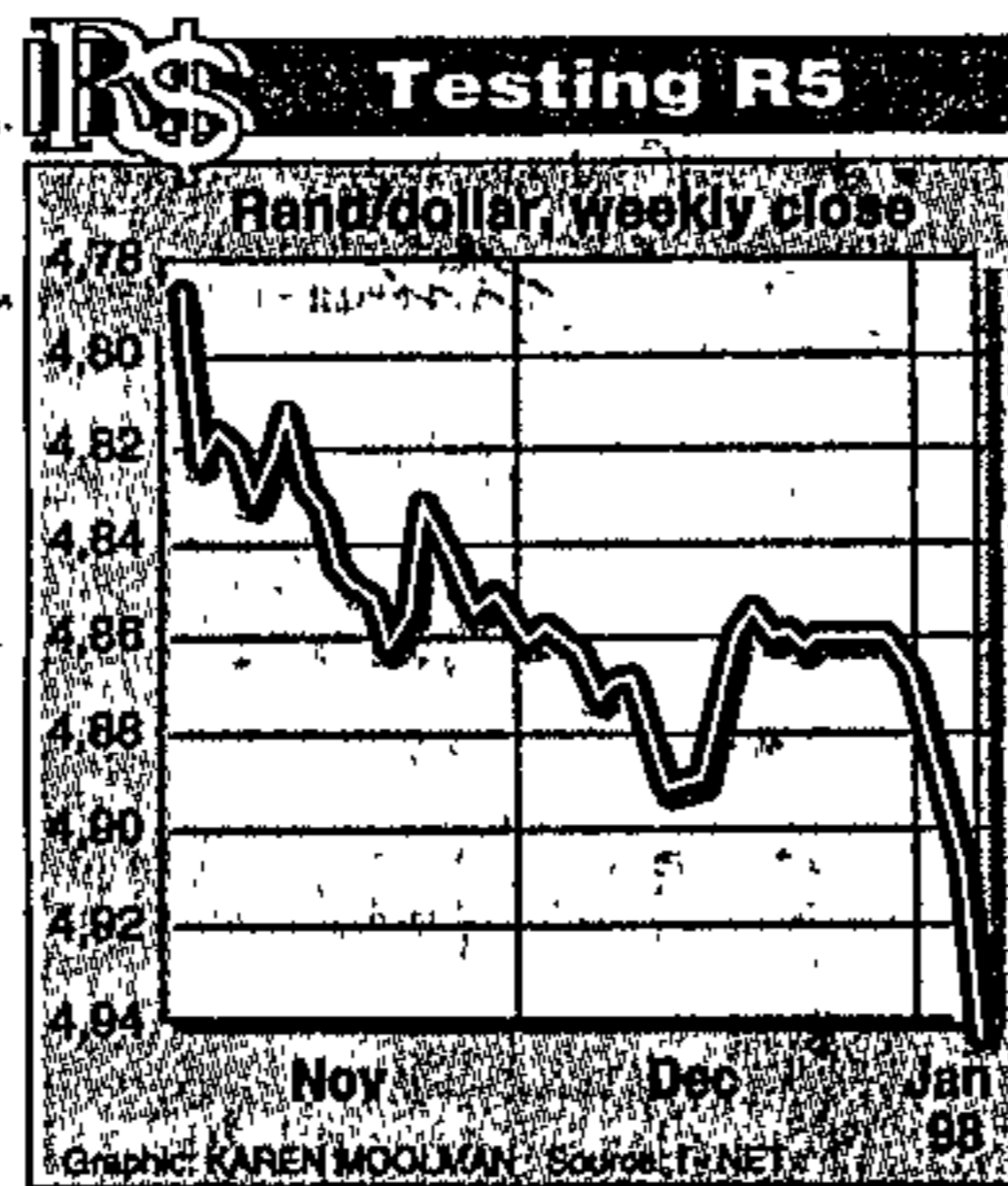
Roger Chaplin, a mining analyst with London-based T Hoare & Co, said the 10 tons of gold reported to have been collected from South Korean citizens was not a drastic amount, but would hurt sentiment by showing con-



tinued "willingness and need" to sell the metal.

He said the South Korean strategy could encourage other countries in the region to consider selling some of their holdings, whose value in some currencies had risen by up to 80%.

Chaplin said the renewed weakness was sentiment-driven and resulted



from fears of increased supplies from Asian sales to raise funds to repay foreign debt.

The bond market's bullish start to the year was set back slightly by the rand's weakness. This overshadowed bullish sentiment on the country's economic fundamentals and US bonds recording their lowest yields.

The government R150 long bond was slightly weaker after the close with a 13,58% yield compared with the previous day's 13,54% close. It had been buoyed towards 13,50% by the release of better-than-expected December provisional reserve figures on Monday and analysts expected it to hit 12,5% this year.

SA's currency also had a bumpy ride as the rand lost more than 3c under the weight of a strong dollar to close at its weakest level at R4,9425, against R4,9065 the previous day. The possibility of the rand hitting R5 against the US currency raised fears of a speculative attack on the currency.

Local dealers said equity and currency market weakness in Asia had added to the negative sentiment with the Japanese yen falling to its weakest level against the US currency in five-and-a-half years.

The Indonesian, Thai, Malaysian and Philippine currencies all hit new lows with South Korea's won proving to be the only one able to resist the rampant dollar.

A weak opening on Wall Street due to worries about upcoming company results and the continuing Asian crisis did not inspire confidence either with the Dow Jones industrial average losing about 71 points by 9pm SA time.

Worries about the turmoil in Asian markets also introduced nervousness in Europe's stock markets, but London's FTSE 100 index managed to claw back from a 10-point loss to a two-point gain to close at 5 264 points. Frankfurt's DAX index was less fortunate and lost 32 points to close at 4 353.

See Page 6

## Vehicle lights 'must make the grade'

Lucia Mutikani

MOTORISTS and vehicle manufacturers will have to fork out at least R300m to replace lights and bulbs with SA Bureau of Standards-approved products if they wish to sell their cars, industry sources estimate.

The Compulsory Motor Vehicle Specification Act, which took effect on January 1, bans the sale of non SABS-approved lights and bulbs for motor vehicles. The law affects cars and trucks manufactured since 1987.

According to AutoNews's latest issue, the legislation could push the cost of headlights, bulbs and secondary lights up as much as tenfold. Almost all lights not approved by the SABS are imported, mainly from the Far East.

Motor Industries' Federation president Oscar Taub said his members were unhappy with the law. "We spoke

to the SABS to try to get them to amend the legislation. They said lamps would have to be submitted for testing. We have a problem with this because the cost of testing is over R2 000 per lamp."

Taub said the requirements would also hit wholesalers, who typically held stocks of between 100 and 200 lamps. "Another worry is how the SABS intends to monitor 2 000 spare parts shops and 2 000 to 3 000 scrap yards when they have two to three people in the department to do the policing."

SABS chief standards technician Louwrens Rieckert said the law was based on research dating back two years. Compulsory specification was necessary to protect the consumer.

"Consumers are not aware that safety is a critical element in vehicle lights. Before coming up with this legislation, we carried out a study to see if it was necessary. The study found that

50% of the vehicle lights did not comply with SABS specifications."

Rieckert said the SABS gave dealers until December 31 last year to sell existing stock. Dealers failing to comply with the legislation had three options: to destroy unapproved lights, return imported products to their country of origin or apply for a special sales permit if the lights failed only to meet nonsafety criteria, such as markings.

Rieckert said policing would not be a problem because there were only about 80 importers of vehicle lights.

He predicted prices would remain static or go down. "There is not going to be a dramatic increase. At the moment noncomplying lights are undercutting complying lights. Once we remove those which do not meet the standards, there will be an increase in the supply of those which do, keeping prices at current levels or forcing them down."

*Wild swings have not yet led to weakness*

# Gold holds value after huge sell-off

CT (BR) 20/3/98 (79)

**ANDI SPICER AND MATT GETZ**

Johannesburg — Bullion held its value yesterday, despite Wednesday's announcement that Belgium had sold more than half its gold reserves.

The precious metal plummeted at the start of yesterday's trading to just below \$289,80 an ounce and then climbed quickly to \$291,80 by midday before settling into a smaller trading range around \$291.

Bullion fixed yesterday afternoon in London at \$291,50. The JSE all gold index closed up 13,7 points at 686,30.

"We expected worse, but the big action could happen (today) ahead of the weekend as no one wants to have a heavy exposure to gold over the weekend. Friday normally sees the gold price move," said a London trader.

Michael Wagner, head trader at Brandeis brokers in Frankfurt, said: "It's difficult to say where gold will go. After the dip yesterday we first expected weakness.

"But then it became obvious that the 299 tons the Belgians sold was not sold into the market but to another central bank. This immediately changed sentiment to a more positive level."

Wagner expected gold to hold its value at \$290. If this carried through into next week, it would be seen as a support level, albeit in a shaky market, he said.

"Just because it was sold to another central bank, it doesn't mean the bank will hold on to it as they may sell it on," said another analyst.

On the equity scene, European markets had another record

day, with London leading the pack. The FTSE-100 index surged 82,5 points, or 1,4 percent, to a new record close of 5 986,10, with dealers calling for 6 000 tomorrow. On the JSE the all share index rose 34,4 points to close at 7244,50.

A dealer at Deutsche Morgan Grenfell in New York said London's rally had been helped by a good Budget and new rules for personal equity portfolios. The tax benefits to investors will change shortly, so the retail market has been exceptionally busy.

But the rise is also a symptom of extremely bullish markets in the developed world. The US, Germany and France have all set records in the past few months.

"The US keeps setting highs, but I'm not sure how much longer it will last," said the dealer. "Some profit-taking will come in. The market has run too much, so there probably will be a correction. When is hard to call."

Nevertheless, the outlook remains bullish. The US and Britain continue to show good growth, with inflation and unemployment staying low. Some analysts are even calling for the Dow Jones industrial average to hit 10 000 by year-end.

In October and January, world markets were knocked by huge falls in Asian markets, led by Hong Kong. Since then, those markets seem to have stabilised, though the threat of further economic crisis out of Asia remains.

"It is worrying," said the dealer. It just needs one hiccup to start the whole process all over again."

□ Business Watch, Page 14

*Biggest sellers change their attitude*

# Rising gold lifts hopes of bull run

CT (MR) 7/4/98 (79)

**MATT GETZ**

MARKETS EDITOR

Johannesburg — A sudden change in sentiment gave gold and the JSE a strong lift yesterday, dealers and analysts said. The metal jumped from \$306 at Friday's afternoon close to \$313.50 yesterday morning, its highest fix since November.

It slid to \$310.60 in the afternoon, but analysts said the signs for a strong bull run were in place.

Rob Gillan, a gold analyst at broker EW Balderson, said several factors were behind the movement, including the millennium coin project, which introduces a new market for bullion; a feeling that the European Central Bank will hold a lot of gold; the Russian political crisis; signs of a higher oil price and a severely weakening Japanese economy.

But the most important reason seems to be a change in attitude among the biggest sellers of gold: hedge funds, central banks and gold producers, many of whom sell forward heavily.

"Bobby Godsell (the chairman of AngloGold) has said that he is reviewing forward sales, which is important because they are the world's biggest producers," Gillan said. "(He has also talked about) discussions with the central banks. It is to their detriment if gold falls too much. With (AngloGold and the central banks' power) they could be co-ordinating the bullish sentiment."

The rise also has fed on itself because hedge funds, which have been short of gold, have had to cover their books with the higher price, adding to the upward move.

The picture is looking very positive. Dealers said there were

few important resistance levels before \$320, and a move up to \$330 within four weeks was on the cards. Gillan said \$380 was possible later in the year, especially as physical and investment demand was at historically high levels.

Gold shares wasted no time in reflecting the price rise. North American gold shares started rising on Friday night; yesterday, the JSE's all gold index added 88 points, or 9.97 percent, to 971, a five-and-a-half-month high. The all share index rose 112.3 points, or 1.43 percent, to its fourth successive record high of 7940.3. The industrial index rose 114.6 points, or 1.25 percent, to 9292.2, just 22 points off August's record high. The financial index also hit a new high, rising 80.3 points to 14 492.8.

"It's a good Goldilocks market — not too hot, not too cold," said one chief dealer.

There were other positive motivations, especially the news that Citicorp and Travelers Group would merge, creating the world's largest company in terms of assets. There was also talk producer inflation was going to come in today at less than 3 percent, much better than expected.

"All the world markets are behaving well and there's no reason to break the trend," said a dealer.

But others were more ambivalent. "I'm in two minds," said one dealer. "I accept the good news but there is a lot of merger activity driving the market. You have to ask the questions: has the market really re-rated and how far out has it discounted earnings?"

Even so, if gold's run continues, few dispute that it can only be good news for our market.

□ Business Watch, Page 2

# Gold stocks surge to six-month high

(79) BD 7/4/98

Samantha Enslin

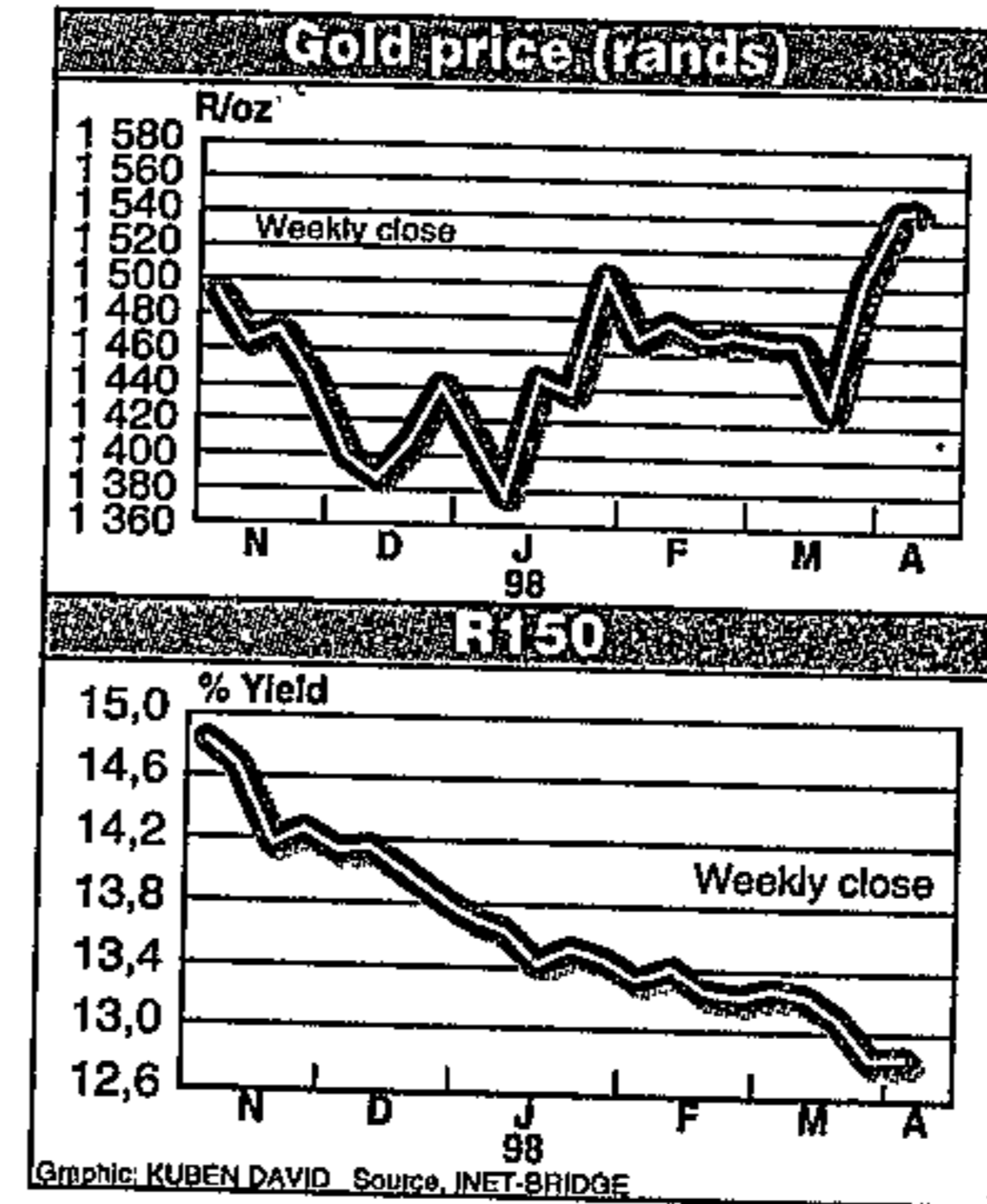
BULLION and gold shares reached their best levels in six months yesterday, benefiting from the downgrading of the Japanese yen, high hopes for the level of gold holdings in the European Central Bank's reserves and a belief that the dollar would soften.

The government's benchmark R150 bond moved to a yield of 12,765%, its best level since May 1994, on high expectations for February producer inflation, due for release today. Bond dealers said the market was expecting the producer price index to increase between 2,6% and 3% year on year.

Gold fixed in London yesterday afternoon at \$310,60/oz from a morning fix of \$313,50, having touched \$314,20. It closed at \$310,25, up \$4,10.

The Johannesburg Stock Exchange closed at its fourth straight record high with the all share index gaining 1,43% to 7 940,3 points. However, as gold's gains ran out of steam, profit-taking took gold shares off their highs. The all gold index finished 9,97% up at 971 points after touching 995,8.

Inet-Bridge reports that analysts said the major factors helping to bol-



ster gold shares were the unlocking of value in recently announced restructurings, an improved rand price for the metal — largely due to dollar strength — and record physical demand.

BoE Securities gold analyst Gerard

Continued on Page 2

## Gold

Continued from Page 1

Kemp said over the past two years Japan had been a seller of gold. However, concerns over the value of the yen could signal a move back into bullion. Moody's Investor Services downgraded its outlook for Japan's domestic currency rating for the government last week from stable to negative.

Analysts expected gold to reach \$320 to \$330 before the European Central Bank announced the level of its

gold holdings in May, while they expected gold to be trading at \$360 by this time next year.

Initial expectations for the bank's gold holdings had been about 5% to 15% of their total reserves. The market was now anticipating the bank's gold holdings to be between 15% to 30%.

The positive mood was further underlined by the fact that few producers were hedging their production. HSBC Simpson McKie gold analyst George Bennet said Australian gold producers had bought back their forward gold sales between to \$295-\$300 in anticipation of a higher gold price.

# Gold skirts \$310 but is unable to break out

(79)

ANDI SPICER

MINING AND RESOURCES EDITOR

CT (MR) 11/5/98  
Johannesburg — Gold continued its choppy performance of the past few days yesterday and bounced up through \$310 an ounce before edging lower during the last few hours of spot trading.

"The market is waiting, looking for direction. Funds have still not digested the fall in the US equity market yet and what this means for bullion," said a Frankfurt bullion trader yesterday.

Gold fixed in London yesterday afternoon at \$310,70, unchanged from the morning fix.

"The spot traded lower on the US markets. But there is feeling that the metal could go higher," the analyst said.

Gold was trading in a \$309,10 to \$310,60 band for most of the day, and the expectation was that the precious metal would rise in the next few days, said traders.

If bullion breaks through \$315, most dealers expect it will quickly rise up to \$325-\$330, but it has previously failed to break this resistance level and fallen back to the bottom of its range.

"We need a clear break of \$315 for any decisive move upwards. All that is happening is a series of tests of the resistance level and then a consolidation. Before, a failure of \$315 was a problem but at the same time the \$308 support is becoming stronger and the range is narrower.

"I expect a breakout of \$315 soon, but the longer the situation goes on, the more \$308 looks like consolidation," he said.

"Gold will stay pretty volatile until we have an idea of the gold holdings of the new European Central Bank.

"Until then the market will be buffeted," said Robin Bhar, an analyst with Brandeis in London.

Platinum group metals continued to trade in a volatile market. Platinum was trading at \$403,50 an ounce yesterday.

**a year**

# Gold borrowings surges to 4 000 tons

(79) MD 12/15/98

**Neil Behrmann**

**LONDON** — Gold borrowing has surged to 4 000 tons a year from 900 tons over the past decade, 65% of it used to finance mining corporations.

A World Gold Council study by former bullion trader Ian Cox and Anglo American economist Ian Emsley concludes that the growth in gold borrowing will slow over the next few years but remain at a high level, providing considerable

liquidity for the international bullion market.

This liquidity in effect raises the supply of gold and the past few years have shown that there is a direct correlation between the surge in gold borrowings and a declining price (see graphic).

The council's study forecasts that growth in global borrowings will slow to not much more than 10% in total during the next few years. However, analysts said that unless there was a substan-

tial rise in physical and investment demand, the supply overhang from these borrowings and potential central bank sales indicated gold rallies would meet heavy resistance.

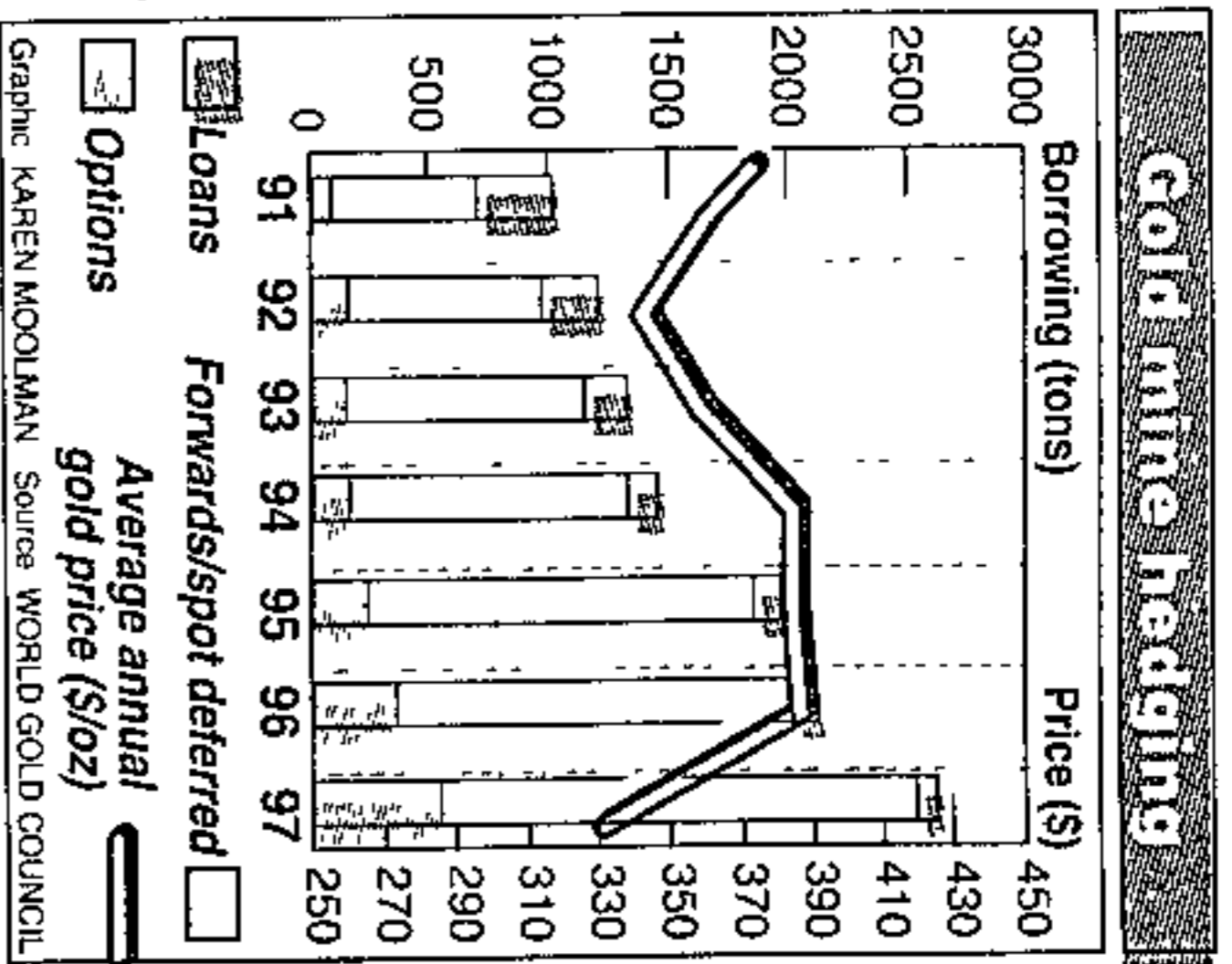
Mining companies have used gold borrowings on an increasing scale to hedge against a bullion bear market that has lasted since 1980. Gold borrowing used to finance their operations was only 200 tons in the early '80s, but 2 650 tons last year (see graphic).

Australian and North American mines and, to a lesser extent SA mines, make use of borrowed gold to finance operations. Bullion houses which trade in precious metals are the intermediary, borrowing gold from central banks at an interest rate of 1%-2% in normal circumstances and then selling it on the market. The proceeds fund the development of future mines and capital expenditure.

The bulk of gold borrowings, however, is used for selling gold

paper via the derivatives market, when mines hedge — guarantee prices by selling forward production via futures and options.

These derivatives are supplied by bullion banks which borrow the gold. Bullion banks also borrow gold to finance operations of refiners and jewellers, while hedge funds use gold borrowings to finance speculative bear sales — selling gold in the derivatives market with the aim of buying it again at lower prices.



30 tons taken annually from premier mines but new fingerprinting system may thwart criminals

# Thieves and syndicates help themselves to SA gold

**DARREN SCHÜTTLER**

Johannesburg — A botched gold theft at one of South Africa's premier mines has highlighted a persistent problem in an industry that loses about 30 tons of gold annually, as estimated by the Chamber of Mines, to thieves and syndicates.

The latest incident to make headlines was the theft of a gold bar from a Harmony Gold plant in

the mineral-rich Free State province on February 13.

Five people — three mine employees and two security guards — are alleged to have conspired to steal the bar containing about 18,7 kgs of gold.

Four people have been arrested since the incident and police are searching for a fifth suspect.

"There was no way they were going to get away with this. It was a very amateurish attempt," said

Bob Atkinson, Harmony's technical director.

Atkinson said the missing gold was quickly detected by the company's accounting procedures. He added that it was a persistent problem for the industry and that more resources should be devoted to combating theft.

Last year, Johannesburg-based Avgold said it suspected gold was stolen from its ETC operation, but to date the cul-

prits have not been caught.

Stolen gold has become a critical issue as South Africa's annual output continues to slide in the wake of industry-wide restructuring and slumping gold prices.

Gold thieves range from a miner who hides gold dust in his trouser turn-ups to syndicates armed with forged documents and offshore bank accounts.

The Chamber of Mines, which represents the country's

primary gold producers, has said gold theft could be a determining factor in whether a mine was profitable or marginal in certain circumstances.

The chamber and South African police are negotiating a gold fingerprinting agreement as part of a concerted effort to combat theft at the country's mines.

The agreement would allow a system to be put in place whereby stolen gold could be traced back

to the mine, allowing the company to take corrective action.

The police diamond and gold unit would receive funds from the chamber to help defray the costs of theft prevention and recovery programmes.

Figures for 1998 are not available, but the unit made over 3 000 arrests in connection with precious metal thefts in 1997 with a recovery rate of between 5 and 9 percent. — Reuters

(79) CT (MK) 27/2/99

# Branding of gold could create jobs

By Shadrack Mashalaba

SOUTH Africa has a huge potential to develop its gold industry through the branding of the product.

This, says international marketing guru Sarah Da Vanzo, will create opportunities for the country in jobs and tourism.

The well-travelled Da Vanzo, currently employed by Consolidated Bullion as managing director, believes that despite years of isolation the South African gold industry still has an opportunity to brand the product.

She says there is a need to go beyond "just" the sale of the product.

"The product should, for instance, be hallmarked (stamped) to give it a South African flavour and attachment."

The American citizen says the branding of gold will go a long way to boost, among other things, the tourism industry, which she says will help visitors leaving the country to have something they can associate with the country.

Da Vanzo says she is busy developing a branding concept that she hopes the gold industry in South Africa will buy into.

Further details of her strategy will be released in the near future.

What is worrying, however, laments Da Vanzo, is the fact that the

industry seems to be drifting away towards fragmentation not only locally but globally.

"The goal should be for the industry to work together towards a common goal to the benefit, not only of South Africa, but the African continent as a whole," she says.

"Currently, believe it or not, most tourists think South Africa is about diamonds and not gold.

"What an opportunity if this culture can be cultivated."

## Adding value to industry

Consolidated Bullion is an independent, specialised gold marketing company, focusing on adding value to the South African gold industry.

The division, one of its kind in the industry, was formed after the recent merger of Consolidated African Mine group and JCI.

The head of the division, Da Vanzo will be responsible for the creation of a sustainable demand for gold, generate additional revenue, increase premiums and maintain and create jobs. Added to that is the provision of support to jewellery manufacturers.

Her particular specialty is marketing and branding commodities and ingredients.

She has been involved in the marketing field for more than 12 years in

12 countries including Asia.

Amid the African renaissance beat, Da Vanzo says: "I intend to develop a concept to protect the local industry and do that by capturing it in a strong African flair and culture."

She warns that gold as a product used in jewellery is facing a threat from platinum which, she says, is taking the Far East by storm.

"If we do not implement an aggressive branding strategy soon, jobs and the industry as a whole are facing a threat of collapse."

Da Vanzo says one of the obstacles she has to deal with is also the pervasive conservatism that is still persistent in the industry.

"There is this perception that because we have been involved in the industry for years, even during the days of isolation, we will continue to survive for years to come."

South Africa, through the Rand Refinery, she says, is fortunate in that the organisation acts as some form of a central selling point and this puts it in a position to market itself better.

She advises the industry to change by looking at production of gold as a theme.

Da Vanzo has been in South Africa for the past two years. She served as a director of Randgold for two years before joining Consolidated Bullion.

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(79) (178)



# Between a rock and the gold face

(79) (K) M+G 7-13/5/99

*South Africa's gold producers are pooh-poohing the effects of the IMF's proposed gold sale, but such a sale would set a dangerous precedent. Donna Block reports*

The proposed sale of 10% of the International Monetary Fund's (IMF) gold reserves to fund debt relief for poor developing countries is by no means a foregone conclusion. In fact, it might never happen.

According to John Lutley, president of the Washington-based Gold Institute, the United States government has made no commitment to sell its share of IMF gold and can only do so with congressional approval. Without US consent the plan is dead. So far the Clinton administration has said it supports the proposal but if Lutley and his army of gold lobbyists have their way, the sale will never take place.

When the idea was first floated a few years ago South Africa's gold barons nearly had a fit. In a weakening gold market with production levels dropping, the sale of large amounts of gold was the last thing they wanted. These days, however, rather than fight the proposal which would make them look greedy and insensitive to the plight of the world's poorest countries they have opted to dismiss the sale as being irrelevant.

Analysts say the reason for the gold industry's nonchalant attitude is that they are more afraid of the effect on their company's share price than they are on the spot price of gold. Unlike their counterparts in the US who are furiously lobbying Congress to halt the sale, South Africa's gold mining industry is playing down the proposal made by IMF donor nations.

Most gold executives and some analysts say they are unconcerned

about the latest gold-for-debt scheme but that the perception of a large sale has had a psychological effect on the metals market. Jonathan Best, finance director at AngloGold was dismissive and said the IMF sale would be a non-event.

"The market's been aware of the IMF sale for years and will be able to absorb the gold that comes into the market. It's a relatively small amount," he said, and added that it would not hurt South Africa.

Overseas investors see this as a blatant attempt by South African producers to keep their share prices stable, especially ahead of Anglo American's listing in London.

"If they came across as worried about the proposed gold sale, their share price would drop," said one New York broker. "We are very concerned about our mining operations in the US and the impact this will have on employment in the mining industry and the impact on our trade balance. We wish South Africa would become more vocal," said Lutley.

AngloGold's marketing director, Kelvin Williams, said on radio he thought the sale was "wrong in principle", but it was more likely that market sentiment and speculation would have an effect on the bullion market. At a recent meeting held by the gold producer to announce their quarterly results, he said the market could easily absorb 150 tonnes from the IMF sale over a prescribed period and it wouldn't be noticed. But he said the view attached to the sale of gold by central banks and the investment sector would surely be

blown out of proportion and have a negative effect on the market.

Williams also pointed out that last year the shortfall between demand from jewellery producers and global output amounted to more than 1 000 tonnes — almost seven times the amount the IMF is thinking about selling.

Lutley and the Gold Institute are concerned that the sale of five to 10-million ounces of the IMF's gold will not only impact negatively on the price of gold — which is already at a 20-year low — but harm rather than help the 41 highly indebted poor countries (HIPC). Many of them are dependent on gold mining for export earnings, and others will be prevented from properly developing an industry that could bring them many benefits.

George Milling-Stanley, gold marketer analysis manager for the World Gold Council, is also opposed to the IMF sale. He pointed out that the sale of IMF gold would have an adverse effect on the lives of individuals who hold gold all around the world — many as a primary form of savings. And the effect on HIPC and the mining industry as a whole could have far-reaching negative implications. "The mere perception of

the IMF selling off a portion of its reserves will take some of the shine off the precious metal

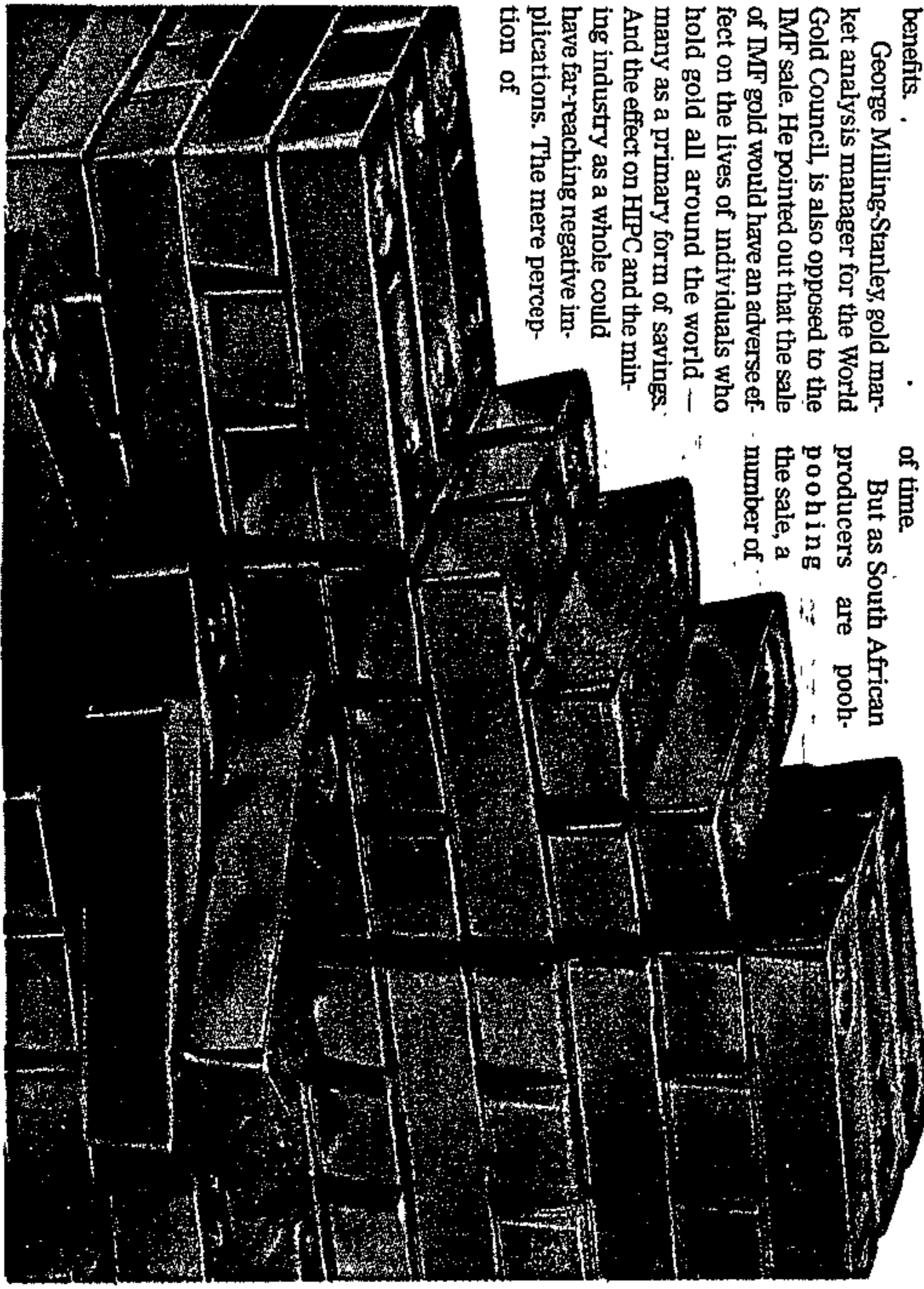
South Africa's position, on the other hand, is stuck between a rock and the gold face. The government can't be seen to support a move that may not only put jobs at risk, but could also have an impact on the whole economy, especially in an election year. And yet it has an obligation to support its highly indebted Southern African Development Community partners in reducing their astronomical debt burdens. However, Minister of Finance Trevor Manuel has said that if gold sales are the only way to provide debt relief to Africa's most impoverished nations, they are acceptable — as long as they are done prudently and over a period of time.

But as South African producers are pooh-poohing the sale, a number of

economists are not happy about the precedent such a sale is setting. They are concerned that a depressed gold price and continuous selling of gold into the market will set a bad example.

"Any time a country needs money they'll sell some of their gold reserves," remarked Mike Schussler, economist at FBC Fidelity Bank. "Any recovery in the gold price will be unsustainable. As soon as gold starts to climb, selling will come into the market," he added.

Gold has also traditionally been an inflation hedge and a safe haven from turbulent stock markets. But with little inflation and the US Treasury bond the new safe haven, it is no longer a hedge. Gold's no longer precious — it's now just another metal.



# NUM seeks UK help on gold sale policy

Reneé Grawitzky

THE National Union of Mineworkers (NUM) has called on SA's mining employers to approach the British government about formulating a structured five-year plan so that it can sell gold without adversely affecting the world gold market.

This emerged at a gold crisis committee meeting yesterday where market reaction to the Bank of England's plan to sell off 415 tons of its 715-ton gold reserves over five years was discussed. It comes on the eve of wage negotiations be-

BD 12/5/99  
between the Chamber of Mines and the NUM and ahead of an initiative proposed by chamber CEO Zoli Diliza to hold a mining industry leadership summit meeting to develop a shared vision for the industry.

The committee meeting was attended by two cabinet ministers and senior union and mining leaders. Diliza said the parties agreed that the market had overreacted to the UK announcement and there was no crisis in the industry, but there was a need to develop a way of managing negative perceptions created by speculators.

Diliza said all parties were concerned

that if the gold price continued to decline it would affect the fiscus and return on investment and could lead to job losses.

Industry sources said the British gold sales were intended to bring the Bank of England's gold reserves in line with those of its European counterparts. "It is not an attempt to move away from holding gold as a store of value," a source said.

NUM general secretary Gwede Mantashe said the mining industry had to engage the British government and devise a gold sales programme that would prevent market speculation.

# Jitters for SA as gold price takes a tumble

ART 20/5/99

## Experts fear job cuts

ARGUS CORRESPONDENT

(79)

**Johannesburg** - As the gold price plunged to its lowest level in 20 years, economists warned of job cuts and higher interest rates.

The gold index on the Johannesburg Stock Exchange closed 5,5% lower yesterday, after gold was fixed at \$272,50 an ounce in London.

The effects of the fall were immediately tangible. With the gold price now hovering at 1979 levels, gold mining giant Randfontein Estates said it would be forced to suspend the development of its largest mine expansion project, because it would not yield acceptable returns at these prices.

Deputy chairman Brett Keble said the Doornkop South Reef project would be mothballed immediately, but "could be restarted easily should there be a sustained recovery in the gold price".

Mr Keble said market sentiment surrounding the sale of bullion by the Bank of England, the International Monetary Fund and Switzerland was likely to cap the gold price for a considerable time.

Frankel Pollak's chief economist Nico Czypionka said the fall would call a halt to reduction in interest rates, and might cause investors to react negatively, tightening up liquidity of money.

Mr Czypionka said the gold price was not in free fall:

He said, however, that a fall had a tendency to knock confidence in the South African economy.

In spite of the fall, employment in a broader sense should not be affected, because gold was not as pivotal to the South African economy as it had been in the past, he said.

The trouble started about two weeks ago when Britain's Treasury announced plans to sell more than half its gold reserves over the next few years.

That news saw the bullion price fall \$10 at the close of that day, a loss of almost 15% of its value.

Before the British announcement, gold had been hit by an IMF proposal to sell some of its bullion reserves to help pay for debt relief for poor nations.

Yesterday's drop, however, could see the IMF holding off on its plan until the market stabilised, or the South African economy - and that of other emerging markets - might be seriously damaged.

Biggest losers on the JSE yesterday were mining giants AngloGold and Gold Fields.

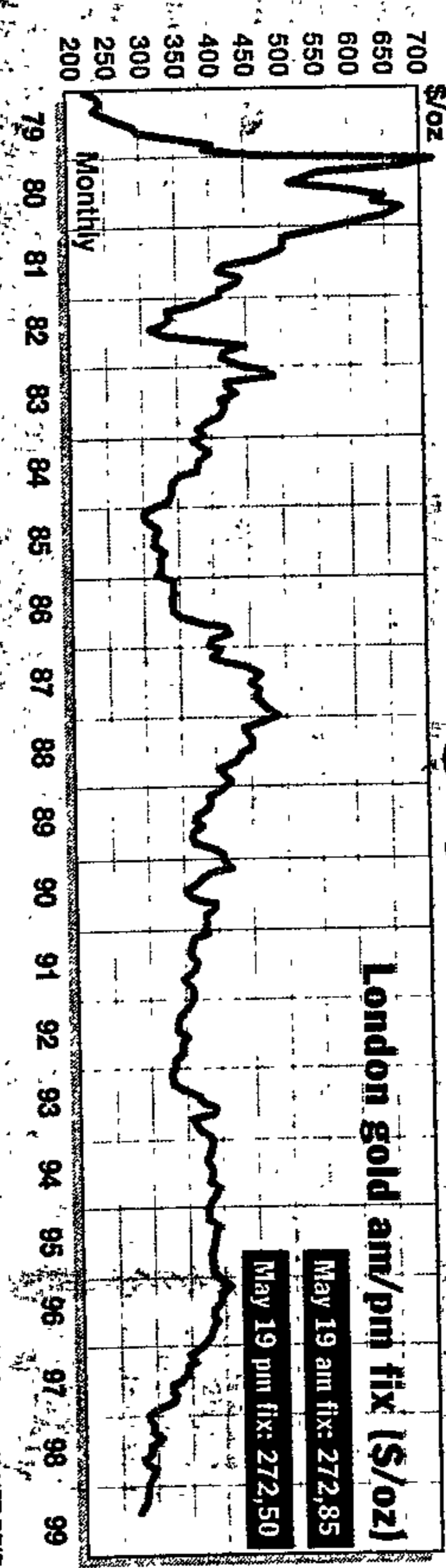
# Outlook for gold grim

## With the metal striking a 20-year low, analysts are wondering whether it has become an outdated asset

BD 20/5/99 (79)

Ilja Graulich, Samantha Enslin and Sapa-AFP

### How the mighty has fallen



KAREN MOOLMAN Sources: NET BRIDGE

ANALYSTS yesterday forecast a grim period for the SA gold mining industry after the gold price hit a 20-year low and the prospect of further central bank sales continued to weigh heavily on the market. Gold fixed in London at \$272.50/oz yesterday afternoon — well below last year's August trough of \$274.35 — to trade at levels last seen in 1979. The Johannesburg Stock Exchange's gold index slumped 52 points or 5.5% in sympathy, ending the day at 884. The metal fixed in Paris at \$269.56.

Gold's bout of misfortune began two weeks ago when the Bank of England announced that it would sell more than half its gold reserves at a series of five auctions, starting in July. Since the announcement the gold price has lost \$15/oz and the local gold index has shed 15%.

Analysts say the overhang of gold sales does not bode well for the metal's price. Besides the Bank of England's plans, the International Monetary Fund has said it could sell between 5% and 10% of its gold reserves to reduce the debt burden of the world's poorest countries. The Swiss government has already said it plans to break the link between gold and the Swiss franc, and will sell gold to compensate victims of the Nazi regime.

A disillusioned gold market took little comfort from comments by Bank of France Governor Jean-Claude Trichet, who said yesterday that the world's four largest gold holders — the Bank of France, the Bundesbank, the US Federal Reserve and the Bank of Italy — had no intention of selling any of their reserves.

Analysts said the outlook for the metal had also been tarnished by the US Federal Reserve's decision to adopt a tightening bias in its monetary policy as a trend to-

wards higher interest rates was generally regarded as negative for gold.

The fall in the gold price and a stronger dollar combined to depress the rand yesterday, leaving it at R6,1745 to the dollar from R6,1570 on Tuesday. Government's R150 bond closed at a 15.05% yield, 10 basis points weaker.

ABN Amro Securities economist Johan Rossouw said gold represented 20% of SA's exports. Lower export proceeds would affect the rand. However, with gold only a small portion of SA's reserves, the lower gold price would have little effect in that area.

The market's bearish sentiment towards gold was evident in surging interest in put options on the metal yesterday. Rice Rinaldi Securities gold analyst Tony Cappel said in Europe there was increased trade in gold put options at strike prices of \$270/oz, and even as low as \$265/oz.

Holders of the options were signalling that they believed the metal would drop to even lower levels, a prophecy which could become self-fulfilling.

Gold's 20-year low comes as the domestic gold mining industry enters annual wage talks, with the National Union of Mineworkers demanding a 25% increase.

Some analysts fear that if the gold price continues to slide the industry could face further retrenchments. Rossouw said it was difficult to quantify the effect on the local gold industry as it was unclear to what extent gold producers had hedged.

Anglogold has hedged 50% of its production, but other gold producers have been less active. Despite this the Anglogold share lost R16 or 5.9% to close at R252 yesterday.

On the face of it, most SA gold miners can still operate in the black at the current price, with all bar Avgold reporting cash costs of below \$270/oz for the March quarter. Avgold's came in at \$277/oz. However, analysts say the picture is less rosy if total costs are taken into account.

BOE Securities gold analyst Piet Stoltz says most mines have contingency plans for periods in which the gold price is depressed. He believes there is enough flex-

ibility for mines to change to work sites which can show better returns at the current gold price, as long it does not stay low indefinitely. However, Stoltz says it is likely that exploration activity will be cut severely, although mine development should continue as normal.

The gold board weighed on the overall market yesterday, dragging the all share index down 33 points to 6 645.

The bearish outlook for the metal has analysts wondering whether gold has become an outdated asset. Decisions to sell the metal do not merely increase supply and depress prices but send a negative signal to the market about the return on an investment in gold. Britain, for example, is to channel the proceeds of its gold sales into euros, dollars and yen, which offer greater investment flexibility.

Peter Richardson, global head of commodity research at Warburg Dillon Read, said: "The central banks are sending a clear signal that gold is no longer an asset worth holding." There was a risk that the gold price could dip below \$270.

10 - M-D JOHNSON, ECCI

# Gold's slide spells gloom for economy

School of Economics  
University of Cape Town  
7700 Rondebosch

(79)  
Economists warn of job cuts and higher interest rates

Stav 20/5/99

By MATTHEW BURBIDGE

As the gold price dropped to its lowest level in 20 years yesterday, economists warned of job cutbacks, negative investor sentiment and possible interest rate hikes.

They said the fall, which is hitting South Africa's foreign exchange earnings badly, had spiked any chance of an interest rate cut before the June 2 poll.

The effects of the fall were immediately tangible. With the gold price now hovering at 1979 levels, gold mining giant Randfontein Estates said it had been forced to suspend development of its largest mine expansion project.

Deputy chairman Brett Kebble said the R800-million Doornkop South Reef project would be put on hold immediately, but "could be restarted easily should there be a sustained recovery in the gold price".

Other big mines were also expected to start mothballing projects because it would take too long for them to show a profit.

On the Johannesburg Stock Exchange, the gold index ended the day 5,5% lower yesterday after gold fixed at \$272,50 an ounce in London. Gold shares took a knock, with Anglogold, the world's biggest producer, losing R16 to close at R252.

Kebble said the market sentiment surrounding the sale of gold by the Bank of England, the International Monetary Fund and Switzerland was likely to cap the gold price for a considerable time.

Frankel Pollak chief economist Nico Czypionka said the falling price would mark a halt in the recent trend of interest rate cuts and might prompt investors to react negatively.

He said that while the gold price was not in freefall, it would have the effect of knock-

ing confidence in the economy.

The gold price had become a part of the South African psyche and, as such, yesterday's news would probably have a negative effect on a psychological level, he added.

Gold's problems began about two weeks ago when Britain's Treasury announced plans to sell more than half its reserves over the next few years.

That news saw the gold price fall by \$10 at the close of the day, which translated into a loss of almost 15% in the JSE's gold index. Before the British announcement, gold had been hit by an IMF proposal to sell some of its gold reserves to help pay for debt relief for poor nations.

Yesterday's drop, however, could see the IMF holding off on its plan until the market stabilises.

► Gold's decline

... Business Report

# Low gold price 'social problem'

By Mongwadi Madiseng and Sapa

**T**HE decline in the gold price is of concern more as a "social problem" rather than an economic one, said South African Reserve Bank governor Dr Chris Stals. Addressing the Bureau for Economic Research conference in Johannesburg yesterday, Stals expressed his worry to the International Monetary Fund and central banks about continued gold selling because if the price fell below the average South African gold production cost of R1 450 an ounce, then mines were at risk of closure.

The integration of the world's financial markets brought with it new challenges for monitoring and dealing with other macro-economic policies.

The volatile conditions in the emerging financial markets over the past two years created new problems for several countries including South Africa.

"If a mine closed, then some 10 000 people would lose their jobs, which would in turn affect another 40 000 people. This makes it a social problem."

The governor said that gold now accounted for less than 20 percent of

South African exports and production of the precious metals made up less than three percent of gross domestic product.

South Africa was also struck by the crisis of 1997-98 when non-resident investors started to withdraw large sums of portfolio investments mainly in government bonds of long-term maturity, he said.

Stals said the predicament for macro economic policy makers in the situation was that the adverse developments took place at the very inconvenient time.

According to the BER, South Africa's economy is currently in recession largely due to last year's impact of international financial crisis, but the return in both domestics and international stability could boost the much needed economic growth.

BER said economic prospects for the second quarter of 1999 looked bright, but cautioned that the powering US economy could slow it down.

The local CPI was measured at 8,6 percent in February and in line with declining interest rates, it is projected to stand at a rate of 3,7 percent towards the fourth quarter of this year.

South African Reserve Bank 26/6/1999

(79)

## SUNDAY ANALYSIS

**T**HE Group of Eight's recent endorsement at its Cologne summit of the International Monetary Fund's move to sell 10 percent, or 10 million ounces, of its gold reserves will have far-reaching effects on African countries that produce gold.

It is expected that IMF gold sales will begin in August, while the Bank of England's sale of an initial 25 tons of gold is set to begin on July 6.

Mining, and gold mining in particular, still has the potential to be an engine for Africa's delayed industrial revolution and progress. It is, by all accounts, one of Africa's few areas of hope for economic growth and prosperity.

Even Afro-pessimists agree that the continent has a comparative advantage. Miners have no alternative but to go to where the forces of nature have placed so many rich mineral deposits — that is, Africa.

For example, Southern Africa alone has 50 percent of the world's gold deposits, nearly 90 percent of its platinum and palladium, 85 percent of its chromium and 75 percent of its vanadium. Mining is indeed one of the sectors that can make a meaningful contribution to Africa's economic renaissance.

Foreign expenditure on mining exploration in the '70s and '80s was at best insignificant and at worst non-existent. In the '90s, however, spending on exploration in Africa has skyrocketed. Canada's Metals Economics Group mining exploration spending in Africa last year was \$493.4-million (about R2.9-billion), or about 17.4 percent of the total global expenditure.

One does not need to be a hard-nosed Oxford economist to realise that expenditure on mining exploration is based on positive sentiments about the future of gold as a store of value.

The \$30 fall in the price of bullion since May has not only sent negative sentiment to the market, it has resulted in a \$6.8-billion (about R40.8-billion) loss in export earnings for gold-producing countries in sub-Saharan Africa, according to the World Gold Council.

The South African economy might lose \$2.5-billion (about R15-billion) in export earnings this year alone. Gold earnings make up approximately 20 percent of SA's export earnings.

South Africa is not classified by the IMF as a heavily indebted poor country and will therefore not benefit directly from the debt relief initiative, assuming that any of the classified countries are to benefit.

Anglogold, the world's leading gold producer, supports debt relief for poor countries — as does the South African government — but says, rightly, that funding it through the sale of IMF gold reserves would have disastrous effects on the industry.

The IMF's move is at best misguided and at worst mischievous because its unintended consequences outweigh

# Debt relief plan robs Peter to bale out Paul

ST 27/6/99 (79)  
The IMF's bullion sale spells disaster for gold producers in Africa, writes KUSENI DLAMINI



**RICH TREASURE:** Gold still has the potential to be a trigger for Africa's progress and its delayed industrial revolution

its intended results. It has had a negative impact not just on shareholder value but on important stakeholders such as workers and governments dependent on gold not only for export earnings but also for tax revenue and economic development.

Indeed, the World Gold Council notes that the intended effect of reducing debt has been outweighed by a loss in export earnings far greater than the size of the relief package.

A strategic response from mining companies, trade unions and African governments is required to counter the IMF and Western central banks' move to sell gold on a huge scale without considering the adverse

consequences this would have for poor countries and gold mining as an industry.

Furthermore, African countries need to strengthen relations between business and government in general, and business and foreign and international trade policy in particular. Building successful economies in an increasingly competitive and globalising world requires it.

The sale of gold reserves is misguided on three main grounds

First, there is no conclusive evidence that selling gold is the best possible way to fund debt relief. If anything, it is the worst possible way because it exacerbates the socio-

economic and political problems of debt-ridden countries by robbing them of an important source of tax revenue, foreign exchange and export earnings as well as employment and infrastructure development.

Second, gold-producing countries and companies from the Third World, and especially from sub-Saharan Africa, should have been consulted on ways to relieve the debt burden. The failure to do so smacks of the northern hemisphere's classic patronising approach to the southern hemisphere, where the former knows what is good for the latter and that what is good for the North is good for the South.

Third, the developed countries were naive not to have used this opportunity to show their political will and commitment to debt relief by putting their money where their mouths were.

It is indisputable that debt relief is an important prerequisite for the foundation for development to be laid in the Third World. It goes without saying that, like anything else, it can only work if it is properly planned, designed, financed and implemented.

It matters much how debt relief is financed, as indeed it mattered much how the Marshall Plan to reconstruct post-war Europe and Japan was financed. It will determine the extent to which debt relief becomes a success, especially in Africa. If it is approached as just another accounting exercise or it undermines sectors capable of making an even more important contribution — as the IMF approach seems to do — then it will not succeed.

Selling gold reserves to help heavily indebted poor countries is tantamount to robbing Peter to pay Paul because it essentially robs struggling gold-producing African countries to ostensibly help other poor nations.

The IMF's initiative on debt relief has been nothing but a dismal failure since its inception in 1996. So far only three countries have felt any real relief.

If rich countries are genuinely committed to debt relief and sustainable development in the Third World, they should, *inter alia*, do the following:

First, they must be prepared to finance relief from their own coffers.

Second, profits made by the IMF and the World Bank should be used to finance debt relief. There can be no development without industrialisation in Africa.

Third, the IMF and Western governments could borrow money from the international financial markets to finance debt relief.

The mining industry should be nurtured to unleash its maximum potential in the industrialisation and diversification of Africa's economies. The sooner the IMF and Western central banks realise and accept that, the better are the prospects for regional prosperity and security in Africa.

● Dlamini, a Rhodes Scholar, is a lecturer in the department of international relations at Wits University.

*BULLION Amount on sale is trivial, say confident South African producers*

# Mines shrug off UK gold auction

**JONATHAN ROSENTHAL**

COMMODITIES EDITOR

Johannesburg - South Africa's gold producers yesterday yawned off today's auction of 25 tons of gold by the Bank of England, saying the amount of gold coming on to the market was trivial and had already been discounted into the price.

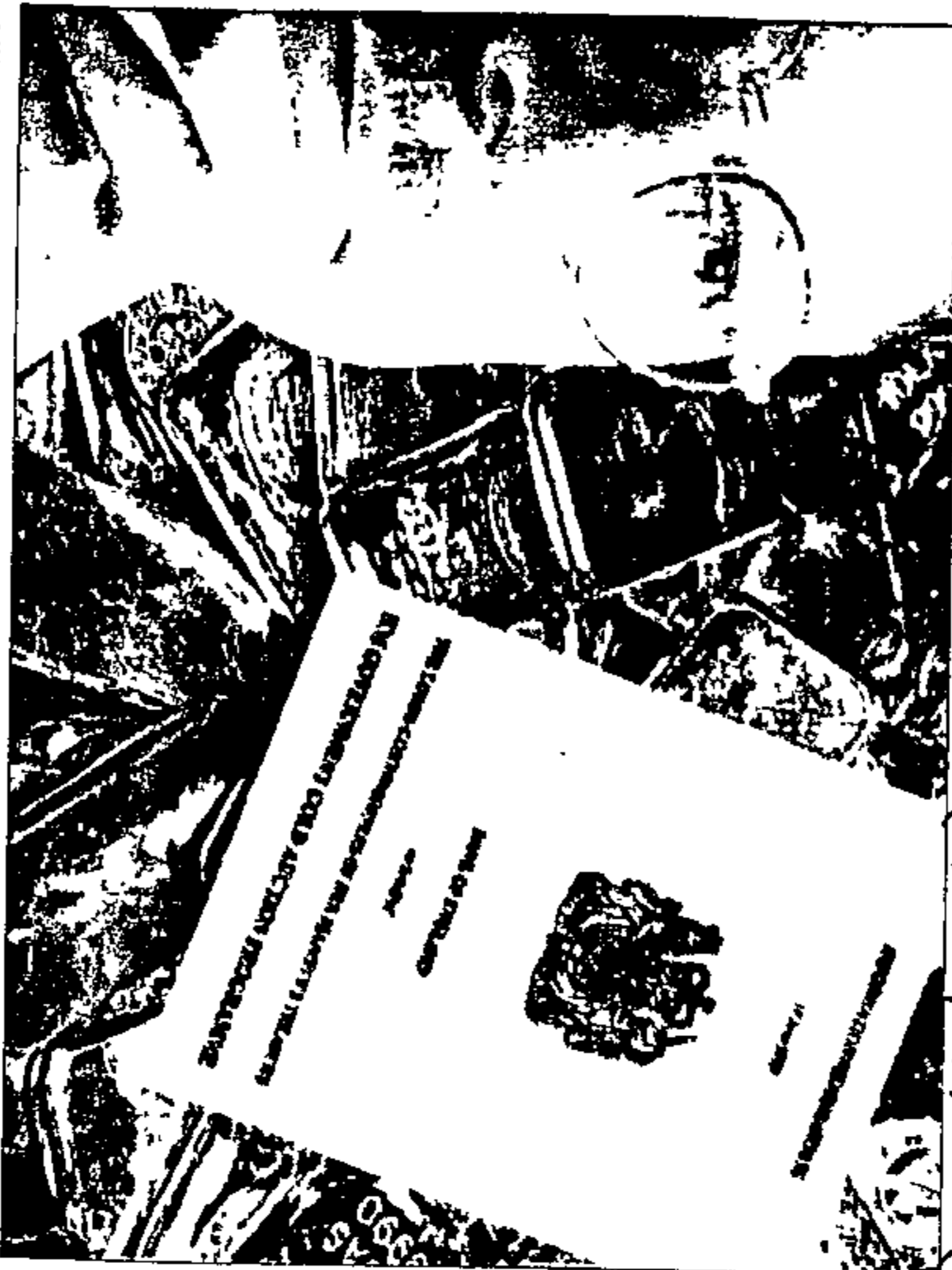
Kelvin Williams, a director of AngloGold, the world's largest gold producer, said he did not expect any fireworks from today's auction.

"The information is in the market. They've done the damage. The auction is going to be an anticlimax," he said.

But Williams did point to a possibility, even if a little remote, that this auction could be the second last of its kind by the Bank of England.

He said the bank had informed members of the London Bullion Market Association, an association representing more than 60 gold dealers from 14 countries, that if the first two auctions did not make sense, the bank could consider an alternative method of conducting its bullion sales.

"I think there is a real possibility they may change their method," Williams said. He said there was a good pos-



sibility the price could move up slightly on the auction. "Twenty-five tons will be easily bid for it's an irritating amount but just enough to disturb the market," he said.

Williams also expressed anger at the bank's method of selling the gold. "Would they sell yen by auction? Because, if they wouldn't, they should not sell gold by auction. Gold is a parallel currency," he said.

Brett Keble, the chairman of JCI Gold, told Bloomberg he expected the gold price to trend upwards after the sale. "We are not anticipating anything very negative from this sale. The negativity from this sale came from the way it was handled, and that has disappeared," he said.

Ted Grobicki, a director of Harmony, South Africa's third largest gold producer, said he expected the bullion sale to pass with little impact on the market. "All the positioning would have taken place already so I

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(214) (79)

think it will be a damn squib. I don't think the price will be any higher or any lower," he said.

A senior gold dealer said the market had been extremely quiet yesterday, partly as a result of the withdrawal of US traders from the market because of the Independence Day celebration there. He said the dominating attitude was to wait and see but thought the price could well spike immediately after the bullion sale.

The dealer also discounted speculation that there could be a large sell-off of gold immediately after the auction.

Fidelis Madavo, Investec's commodity analyst, said he expected gold to rally to \$265 or even \$270 in the aftermath of the sale. "We could see a mini-rally and shorts closing out positions," he said.

Meanwhile, Reuters reported Michel Camdessus, the managing director of the International Monetary Fund (IMF), as saying he was confident the US would back IMF gold sales. He said the IMF would time its sale to achieve a reasonable price and attempt not to depress the gold market.

Gold fixed at \$261.80 in London yesterday afternoon, down from its fix of \$263.10 on Friday afternoon.



# Gold drops to 20-year low

(\$14) (\$9) \$17199

**JOHANNESBURG:** A five-times oversubscription for gold by members of the London Bullion Market Association at the first gold auction held by Bank of England yesterday should have helped boost the gold price. Instead it helped prompt a sudden fall in the gold price to new 20-year lows.

The gold price, which fixed at \$261.30 before the auction, dived to an afternoon fix of \$257.60 after the auction. This took analysts by surprise, as the view in the market was that the gold price would spike up if the auction was oversubscribed.

At the auction, the bank sold 25 tons of gold at a price of \$261.20, the lowest acceptable price. Under the auction method adopted by the bank, all the successful bidders pay the same price, namely the lowest acceptable bid to the bank.

Andy Smith, a gold analyst at Mitsui in London, said although the auction had received bids for roughly five times as much gold as on offer, bids accounting for more than 100 tons were priced below the \$261.20. Some bids were as low as \$240 an ounce.

Smith said the auction had set a new price for gold and that further movements were likely to be lower.

"The bid cover ratio is an artifice and the market took a while to see through it," Smith said.

● See Page 13, Business Report



Close \$256.85 —700

**THAT SINKING FEELING** Kelvin Williams, the marketing director of AngloGold, reacts to the progressive falls in the gold price while teleconferencing with journalists around the world shortly after the auction of gold by the Bank of England in London yesterday

PHOTOS: JOHN WOODROCK AND JAMES DE VRIES

## Auction prompts gold price plunge

CT (PR) 7/17/99 (\$9)

**JONATHAN ROSENTHAL**  
COMMODITIES EDITOR

**JOHANNESBURG** - A five times oversubscription for gold by members of the London Bullion Market Association (LBMA) at the first gold auction held by the Bank of England yesterday should have helped boost the gold price. Instead, it helped prompt a sudden fall in the gold price to a new 20-year low.

The gold price, which fixed at \$261.30 before the auction, dived to an afternoon fix of \$257.60 after the auction. This took most analysts by surprise,

as the consensus view in the market was that the gold price would spike up if the auction was oversubscribed.

At the auction, the Bank sold 25 tons of gold at a price of \$261.20, the lowest acceptable price. Under the auction method adopted by the bank, all the successful bidders pay the same price, namely the lowest bid acceptable to the Bank.

Andy Smith, a gold analyst at Mitsui in London, said that although the 25-ton auction had received bids for roughly five times as much gold as on offer, bids accounting for significant

ly more than 100 tons were priced below the \$261.20 level. Some bids were believed to have been as low as \$240 an ounce.

Smith said the auction had set a new price for gold and that further movements were likely to be lower. "The bid cover ratio is an artifice, and the market took a while to see through it," Smith said.

Kelvin Williams, AngloGold's marketing director, said the oversubscription appeared to stem from an attempt by LBMA members "to make the auction meaningful... to prove that London is still the centre of the

world's gold trade." But he said it was primarily the method of selling by auction that prompted the later fall in the price of gold.

"A public auction gives an indicator price against which to trade. It said you can now short at \$261 because there is no interest above that," said Williams.

But Williams also shrugged off the effects on AngloGold, the world's largest producer. "AngloGold will still be profitable at this price," he said.

Michael Coulson, the head of mining research at Paribas in

London, said the auction indicated that "bears remain in command, their claws are nicely sharpened and they are still having fun."

He said, however, that the falling price, which had prompted this week's closure of ERPM, was ultimately a self-correcting mechanism as lower production had to ultimately leave the physical market in need of gold.

The fall in the gold price led to a rapid fall in mining shares on the JSE. AngloGold shed 56% or 2 percent, while Gold Fields, which is largely unhedged, lost 2.8 percent, or 60c.

# Gold as a commodity needs support

Government's change in approach to the industry has come too late to avert the crisis the metal is experiencing, writes René Grawitzky

**M**INING employers and unions are watching with trepidation as first world governments continue dumping gold exacerbating concerns among third world producers.

It would be convenient to lay the blame for the continuing decline of the gold mining industry at the door of the International Monetary Fund (IMF) for its plan to sell gold and the UK and other governments for allowing their central banks to sell off a portion of their gold reserves.

Recent analyses of the crisis in the industry ignore an assessment of the role — or lack thereof — played by the SA government.

Since 1994 employers and labour have become increasingly concerned that the new government has the interest in the survival of the industry.

However, there is probably sound economic reasoning for the "hands-off" approach adopted by government.

The African National Congress (ANC) led government took over a country that was immediately forced to open its markets to international competition instead of focusing on the mining industry which was perceived as a dying sector. It has given higher priority to growth sectors with the potential to create jobs.

Within this context, it failed to distinguish between the broader mining industry and the crisis faced by gold mines, as the status of gold changed from a store of value to just another commodity.

National Union of Mineworkers (NUM) general secretary Lwede Mantashe says the previous government did not pay attention to the industry and hence it became a "min-state" of its own. Within this context, employers adopted the most extreme forms of work practices encouraged by the architects of apartheid. He said the brutality of the mining industry was clearly depicted in ANC literature.

There were high expectations that after 1994 government would focus on the industry. However, there was no attempt by the new government to facilitate the industry's transformation or to develop a vision for its future.

Not all the blame should fall on government's shoulders. Employers were reluctant in transforming and modernising labour practices. Despite numerous attempts by labour the industry only agreed to a mining summit last year, seven years after it was first called for by the NUM. Another failure by the industry was insufficient imaginative marketing of gold inter-



Mineworkers are bearing the brunt of the havoc caused by gold sales.

nationally compared with the platinum and diamond industries.

The union noted at its national congress last year that government in appointing its first mineral and energy affairs

minister Penuell Maduna chose someone who apparently showed little interest in the industry.

He generally made himself unavailable and it was almost impossible for business

and labour leaders to see him

Mantashe says the industry is moving into the new millennium with no broad vision. Such a vision, he says, would accept the fact that mining is a shrinking industry. But within that context, strategies could be developed to manage its downscaling coupled with developing some areas of growth such as platinum and chrome.

It could well be argued that such measures are being put into place as a result of the gold mining summit held last year, where government was an active and crucial player. Parties emerged from the summit with broad agreement on a process to manage downscaling constructively while at the same time ensuring the industry's continued survival. A number of key ministers attended the summit and it finally appeared that government was taking the industry seriously.

However, neither labour nor business anticipated that their own government would endorse a position that would lead to a further decline in the gold price and an acceleration of job losses.

Close to 300 000 jobs have been lost in gold mines since 1987, while up to 100 000 further jobs could be lost if the gold price continues to decline. The industry, it has been estimated, supports more than one million dependents not only in SA but in neighbouring countries like Lesotho.

An industry source says the SA government has conducted an "egg dance" over the sale of gold reserves by the IMF. It was only this week that government finally turned up its opposition to the sale. This was not always the official position.

President Thabo Mbeki told the southern African regional conference of the World Economic Forum this week that the SA government had previously supported the sale of 5-million ounces of gold by the IMF. He said if the sale had been carefully managed, it would not have had a severe impact on gold-producing countries.

However, this, combined with the move by the Swiss, the British and the Group of Eight industrialised nations including Russia to agree to sell off gold, had created havoc with the metal's price.

Government's endorsement of the IMF's plans to sell off 5-million ounces, as opposed to 10-million, could well be blamed on the fact that Pretoria had not foreseen the havoc the sale would unleash on thousands of mineworkers. Minerals and Energy Affairs Minister Plumizile Mlambo-Ngcuka said government's initial endorsement was not absolute. It was conditional upon the conduct of the sale and

whether it would create instability.

This endorsement was used by the US administration when motivating the US treasury's support to back the IMF's sale of gold. During debate in the US congress it was argued that if SA supported gold sales, the sale could not be bad for developing countries.

Washington has the deciding vote on whether the IMF should proceed to sell off a portion of its reserves.

As this debate was in progress, NUM president James Motlati and AngloGold CEO Bobby Godsell flew to Washington to lobby congressmen to block the gold sale.

This joint labour-business initiative was not without its own problems. Individuals in the SA government queried this move, seen as contrary to government's official policy of endorsing the sales.

Motlati and Godsell were asked by key players in the US why they were lobbying against the sale when their own government supported it.

The union believes that the UK took advantage of government's endorsement of the IMF sales to go ahead with its first auction this week, sending the gold price down to a 20-year low of \$256,50.

Government's initial endorsement cannot only be blamed on ignorance as mining employers and unions embarked on a campaign at the end of 1997 to stop the sale of gold reserves. It is believed that in the wake of the launch of that campaign, Mbeki was invited to address the heads of 12 central banks in Davos, Switzerland. Unknown to him, his office declined the invitation. Fortunately, he overruled this decision, following intervention by key players in the industry.

Such a move by his advisers or individuals in his office clearly illustrates a pervasive view within government.

The NUM says this view extended beyond government to the broad mass democratic movement, which believed mining was a dying industry.

In a country that relies heavily on its rich mineral reserves it is inconceivable that its natural assets are not being prioritised. Says an industry observer: "Why are we relinquishing our national assets when in other countries, communities organise themselves to fight to preserve their assets?"

Parties are not at this stage asking government to continue bailing out the industry. Instead, the industry needs critical management, direction from government and, more important, some positive alternatives in support of gold as a commodity.

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# Minings minister hits at UK

René Grawitzky, Samantha Enslin and Ilja Graulich

GOVERNMENT launched an angry attack on the British government yesterday, accusing it of breaking a promise to warn SA before the Bank of England sold gold from its reserves.

Cabinet also formally announced that it has reversed its decision, taken earlier this year, to give conditional support to the sale of gold reserves by the International Monetary Fund (IMF).

The policy shift was adopted by the cabinet as the SA gold mining industry began to feel the full effect of the first round of gold sales by the Bank of England and market fears of the impact of further sales by the IMF, the UK and other industrialised nations.

Gold shares were hard hit on the Johannesburg Stock Exchange yesterday as the gold price touched yet another 20-year low.

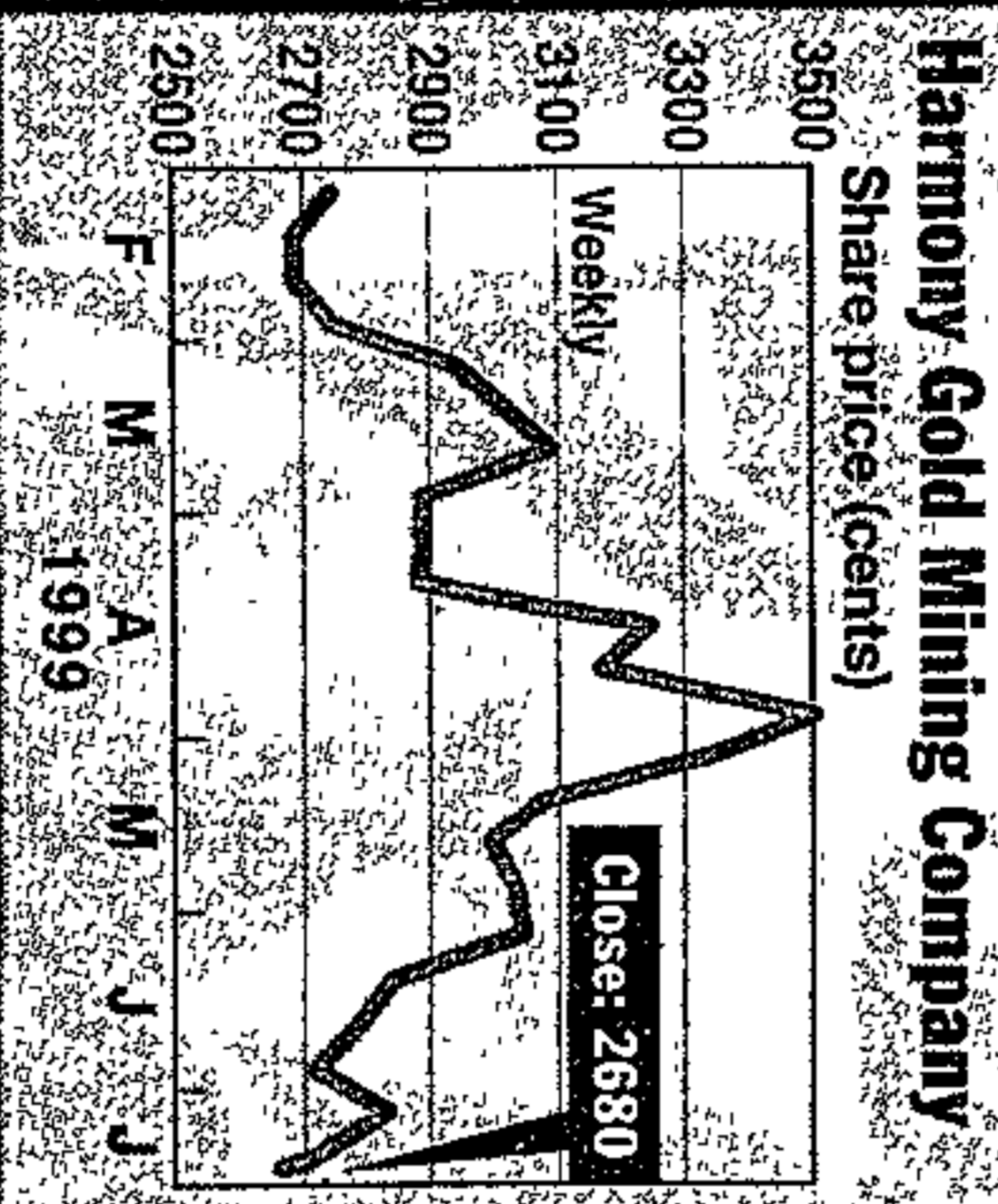
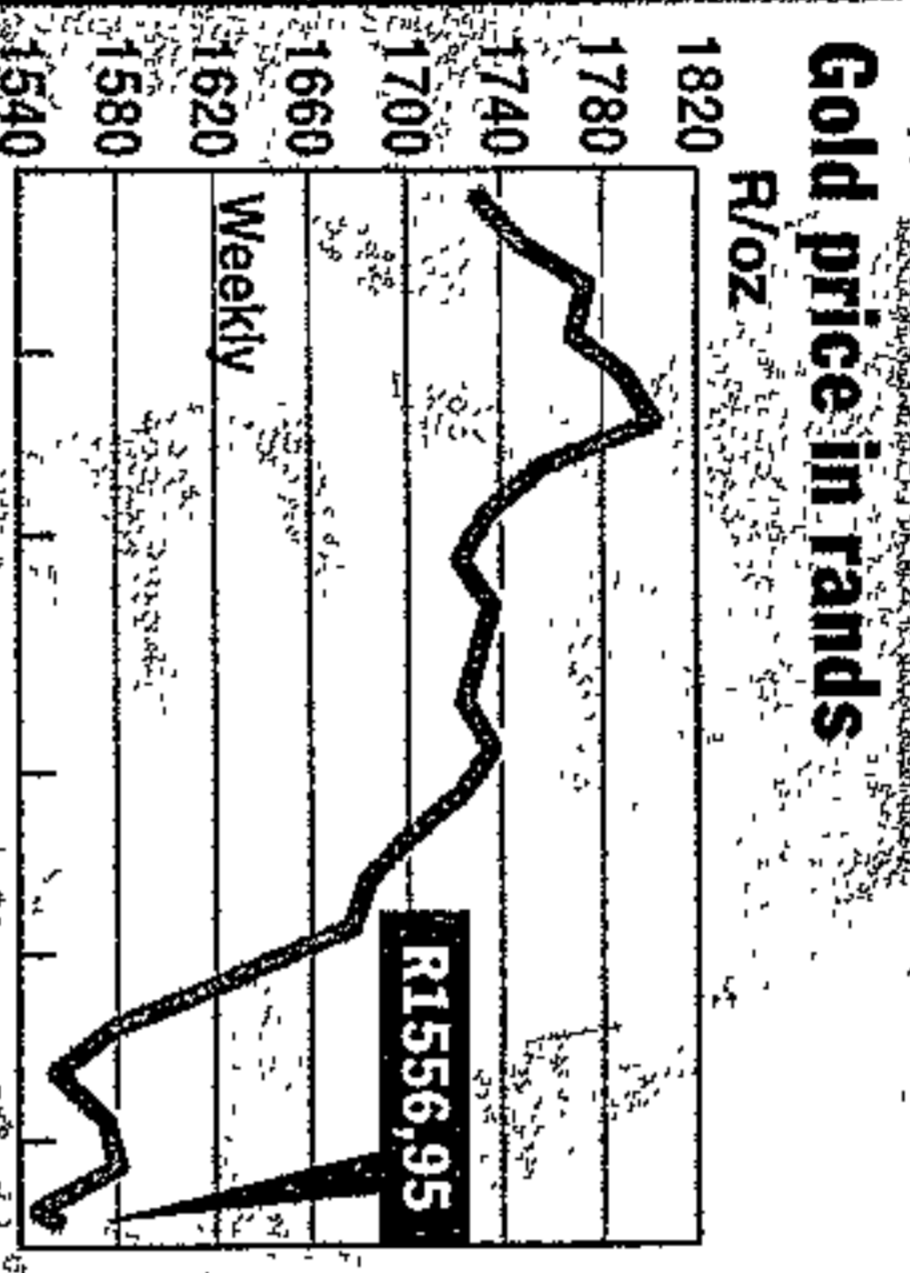
The gold index opened 5.2% down and sank almost 7% intraday, but recovered to end 48 points or 5.3% lower at 852 as the metal edged up to a London afternoon fix of \$257.10/oz. This compares with a morning fix and new 20-year low of \$256.20/oz.

Minerals and Energy Minister Phumzile Mlambo-Ngcuka said the SA government found "incomprehensible and unacceptable" the insensitivity of the British government and its monetary authorities towards the pleas of gold-producing countries on the handling of gold sales.

Government is to intensify its lobbying of Western European countries to ensure that debt-relief plans for developing countries "do not in fact degenerate into a beggaring of the economies of some of the very same intended beneficiaries".

The ripples from the gold crisis spread to Europe yesterday when one of the continent's biggest gold mines, at Bjorkdal in Sweden, closed and filed for

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 Government steps back from conditional support for IMF gold sales



Pic: AP Photo/THOMAS HADEBE Graphic: KAREN WOOLMAN Source: I-NET BRIDGE

bankruptcy. The mine produced 67 300oz last year.

Threatened East Rand Proprietary Mines (ERPMD) marched on the British High Commission in Pretoria yesterday where the National Union of Mineworkers (NUM) blamed the UK gold sale for the mine's liquidation and possible closure. The union demanded that Britain contribute R6m to keep it going until a

rational decision was taken on the mine's future.

Eric Xayiya, mayor of ERPMD's home town of Boksburg, told a representative of the UK High Commission: "You cannot help us by killing us first. You are killing the child you gave birth to after colonisation."

Government had poured R450m into the mine and management, she said, should have foreseen the crisis and informed government.

Government could not meet ERPMD management's requests for a further sum of close to R100m. Government would seek a buyer for the mine by August 17, when a final liquidation order would be granted.

Noelani King, an economist at bro-

kerage SG Frankel Pollak, said the weaker gold price had to a large extent been factored into the rand, which closed at R6.0558 yesterday after touching R6.0650 intraday, and down from Tuesday's close of R6.039. Analysts say there is unlikely to be any dramatic effect on the rand as long as the gold price remains above \$250/oz.

The currency's recent resilience has been attributed to capital inflows ahead of Old Mutual's upcoming London listing and improved sentiment towards emerging markets. King says this has reduced the risk premium associated with investing in SA.

However if the metal's price sinks to \$220/oz, as some European analysts have been suggesting, the rand could weaken significantly, King said.

Meanwhile, mining analysts say the latest shock to the gold price will have little effect on gold companies' operations. The industry has cut costs to the bone during the gradual decline in price from \$290/oz, and companies now have little room for manoeuvre in response to sudden falls following the Bank of England's sale.

While some local mines have countered the price plunge by hedging their production, others such as Harmony, the country's third-biggest producer, have not. Greg Hunter of Deutsche Morgan Grenfell says as there is little room to put a hedging programme in place at this stage — there will be few if any takers for gold forward at a higher price when the market is in a bear phase.

SG Frankel Pollak's Angus Auchterlonie says SA companies should concentrate on higher-grade, more profitable mines to survive in the short term. However, leaving less-profitable areas unattended for too long could affect long-term mining strategies.

Gold needs support: Page 11  
 Too late to hedge: Page 13  
 India welcomes lower price: Page 14

Heated response to Blair's cold shoulder

# Britain lied about gold - minister

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JONATHAN ROSENTHAL AND FRANK NXUMALO

Johannesburg - The government yesterday accused the UK of breaking a promise made by its prime minister, Tony Blair, not to sell its gold without first consulting South Africa.

Phumzile Mlambo-Ngcuka, the minister of mineral and energy affairs, told journalists yesterday that during talks between President Thabo Mbeki and Blair, the UK undertook to communicate with South Africa before implementing gold sales.

"When two presidents talk and one says before we make a decision we will write you a letter ... and we are still waiting (for the letter), it's quite a disappointment," she said.

The government would ask the UK high commissioner to convey South Africa's sentiments to his government, and Pretoria would be calling on other African countries to oppose the sales.

"We are seriously concerned about the insensitivity of the UK in continuing with these

sales while it was clearly apparent that this held serious consequences for gold producers in developing countries," she said.

A statement released by the government after yesterday's Cabinet meeting slated the UK government over the sale in language not commonly used between friendly countries.

"The South African government finds both incomprehensible and unacceptable the insensitivity of the British government and its monetary authorities towards the pleas of gold-producing countries, on the handling of the matter of gold sales.

"This behaviour, and the decisions of other industrialised countries and the IMF (International Monetary Fund) on the public handling of gold sales is

defeating the very objectives they profess to pursue," the statement said.

Anglogold, the world's largest gold producer, yesterday confirmed it too had signed a letter to the British government calling on it to either investigate or publicly deny rumours that the Bank of England gold sale was an attempt to rescue short-sellers of gold.

Short-sellers sell gold they do not own in the hope the price declines.

The letter, which was also signed by Gold Fields and four other leading gold mines, made reference to a parliamentary debate in the UK in which an opposition MP said gold was being sold "to save the bacon of those firms running short positions".

An Anglogold spokesman said this did not imply Anglogold subscribed to a conspiracy theory of the sale, but simply that "the rumour was real and we support the call to dispel it".

The National Union of Mineworkers said it would fight to turn

back the price of gold to the \$290 to \$300 range by stopping further gold sales by the UK and the IMF through lobbying the International Chemical, Energy and Mining Federation to which it is affiliated and would head before the end of this year.

Archie Phalane, the union's deputy general secretary, believed this could be done and could save thousands of jobs.

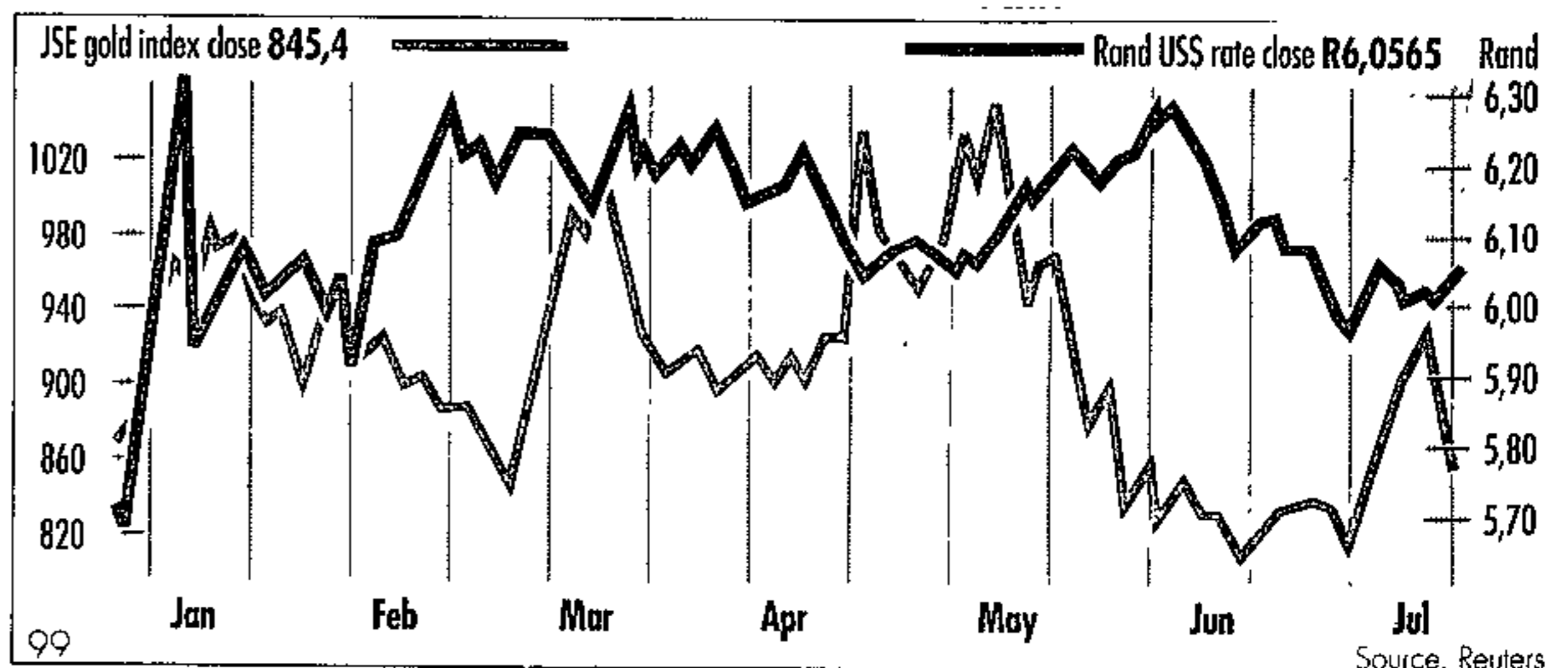
He told Sapa an approach could also be made to the National Union of Miners in the UK and the British Trades' Union Congress to put pressure on Blair's Labour government to abort further gold auctions.

Gold shares screamed down 5,33 percent to end the day at 852,3. Gold was fixed in London at \$257,10 an ounce, slightly up from a previous fix of \$256,85.



**SLAP IN THE FACE** Phumzile Mlambo-Ngcuka, the minister of mineral and energy affairs (right), and Joel Netshitenzhe, the government spokesman, expressed their disgust over British gold sales at a press conference yesterday. PHOTO SEIWYN T.

## JSE gold index vs rand dollar rate



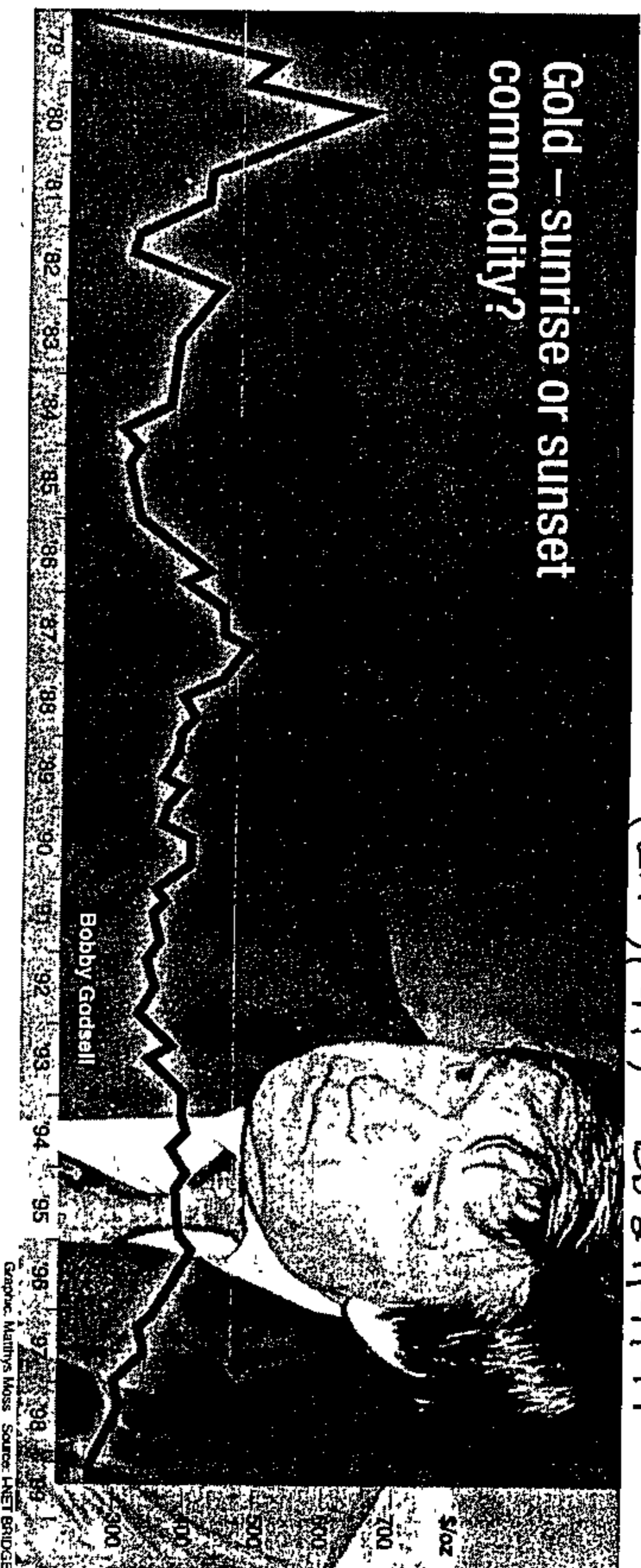


# Long-term view shows gold's value

Holdings of the yellow metal will decide its future based largely on its value as a store of wealth, writes AngloGold CEO Bobby Godsell

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## Gold — sunrise or sunset commodity?



IT IS unusual for a British treasury decision to "rebalance" its reserve asset portfolio to become the centre of an international political controversy. It is curious when management and labour in SA join forces to lobby in Davos, Washington and London, and even more curious when they take to the streets in Pretoria to march on the Swiss and British embassies.

Is this no more than a case of special pleading? Is this simply a whine of defiance from an industry that has outlived its shelf life? Has the gold industry worldwide run out of willing customers?

The problem with the industry does not lie in individual demand. Nearly 800-million individuals bought gold last year. They bought jewellery for adornment, they bought religious objects, and they bought water bars and coins for investment. Fabrication demand exceeded new mine production by more than 1 000 tons or almost 40% last year.

The problem is the extent of gold inventories held by national central banks and international organisations. These 33 000 tons have been acquired by these public institutions over the past 150 years. Much of this gold was acquired (and some is still held) at the low — and fixed — prices that applied in the two periods of international gold standard.

Today's two-decade low gold prices reflect a market expectation that most central banks are going to sell most of their gold in the foreseeable future. How realistic is this expectation?

The US, holding 8 000 tons, Germany with 3 500 tons, France (3 000 tons) and Italy (2 500 tons) have all said repeatedly and recently that they do not contemplate any gold sales.

These are more than statements of present intent. Gold sales are most likely to be politically controversial for these four large gold holders. A change in intent would have to be preceded by a change in political climate.

The European Central Bank, which controls not only its own reserves but those of the European Monetary System with its 11 national central banks collectively holding 12 000 tons of gold, has indicated no selling in the medium term.

Who is selling gold? Canada has sold out all or almost all of its gold. Belgium and the Netherlands have sold roughly half their gold reserves as has Australia. Those currently indicating an intention to sell are the International Monetary Fund (toughly

300 of its 3 000 tons to fund debt relief), Switzerland (1 300 of 2 500 tons, essentially as part of a belatedly leaving a gold standard) and Britain (15 of about 700 tons by way of a portfolio adjustment).

Crucial to the future of the gold industry is this simple question: will most central bank gold be held or sold in the foreseeable future? In turn this question poses another: what is the role and purpose of central banks? What links these two questions is a third: has gold been a good investment for central banks in times past?

The answer to this third question is determined entirely by the period of time in which it is answered. The price of gold has declined since 1980/1. It is this particular time period that is most frequently used to demonstrate gold's fall from grace. An investor who purchased any gold since 1980/1 is out of the money today. If the time period is pushed back a decade, as gold was escaping the \$35 fixed price, the picture is very different. Indeed the more long-term picture is very different.

The crucial nature of time periods is illustrated by the experience of the Bundesbank. Established in 1951, the German central bank invested its reserves in both gold and US treasury bonds. Gold has had the better performance over this period. Yet returns over time do not tell the

whole story. A central bank is more than an investment institution. Its mandate extends to providing stability and enhancing sovereignty in bad times as well as good.

Isabelle Straus-Kahn, deputy governor of the Banque de France, pointed out in a recent speech that the French have had to fall back on their gold reserves in two world wars. Each time these reserves have been all but depleted. Each time the nation has had the foresight to rebuild these reserves to four-figure levels measured in tons of gold.

As Alan Greenspan, chairman of the US Federal Reserve recently pointed out, gold is money of last resort.

This was the British experience in 1940 when that country's gold reserves (4 000 tons at the time) served as collateral for the purchase of US military equipment. The US was precluded by its neutrality act from providing a European war belligerent with war supplies on anything but commercial terms.

Italy and South Korea have seen the value of gold reserves in much more recent times. In South Korea, as recently as 18 months ago, the government mobilised an astonishing 250 tons of gold from its citizens to both retire national debt and rebuild reserves.

India is now busy with a similar programme. China and Russia have been recent purchasers of gold for their national reserves. No doubt the idea of reserves denominated exclusively in dollars, yen or euros is not entirely satisfactory.

There seems no chance of the four big national holders (the US, Germany, France and Italy) selling. There is little likelihood of any European Central Bank gold sales. Most other holders of gold within the Organisation for Economic Co-operation and Development have already sold. The jury on gold in emerging market economies is still out. History certainly has rewarded gold holders for millennia before any gold standard existed.

In the present crisis gold producers have no greater claim on protection than the producers of any other goods or services. Producers are not seeking price support, tariffs or quotas. On the contrary, they have been particularly active — especially through their collective organisation, the World Gold Council — in seeking marketplace deregulation.

In central banks and international organisations, like the International Monetary Fund and the Bank for International Settlements, gold producers confront an inventory much greater than that of any other product. Central banks are neither

conventional commercial nor wholly political institutions. Their mandates generally include long-term monetary stability and preservation of national sovereignty.

Speculators and traders (as legitimate a part of the gold market as any other) have made money in the past decade in betting that most central banks will sell most of their gold. Many producers believe they are wrong. In the end only the holders can decide.

They will be the judges as to whether we are at the end of history. Will deflation continue forever? Are the great discontinuities of history finally at an end? Those who have held gold in large quantities — not for its return but as a store of value in times of distress — must decide.

A final feature of the great gold debate is the changed character of gold production. For much of the 20th century the world had two great gold producers. Largest by far was SA, blessed with the richest and largest region of gold mineralisation. Second was Russia.

Many developing countries are gold producers today. More than one-quarter of the 41 highly indebted Poor Countries are significant producers of gold. They more than anyone, need to know whether they are basing their future on a sunset or a sunrise industry.

Bullion Analysis and market largely unmoved by commitment to explore alternatives

# IMF has second thoughts on gold sales

ADRIE SHEPEL AND REUTERS

ET (MR) 10/8/99

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Pretoria - Gold prices slightly towards the higher end of its narrow range to \$257 yesterday on news that the International Monetary Fund (IMF) was reconsidering its decision to sell up to 10 million ounces of the metal, about 10 percent of its reserves, to provide debt relief to heavily indebted poor countries (HIPC). However, the news had little impact and bullion again balked at resistance above \$257.

"The thing about that (the IMF news) is that it highlights pressing concern over imprecise extra supply," said Rhona O'Connell, an analyst at brokers T Hoare Canaccord.

Stanley Fischer, the first deputy managing director of the IMF, said in Pretoria yesterday that alternatives were being considered. "We are trying very hard to see if there's a way to do what gold sales were going to do without going into the market," he said.

Traders said this was sufficiently inconclusive to leave

bullion basically unshaken. "It is neither here nor there, really," one said.

Fischer said the IMF did not want to rule out gold sales until it had an alternative solution

NO DEAL (from left) Tliso Mboweni, the Reserve Bank governor and Stanley Fischer of the IMF announce in Pretoria yesterday that the IMF is reconsidering the sale of 10 million ounces of gold reserves

The gold sales plan was put forward by the Group of Seven nations after a meeting earlier this year in Cologne. Under the plan, the interest generated by investing funds from the gold sales would finance the IMF's obligations to relieve debts of 41 of the world's poorest nations.

The plan faces opposition from US lawmakers who would have to approve it.

An outcry from emerging nations followed the IMF's announcement of the sell-off, which was expected to further reduce the gold price and lead to job losses on the gold mines.

The US Congress threatened to block the sales and lobby groups have been hard at work in South Africa to prevent the sales.

Fischer said the IMF was not responsible for the lower gold price because it had announced that it intended to sell part of its reserves two years ago.

He declined to comment further on the other options the IMF has been considering, as they were "too complicated and too uncertain to go into details." He said the IMF's decision should take months rather than years.

The sale of gold on the open market was not ruled out, however. "We don't want to rule out anything until we have an alternative."

The IMF cannot reveal the reserves because it would conflict with IMF laws. Of the 41 HIPC countries targeted by the debt relief plan, 36 are gold producers.

# Gold at the end of the tunnel

Worldwide survey hints at recovery, but rough seas are still forecast for SA

Simon Barber

WASHINGTON — Stagnant or declining world gold production should lead to a recovery in the metal's price "fairly soon" if central banks do not overfill the gap between supply and demand, according to Gold Institute president John Lutley.

Based on a survey of more than 100 mining companies in 70 countries, the institute predicts in its latest world production report that mine output will grow just 1% between now and 2002, when it should reach 82.9-million ounces.

However even that may be optimistic, Lutley said, because the survey was taken at the beginning of the year when gold was \$285 an ounce. If prices stuck in the current range below \$260, overall production could decline 1.5 to 2% a year for the next few years.

SA producers in particular would be hard pressed to meet a 2002 projection of 5.5-million ounces provided by the SA Chamber of Mines. On current trends, aggravated by weak prices and the impact of AIDS on mine productivity, SA output could be down to 12-million ounces three years from now.

The good news, Lutley says, is that the IMF's plan to sell gold to fund debt relief is now almost certainly dead, thanks in large

measure to the lobbying of the US Congress by Amgold's Bobby Godsell and James Motlasi, president of the National Union of Mineworkers.

Lutley also believes central bankers may note "the stick the Bank of England is taking" and "stop simply looking at their balance sheets and become more sensitive to the global impact of sales."

Although it "won't happen tomorrow", he senses interest in the recent suggestion by SA Reserve Bank deputy governor James Cross that central banks sales be handled through the Bank for International Settlements, which would bring a predictable quantity to market each year.

With central bank sales orderly and limited, the prospect for a price recovery is strong, Lutley says.

There is a lot of "upside potential" for demand for fabricated gold, particularly in the US, India and China, but it would be best if the recovery were gradual so as not to damp consumer demand or entice central bankers to unload their bullion, he says.

Even with a price rise, production is unlikely to pick up again quickly. Not only have many high cost mines been closed in the current price environment, but exploration investment has been falling dramatically in re-

cent years, meaning there will be fewer sources to replace depleted mines, he says.

Worldwide exploration investment by the 18 top US producers has been falling steadily, from \$627m in 1996 to \$582m in 1997 to \$418m last year.

Lutley predicts that this year's figure, which the institute will report next month, would be even lower.

In addition, junior mining companies, responsible for finding much of the gold now being mined, are having "enormous difficulty" raising money after the Bre-X fiasco and with bullion prices at present levels, and the resulting reduction in exploration will have a significant long-term effect on production. "All things being equal, that again would be good for the price," Lutley says.

Of the major producers other than SA, the institute projects on the basis of company reporting that US output will be down 6% in 2002 from last year's levels, to just over 11-million ounces. Australian production will fall 1.2-million ounces, or 12%, to 8.8-million ounces, and Canada's output will decline 5.3-million ounces to 4.8-million.

Indonesia, meanwhile, is expected to overtake Canada and China over the next three years, with output rising to 5.2-million ounces.



# Gold price turnaround boost for SA

## Threat of more mines closing reduced (214) (79)

ARL 28/9/99

### STAFF REPORTER

**Johannesburg** - The intercontinental dash by the presidents of the Chamber of Mines, Bobby Godsell, and the National Union of Mineworkers, James Motlatsi, to peg the massive gold sales abroad has been hailed for bringing a sparkle to the South African economy and the mining industry.

NUM deputy secretary-general Archie Palane said yesterday that the lobbying by the Chamber and the union had proven to be effective and showed that First World decision-makers had, after consideration, listened to South Africa.

Messrs Godsell and Motlatsi lobbied the US Congress, the Commonwealth, British, Swiss and other governments for their support in July as the price of gold plummeted amid further sales announced by the International Monetary Fund, which led to a decline in the price of the metal, severely affecting South African mining houses.

The duo called for a moratorium on gold sales until measures were put in place so that central banks could sell bullion without sparking off major trading wars as the price came down.

The British government's announcement in July that it would sell bullion reserves left the price of gold at \$253 an ounce, its lowest in 20 years. Yesterday, the price rose to \$282, raising expectations it could reach as much as \$300 before long.

But bullion price is still below its May 6 level of \$286 an ounce, before the Bank of England said it planned to sell more than half its gold reserves.

At the weekend 15 central banks announced they would not sell any gold for the next five years, above sales already scheduled, and the IMF had dropped plans to sell bullion on the open market under pressure from gold-mining countries and US lawmakers.

"For the first time, somebody has listened to us. The decision by the European central banks and the IMF means that we are beginning to see

the results of the lobbying by Godsell and Motlatsi," said Mr Palane.

He said the moves would benefit the country and could also save mines which have been threatened by closure.

AngloGold financial director Jonathan Best said the moves would reduce the threat of mine closures and lead to a bigger flow of foreign currency into South Africa.

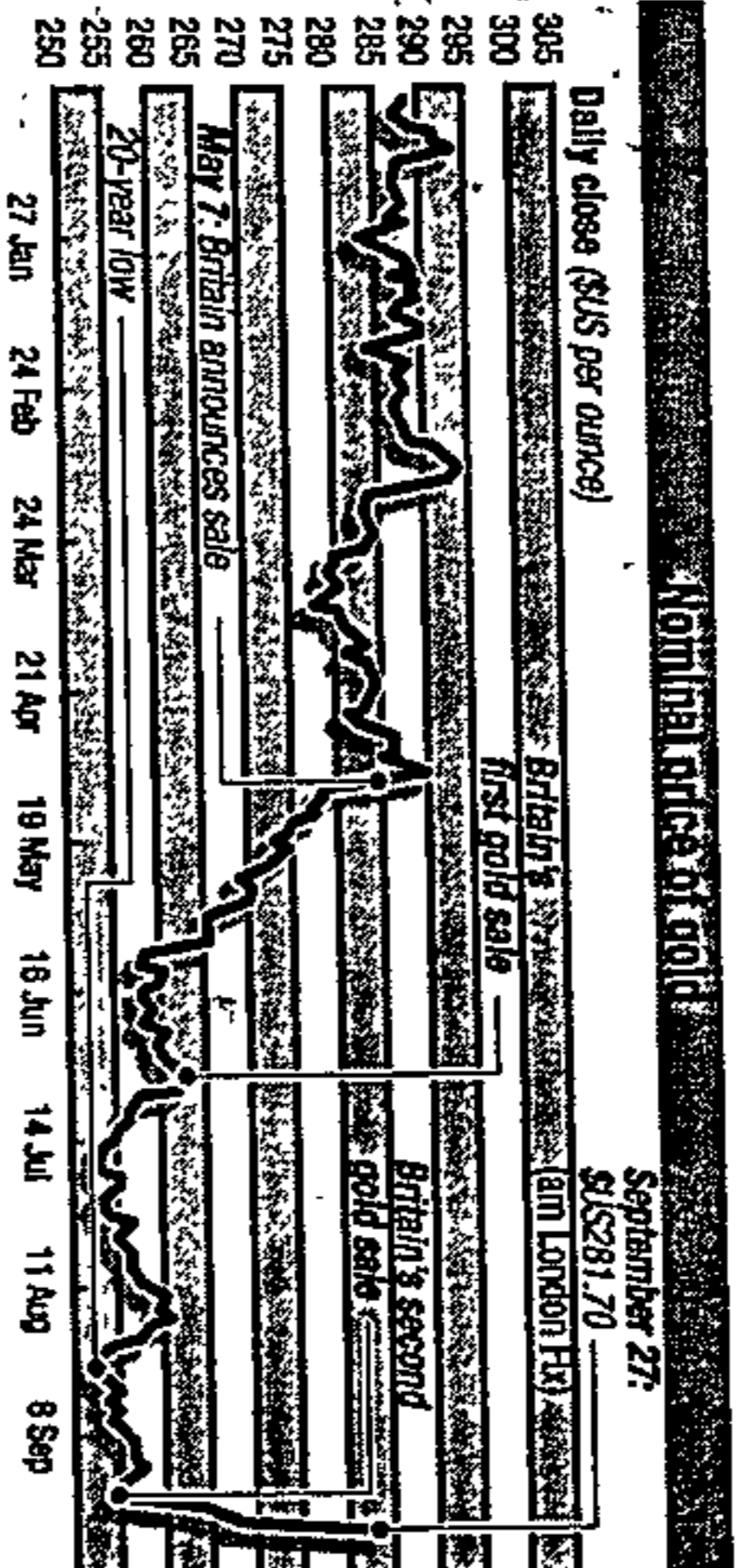
Although South African economists have welcomed the move, some have cautioned that the decision by 15 central banks was undertaken to safeguard the interests of the governments holding gold reserves.

Mike Schussler, an economist with SBC Fidelities, said the decision by the European central banks would give the South African economy a gigantic boost, which would ultimately filter through to the consumer.

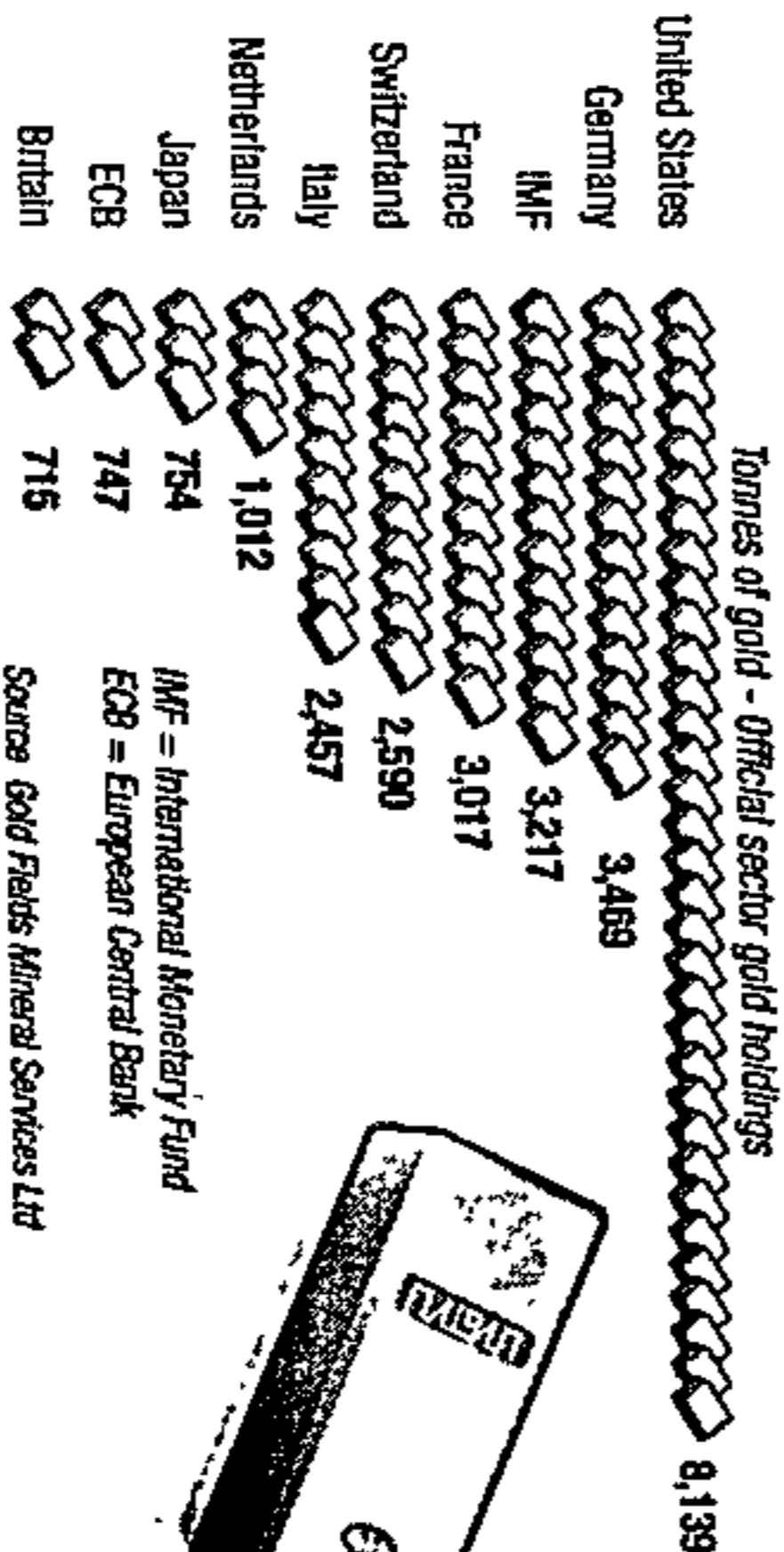
Economist Tony Twine said South Africans would benefit in a variety of ways. "It definitely could mean the difference between survival and going under."

### PRICE OF GOLD - RISES

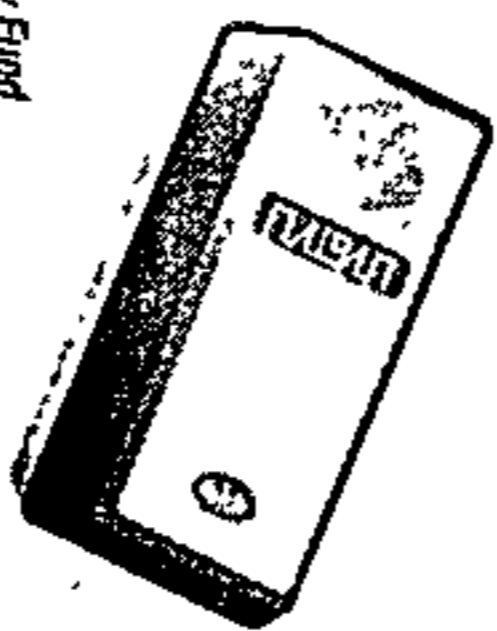
Gold prices jumped to their highest in nearly five months on Monday as 15 European central banks put a cap on official sector sales



### World's top 10 gold reserves, end of June 1999



IMF = International Monetary Fund  
ECB = European Central Bank  
Source: Gold Fields Mineral Services Ltd



PLATINUM AT 14-MONTH HIGH

# Gold cracks \$300-barrier

or 29/9/99

(79)

**AS THE** gold price broke the \$300-barrier it boosted platinum to its highest level in 14 months — in a day described as “market euphoria”.

**T**HE price of gold soared by more than seven percent yesterday. The metal burst through the \$300 an ounce mark to the highest point for 16 months in a second day of market euphoria.

The spot price of gold surged more than \$20 during the day to \$302.40 an ounce by late afternoon. Stocks in gold mining companies also advanced strongly, consolidating giddy rises registered yesterday.

Other precious metals were caught up in the market flurry yesterday, with platinum vaulting above the \$400 an ounce level to record its highest levels for 14 months.

Further good news is that the rand has bounced back strongly. In afternoon trading, it breached the R6 per dollar level as the gold price nudged higher.

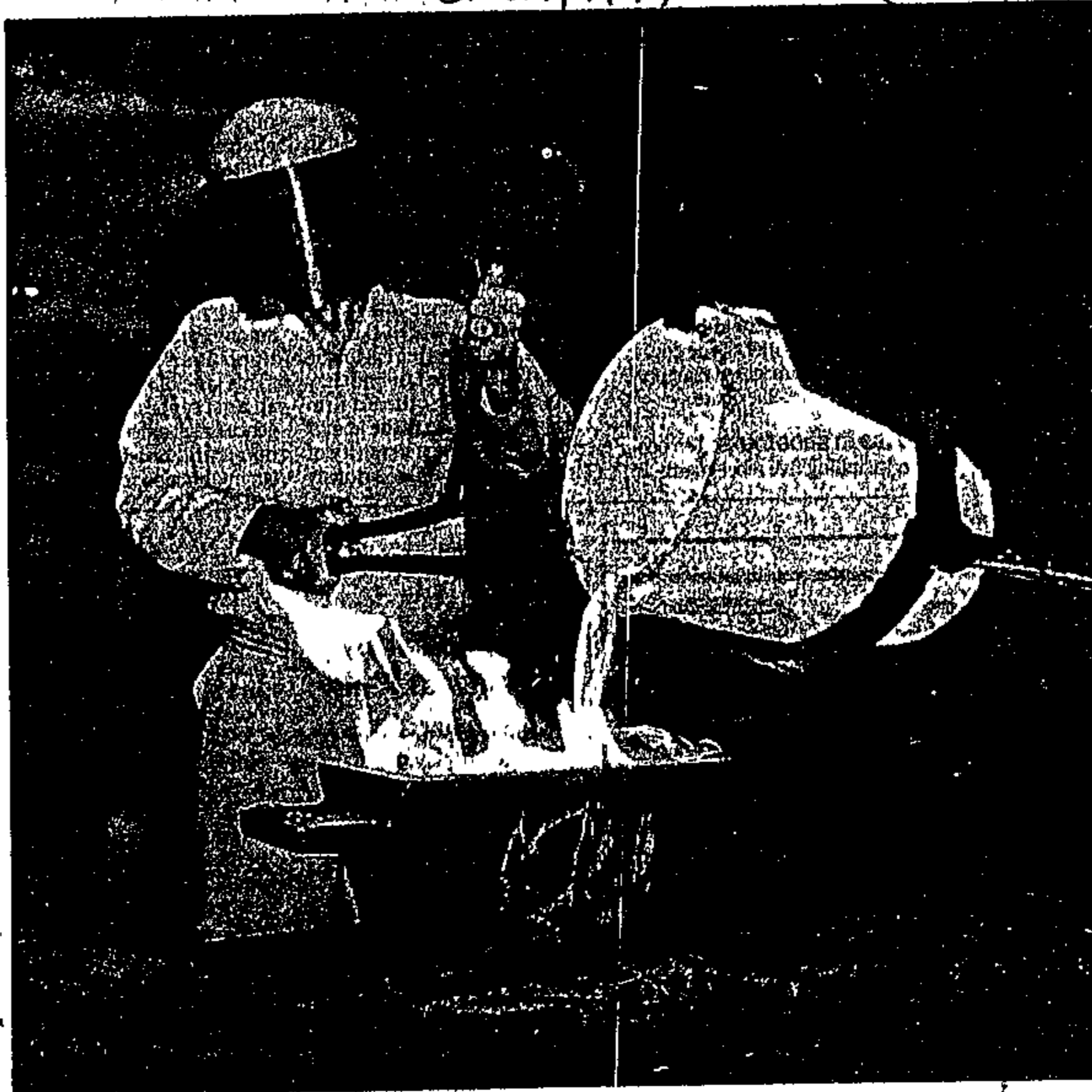
Dealers said the improvement in the gold price was a major plus for the rand, which strengthened despite some dollar demand.

“The gold price is cruising at the moment and we expect more rand firmness,” a Johannesburg dealer said.

Gold prices have now jumped by more than 18% in little more than a week to the highest values since May 1998, after languishing for months near 20-year lows close to \$253 an ounce, owing to fears that British and Swiss central banks were showing the way for gold sales by central banks.

However, those fears were allayed by a weekend commitment from 15 European central banks — including the Swiss National Bank and the Bank of England — not to plan any new gold sale programmes for five years and to keep those already planned at less than 400 tons a year.

The banks also said they would curb their lending of gold, and that gold would continue to have an important



**POTENT LIQUIDITY:** South Africa's most precious metal yesterday smashed through the \$300 an ounce level to a 16-month high, reinvigorated by the surprise move from European central banks to limit bullion sales. **PICTURE: STEVE LAWRENCE**

role in the monetary system.

At the same time, the International Monetary Fund announced a scheme to use a re-valuation of its gold as an accounting means of reducing debt owed by poor countries, instead of sell-

ing gold to raise funds.

Buoyed by gold's gains, mining shares surged higher, with South African heavyweights AngloGold up 14% and Anglo climbing more than two percent.

At Virtual Gold brokerage, Tony Warwick-Ching said “A huge cloud has been lifted. The market was living in fear of large central bank sales.” — Own Correspondent, Sapa  
● See Business Report